NEW ISSUE-BOOK-ENTRY-ONLY

Ratings: Fitch: "AA"
S&P: "AA"
(See "OTHER PERTINENT INFORMATION - Ratings" herein)

OFFICIAL STATEMENT
Dated: July 7, 2016

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

The City has NOT designated the Bonds as "Qualified Tax-Exempt Obligations".

CITY OF GRANBURY, TEXAS
(Hood County)
$5,890,000
General Obligation Refunding Bonds
Series 2016

Dated Date: August 1, 2016 **Due: August 15, as shown on page ii**

The City of Granbury, Texas (the "City" or "Issuer"), is issuing $5,890,000 General Obligation Refunding Bonds, Series 2016 (the "Bonds") in accordance with the Constitution and general laws of the State of Texas (the "State"), particularly Texas Government Code, Chapter 1207, as amended ("Chapter 1207"), and a bond ordinance (the "Bond Ordinance") adopted by the City Council of the City on July 5, 2016. In the Bond Ordinance, the City Council delegated to a designated officer of the City, pursuant to certain provisions of Chapter 1207, authority to effect the sale of the Bonds and to establish certain terms related to the issuance and sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which has completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to herein as the "Ordinance"). (See "THE BONDS - Authority for Issuance" herein.)

The Bonds constitute direct obligations of the Issuer payable from an annual ad valorem tax levied against all taxable property in the City within the limits prescribed by law. (See "THE BONDS - Security for Payment" herein.)

Interest on the Bonds will accrue from August 1, 2016 (the "Dated Date"), and will be payable February 15 and August 15 of each year, commencing February 15, 2017, until maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued as fully-registered Bonds in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds, within a stated maturity, will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of Bonds representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by U.S. Bank National Association, Dallas, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participating members, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used, together with a contribution from the City, to (i) refund a portion of the City's outstanding debt for debt service savings (collectively, the "Refunded Obligations") (See Schedule I attached hereto for a detailed description of the Refunded Obligations) and (ii) pay costs related to the issuance of the Bonds. (See "PLAN OF FINANCING FOR THE BONDS – Purpose", and "PLAN OF FINANCING FOR THE BONDS – Sources and Uses of Funds" herein.)

The Issuer reserves the right to redeem the Bonds maturing on and after August 15, 2031, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest, on August 15, 2025, or any date thereafter, as further described herein. (See "THE BONDS - Redemption Provisions" herein.)

STATED MATURITY SCHEDULE
(See page ii)

The Bonds are offered for delivery when, as and if received by the Underwriter and subject to the approving opinions of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel McCall, Parkhurst & Horton, Dallas, Texas. The legal opinion of Bond Counsel will be printed on, or attached to, the Bonds. It is expected that the Bonds will be available for delivery through DTC on or about August 4, 2016.

BOSC, Inc.
A subsidiary of BOK Financial Corporation

GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016
MATURITY SCHEDULE
(Due August 15)
Base CUSIP Number: 385050 [(1)]

$5,890,000 Serial Bonds

Stated Maturity [(2)]	Principal Amount*	Interest Rate (%)	Initial Yield (%)[(3)]	CUSIP Suffix [(1)]
2017	$ 495,000	2.000	0.720	TF6
2018	720,000	2.000	0.850	TG4
2019	730,000	3.000	0.950	TH2
2020	1,065,000	5.000	1.050	TJ8
2021	550,000	4.000	1.280	TK5
2022	630,000	4.000	1.420	TL3
2023	240,000	4.000	1.490	TM1
2024	245,000	4.000	1.590	TN9
***				
2031	300,000	4.000	2.350[(4)]	TP4
2032	915,000	4.000	2.390[(4)]	TQ2

(Interest to accrue from the Dated Date)

(1) CUSIP numbers have been assigned to this issue and are included solely for the convenience of the purchasers of the Bonds. "CUSIP" is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in anyway as a substitute for the CUSIP Services. Neither the City, its Financial Advisor nor the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) The Bonds maturing on or after August 15, 2031, are subject to redemption in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, at the option of the City, on August 15, 2025, or any date thereafter at the par value thereof plus accrued interest to the date of redemption.

(3) The initial yields at which the Bonds are priced are established by and are the sole responsibility of the Underwriter.

(4) Yield shown is to first available call date of August 15, 2025.

CITY OF GRANBURY, TEXAS
116 West Bridge
Granbury, Texas 76048
(817) 573-1114

ELECTED OFFICIALS

Name	Title	Term Expires	Occupation
Nin Hulett	Mayor	November 2016	Mayor
Tony Allen	Member	November 2016	Builder
Gary Couch	Member	November 2018	Real Estate Development
Rose Myers	Member	November 2017	Sales
Tony Mobly	Member	November 2018	Financial Advisor
Mickey Parson	Mayor Pro Tem	November 2017	Real Estate

ADMINISTRATION

Name	Position	Years in Position	Years of Service
Chris Coffman	City Manager	1	18
Sheri Campbell-Husband	Assistant City Manager	2.5	20
Eva S. Gregory	Finance Director	3	10
Carla Walker	City Secretary	2	5
Mitch Galvan	Police Chief	10	26
Rick Crownover	Director of Public Works	-	17
Steve Roberts	Human Resources Director	2.5	2.5
Scott Sopchak	Director of Community Development	14	21
Tony Tull	Director of Information Technology	14	14
Jim Cook	Chief Building Official	1	27
Gary Hawkins	Aviation Director	4	21
Aaron McLain	Director of Parks and Recreation	2	13

CONSULTANTS AND ADVISORS

Bond Counsel	Norton Rose Fulbright US LLP Dallas, Texas
Certified Public Accountants	George, Morgan & Sneed, P.C. Weatherford, Texas
Financial Advisor	Hilltop Securities, Inc. Dallas, Texas

For Additional Information Please Contact:

Eva S. Gregory
Finance Director
City of Granbury
16 West Bridge Street
Granbury, Texas 76048
(817) 573-1114
egregory@granbury.org

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

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

NEITHER THE CITY, ITS FINANCIAL ADVISOR OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

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

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of Granbury, Texas (the "City" or "Issuer"), is located in Hood County and is a Home Rule municipal corporation governed by a Mayor and a five-member council. The Mayor is elected at large and the five council members are elected by place number for three-year staggered terms. (See "Appendix B - General Information Regarding City of Granbury and Hood County" herein.)
The Bonds	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Government Code, Chapter 1207, as amended ("Chapter 1207"), the Home Rule Charter of the City, and an ordinance (the "Bond Ordinance") to be adopted by the City Council on July 5, 2016. In the Bond Ordinance, the City Council delegated to a designated officer of the City, pursuant to certain provisions of Chapter 1207, authority to effect the sale of the Bonds and to establish certain terms related to the issuance and sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which has completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to herein as the "Ordinance"). (See "THE BONDS - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas.
Security	The Bonds constitute direct obligations of the City payable from an annual ad valorem tax levied against all taxable property in the City within the limits prescribed by law. (See "THE BONDS – Security for Payment" and "THE BONDS – Tax Rate Limitation" herein).
Redemption Provisions	The Bonds maturing on or after August 15, 2031, are subject to redemption in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, at the option of the City, on August 15, 2025, or any date thereafter at the par value thereof plus accrued interest to the date of redemption. (See "THE BONDS - Redemption Provisions" herein.)
Not Qualified Tax Exempt Obligations	The City will NOT designate the Bonds as "qualified tax-exempt obligations."
Use of Proceeds	Proceeds from the sale of the Bonds will be used, together with a contribution from the City, to (i) refund a portion of the City's outstanding debt for debt service savings (collectively, the "Refunded Obligations"), (see Schedule I attached hereto for a detailed description of the Refunded Obligations) and (ii) pay costs related to the issuance of the Bonds. (See "PLAN OF FINANCING FOR THE BONDS – Purpose", and "PLAN OF FINANCING FOR THE BONDS – Sources and Uses of Funds" herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), New York, New York described herein. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Such Book-Entry-Only System may affect the method and timing of payments on the Bonds and the manner the Bonds may be transferred. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Ratings	Fitch Ratings, Inc. ("Fitch") and Standard & Poor's Global Ratings ("S&P"), have assigned their credit ratings of "AA" and "AA", respectively, to the Bonds without regard to any credit enhancement. An explanation of the significance of any rating may be obtained from the rating agencies. (See "RATINGS" herein.)
Payment Record	The City has not defaulted in repayment of its bonded indebtedness since 1937. At such time, a refunding was accomplished in order to satisfy the amount owed to bondholders.
Delivery	When issued, it is anticipated the Bonds will be available for delivery through DTC on or about August 4, 2016.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas.

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Granbury, Texas (the "City" or "Issuer"), of its $5,890,000 General Obligation Refunding Bonds, Series 2016 (the "Bonds").

The Issuer is a political subdivision of the State of Texas (the "State") and operates under the statutes and the Constitution of the State and the City's Home Rule Charter. The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Texas Government Code, Chapter 1207, as amended ("Chapter 1207"),the Home Rule Charter of the City, and the ordinance authorizing their issuance (the "Bond Ordinance") adopted by the City Council authorizing the issuance of the Bonds. In the Bond Ordinance, the City delegated to a designated officer of the City, pursuant to certain provisions of Chapter 1207, authority to effect the sale of the Bonds and to establish certain terms related to the issuance and sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to herein as the "Ordinance"). (See "THE BONDS – Authority for Issuance" herein.)

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

PLAN OF FINANCING FOR THE BONDS

Purpose

Proceeds from the sale of the Bonds are being used, together with a contribution from the City, to refund certain outstanding debt obligations of the City (collectively, the "Refunded Obligations") (see Schedule I attached hereto for a detailed description of the Refunded Obligations) for debt service savings and to pay the costs related to the issuance of the Bonds.

Refunded Obligations

The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the respective redemption dates thereof, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and U.S. Bank National Association, Dallas, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriter, together with a contribution of funds from the City, the City will deposit with the Escrow Agent an amount which, together with the Federal Securities (defined below) purchased with a portion of the Bond proceeds and the interest to be earned on such Federal Securities, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

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

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

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

Sources and Uses of Funds

The proceeds from the sale of the Bonds, and the cash contribution from the issuer will be applied approximately as follows:

Sources of Funds	Amount
Principal Amount	$5,890,000.00
Accrued Interest	1,788.75
Net Premium	643,065.45
Issuer Contribution	127,831.25
Total Sources of Funds	$6,662,685.45
Uses of Funds	
Deposit to Escrow Fund	$6,478,367.25
Deposit to Debt Service Fund	5,685.34
Costs of Issuance	140,000.00
Underwriter's Discount	38,632.86
Total Uses of Funds	$6,662,685.45

THE BONDS

General

The Bonds will be dated August 1, 2016 (the "Dated Date"). The Bonds are stated to mature on August 15 in the years and in the principal amounts set forth on page ii hereof. The Bonds shall bear interest from the Dated Date on the unpaid principal amounts, and the amount of interest to be paid each payment period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will be payable on February 15 and August 15 of each year commencing February 15, 2017, until maturity or prior redemption. Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar, initially U.S. Bank National Association, Dallas, Texas, (the "Paying Agent/Registrar") at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or upon prior redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, the Home Rule Charter of the City, and the Ordinance.

Security for Payment

The Bonds constitute direct obligations of the Issuer payable from an annual ad valorem tax levied against all taxable property in the City within the limits prescribed by law. (See "THE BONDS – Tax Rate Limitation" and "AD VALOREM TAX PROCEDURES" herein).

Tax Rate Limitation

All taxable property within the City is subject to the assessment, levy and collection by the City of a direct and continuing annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of $2.50 per $100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% tax collection rate.

Redemption Provisions

Optional Redemption: The Issuer reserves the right to redeem the Bonds maturing on and after August 15, 2031 in whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), on August 15, 2025 or any date thereafter at the redemption price of par plus accrued interest to the date fixed for redemption.

If less than all of the Bonds subject to redemption are to be redeemed, the City shall determine the amounts of each maturity or maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, within such maturity or maturities to be redeemed.

Not less than thirty (30) days prior to a redemption date for the Bonds, the City shall cause a notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owners of each Bond or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. ANY NOTICE OF REDEMPTION SO MAILED TO THE REGISTERED OWNERS WILL BE DEEMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE OF THE REGISTERED OWNERS FAILED TO RECEIVE SUCH NOTICE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Bonds or portion thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

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

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bonds or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Issuer will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds 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 Bonds from the Beneficial Owners. Any such selection of Bonds 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 Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Payment Record

The City has not defaulted in repayment of its bonded indebtedness since 1937. At such time, a refunding was accomplished in order to satisfy the amount owed to bondholders.

Legality

The Bonds are offered for delivery when, as and if issued, subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP (“Bond Counsel”). The legal opinion of Bond Counsel will accompany or will be printed on the bonds. A form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

Defeasance

The Ordinance relating to the Bonds provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or an authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payments, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that “Government Securities” means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United Sates of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under the then applicable laws of the State.

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

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defaults and Remedies

The Ordinance does not specify events of default with respect to the Bonds. If the City defaults in the payment of principal, interest or redemption price, as applicable, on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observance or performance of any other covenants, conditions or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, __ S.W. 3d __ (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, owners of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Amendments to the Ordinance

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking institution, shall be an association or a corporation organized and doing business under the laws of the United States America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and shall be authorized by law to serve as a Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

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

Record Date

The record date ("Record Date") for interest payable to the registered owner of a Bond on any interest payment date means the last business day of the month next preceding such interest payment date. (See "Special Record Date for Interest Payment" herein.)

Special Record Date for Interest Payment

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date"), which 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 registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Registration

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

Replacement Bonds

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

BOOK-ENTRY-ONLY SYSTEM

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

The City and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or 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 United States Securities and Exchange Commission (the "SEC"), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of certificated securities. 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 SEC. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of Bonds ("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 Bonds 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 Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds 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 Issuer or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer 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 the Direct and Indirect Participants.

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

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. (See "REGISTRATION, TRANSFER, AND EXCHANGE" herein.)

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer and the Underwriter believe to be reliable, but neither the Issuer nor the Underwriter takes 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 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

INVESTMENT POLICIES

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

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

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

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

Investment Authority and Investment Practices

Available City funds are invested as authorized by State law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change. Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is unconditionally guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended)(the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and, (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

Current Investments

On May 31, 2016, the City had investments totaling $12,866,174.02 (unaudited) for all of its funds. As of such date $6,140,810.56 of these funds were invested with Texas Local Government Investment Pool (“TexPool”), $6,725,363.46 were invested with Texas Shorter Term Asset Reserve Program (“TexSTAR”).

TexPool and TexSTAR are governmental investment pools that operate as money market equivalents. Each of such pools currently maintains an "AAA" rating from Standard & Poor's or Fitch Ratings and has an investment objective of achieving and maintaining a stable net asset value of $1.00 per share. Daily investments or redemptions of funds are allowed by the participants.

RETIREMENT PLAN AND OTHER POST RETIREMENT BENEFITS

Plan Description

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

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum

Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

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

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

Inactive employees (or their beneficiaries) currently receiving benefits	76
Inactive employees entitled to but not yet receiving benefits	58
Active employees	163
	297

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.01% and 15.59% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were $1,207,638, and were equal to the required contributions.

Net Pension Liability

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

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

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

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

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

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

Asset Class	Allocation	Long-Term Expected Rate of Return Target (Arithmetic)
Domestic Equity	17.50%	4.80%
International Equities	17.50	6.05
Core Fixed Income	30.00	1.50
Non-Core Fixed Income	10.00	3.50
Real Return	5.00	1.75
Real Estate	10.00	5.15
Absolute Return	5.00	4.25
Private Equity	5.00	8.50
Total	100.00%	

Discount Rate

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

Changes entire Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (c)
Balance at 12/31/2013	$32,261,788	$26,039,928	$6,221,860
Changes for the year:			
Service cost	1,146,288	-	1,146,288
Interest	2,247,052	-	2,247,052
Change of benefit terms	-	-	
Difference between expected and actual experience	(235,764)	-	(235,764)
Changes of assumptions	-	-	-
Contributions - employer	-	1,210,021	(1,210,021)
Contributions - employee	-	529,121	(529,121)
Net investment income		1,489,869	(1,489,869)
Benefit payments, including refunds of employee contributions	(1,468,382)	(1,468,382)	-
Amortization of prior year assets	-		-
Administrative expense	-	(15,553)	15,553
Other changes	-	(1,279)	1,279
Net changes	1,689,194	1,743,797	1,279
Balance at 12/31/2014	$33,950,982	$27,783,725	$ 6,167,257

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

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

	1% Decrease 6.0 %	Current Discount Rote 7.0%	1% Increase 8.0%
City's Net Pension Liability	$11,286,344	$6,167,257	$2,004,313

Pension Plan Fiduciary Net Position

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

For additional information, please see Appendix D – Audited Financial Statements for the Fiscal Year Ended September 30, 2015 – Note 13, Section A

AD VALOREM TAX PROCEDURES

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

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

Property Tax Code and Countywide Appraisal District

Pursuant to the Property Tax Code, there has been established for each county in the State a single appraisal district with responsibility for recording and appraising property for all taxing units within the county and a single appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Hood County Appraisal District (the "Appraisal District") is responsible for appraising property within the City. The Appraisal District is governed by a board of directors appointed by the governing bodies of the various governmental units within Hood County, with votes weighted by relative tax levy. Generally, property in the City must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the City in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

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

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

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

Property Subject to Taxation by the City and Exemptions

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

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

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

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

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

Homestead Tax Limitation: Under Article VIII of the Texas Constitution and State law, the governing body of a county, municipality or junior college district may provide for a freeze on the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such tax limitation, the total amount of taxes imposed on such homestead cannot be increased except for improvements (other than repairs or improvements required to comply with governmental requirements), and such freeze is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. Once established such freeze cannot be repealed or rescinded.

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

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

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

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

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

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

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

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

Effective Tax Rate and Rollback Tax Rate

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

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per $100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures for the next year, and (2) a rate to fund debt service in the next year.

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

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

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

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

Levy and Collection of Taxes

The Issuer is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. Property within the City is generally assessed as of January 1 of each year based upon the valuation of property within the City as of the preceding January 1. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process, which uses an average of the daily price of oil and gas for the prior year. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. The Property Tax Code makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and final installment due on August 1.

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

Month	Penalty	Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July[(a)]	12	6	18

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

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

Issuer's Rights in the Event of Tax Delinquencies

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

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

CITY APPLICATION OF THE PROPERTY TAX CODE

The City grants an exemption of $20,000 to the market value of the residence homestead of persons 65 years of age or older and the disabled.

The City does not tax non-business personal property, except leased vehicles.

The City does not permit split payments of taxes and discounts for early payment of taxes are not allowed.

The City grants the Article VIII, Section 1-j ("freeport property") exemption. According to the Hood County Appraisal District, the value of such exemption for the current tax year is $2,533,196.

The City has not created a TIF.

The City entered into two individual tax abatement agreements with a developer and two grocery stores. The City abates fifty percent of real and personal property taxes and fifty percent of one cent sales taxes collected from within the development properties to the developer and grocery stores. Payments will continue annually until either the maximum reimbursement amount is paid, or the expiration of the reimbursement term is reached even if the maximum reimbursement amount has not been paid.

Pursuant to Section 11.24 of the Property Tax Code, which authorizes the City to offer a tax exemption for historically significant sites, the City created the Historic Neighborhood Incentive Zone ("HNIZ") and the Neighborhood Empowerment Zone ("NEZ") as a method to encourage preservation and maintenance of historic residential structures through a tax incentive program. The owner of a historic residential building which is either land-marked or located in the HNIZ and is at least 50 years old would receive a prescribed tax abatement on qualifying expenses for up to 10 years when restoration or rehabilitation costs equal or exceed a select percentage of the value of the residential building. Three levels of exemption are available to homeowners within the HNIZ: (1) homes which receive the designation of the Historic Marker by the City's Historic Commission and are properly maintained would receive a 100% exemption for value of the structure for a period of up to 10 years; (2) homeowners who make qualified major improvements (structural and foundation repair of at least $40,000) would receive a 70% exemption of the value of the structure for a period of 10 years; and (3) homeowners who make qualified exterior or interior minor improvements (aesthetic, code compliance, etc., of at least $15,000) or a combination of either, would receive a 50% exemption on the value of the structure for a period of 10 years. The HNIZ ordinance provides that the City Council may impose an aggregate cap on the total amount of ad valorem taxes which may be exempted for historically significant sites in any budget year under one or more of the levels described above. Such ordinance provides that for calendar year 2007 and continuing annually thereafter until otherwise adjusted by the City Council, the aggregate cap on exempted ad valorem taxes on historically significant sites shall be $10,000.00 per year. The City ordinance authorizing the NEZ provides that the NEZ overlays the HNIZ.

Home owners in the NEZ who qualify for tax exemption under any level of the HNIZ will receive residential building permit fee waivers on any construction (including residential inspection fees). Additionally, any preservation, restoration, rehabilitation, or reconstruction in the NEZ for which impact fees would otherwise be applicable, will receive residential impact fee waivers. The HNIZ and NEZ went into effect on October 1, 2007.

The City has not opted to tax "goods-in-transit".

The City has granted the tax freeze on properties owned by taxpayers 65 years of age or older, as may be done on a local option basis.

ADDITIONAL TAX COLLECTIONS

Municipal Sales Tax Collections

The City has adopted the provisions of Chapter 321, Tax Code, as amended, which provides for the maximum levy of a one percent sales tax which may be used by the City for any lawful purpose; except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of bonds or other indebtedness, including the Bonds. The City has adopted this local sales and use tax at a rate of 1.00%. Net collections on a calendar year basis are shown in Table 15 of Appendix A.

Optional Sales Tax

The Texas Tax code provides certain cities and counties in the State the option of assessing a maximum one-half percent (½%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the amount of the estimated sales tax revenues to be generated in the current year. Further, the Texas Tax Code provides certain cities the option of assessing a maximum one-half percent (½%) sales tax on retail sales of taxable items for economic development purposes, if approved by a majority of the voters in a local option election. The City has adopted the local sales and use tax for reduction of ad valorem taxes at a rate of one half-percent (1/2%). Net collections on a calendar year basis are shown in Table 15 of Appendix A.

TAX MATTERS

Tax Exemption

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

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

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

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

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

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

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

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

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

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

LEGAL MATTERS

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

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds, will also be furnished. In connection with the issuance of the Bonds, Bond Counsel has been engaged by and only represents the Issuer. Except as noted below, 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 hereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions “PLAN OF FINANCING FOR THE BONDS” (except for information under the subcaption “Sources and Uses of Funds”), “THE BONDS” (except under the subcaptions “Payment Record” and “Defaults and Remedies”) "REGISTRATION, TRANSFER AND EXCHANGE," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION” (except under the subcaption "Compliance with Prior Agreements"), “LEGAL MATTERS” and the topics “Registration and Qualification of Bonds for Sale” and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER PERTINENT INFORMATION" and such firm is of the opinion that the information relating to the Bonds and legal matters contained in the Official Statement under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Counsel for the Underwriter, whose fee is contingent upon the sale and delivery of the Bonds.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds unless it amends or repeals the agreement as described below. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available free of charge from the MSRB's Electronic Municipal Market Access ("EMMA") 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 in Tables 1, 2, 3, 5, 6, 8, 9, 11, 12, 13, 14, 15 and 19 of Appendix A, and Appendix D. The City will update and provide this information in the numbered tables in Appendix A within six months after the end of each fiscal year ending in and after 2016. The City will additionally provide financial statements that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the City commissions an audit of such financial 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 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The financial information and operating data to be provided pursuant to the City's undertakings may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12, as amended (the "Rule").

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

Notice of Certain Events

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

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

Availability of Information

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

For Fiscal Years ending in 2011 through 2012, the City did not make a complete filing of all the information it is obligated to file; the City omitted information regarding its principal wastewater system customers. This failure was brought to the attention of the City and the City has filed such information, along with a notice of failure to file such information, with EMMA.

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

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

Litigation

The City is currently under no pending or threatened litigation. At the time of the initial delivery of the Bonds, the City will provide the Underwriter with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, and are authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER PERTINENT INFORMATION – Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their fair market value.

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

Ratings

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

Verification of Arithmetical and Mathematical Computations

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

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

Financial Advisor

Hilltop Securities is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has assisted in drafting this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds.

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at the price of $6,494,432.59 (representing par less Underwriter's discount of $38,632.86 and plus a premium of $643,065.45 plus accrued interest in accordance with the terms and provisions of the Bond Purchase Agreement entered into by the City and the Underwriter).

The Underwriter's obligations are subject to certain conditions precedent, and it will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers, and others at prices lower than such respective public offering prices and such respective public prices may be changed, from time to time, by the Underwriter.

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

The Underwriter, BOSC, Inc., is not a bank and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

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. It is important to note that the City's actual results could differ materially from those in 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 many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurances that the forward-looking statements included in this Official Statement would prove to be accurate.

CONCLUDING STATEMENT

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

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

CITY OF GRANBURY, TEXAS

Eva Gregory

Pricing Officer

SCHEDULE I
SCHEDULE OF REFUNDED OBLIGATIONS

Combination Tax and Revenue Certificates of Obligations, Series 2007

Maturity August 15	Outstanding Principal Amount	Interest Rate	Amount to be Refunded	Amount Remaining	Date of Redemption
2016	$ 485,000	4.000%	$ -	$ 485,000	
2017	505,000	4.000%	505,000	-	8/15/2016
2018	525,000	4.000%	525,000	-	8/15/2016
2019	545,000	4.000%	545,000	-	8/15/2016
2020	570,000	4.000%	570,000	-	8/15/2016
***					
2031	335,000 [(1)]	4.625%	335,000	-	8/15/2016
2032	955,000 [(1)]	4.625%	955,000	-	8/15/2016
	$ 3,920,000		$ 3,435,000	$ 485,000	

General Obligation Refunding Bonds, Series 2008

Maturity August 15	Outstanding Principal Amount	Interest Rate	Amount to be Refunded	Amount Remaining	Date of Redemption
2016	$ 230,000	3.500%	$ -	$ 230,000	
2017	250,000	3.500%	-	250,000	
2018	255,000	4.000%	210,000	45,000	
2019	265,000	4.000%	215,000	50,000	8/15/2017
2020	275,000	4.000%	225,000	50,000	8/15/2017
2021	285,000	4.000%	235,000	50,000	8/15/2017
2022	375,000	4.000%	305,000	70,000	8/15/2017
2023	335,000	4.000%	275,000	60,000	8/15/2017
2024	345,000	4.000%	280,000	65,000	8/15/2017
	$ 2,615,000		$ 1,745,000	$ 870,000	

General Obligation Refunding Bonds, Series 2011

Maturity August 15	Outstanding Principal Amount	Interest Rate	Amount to be Refunded	Amount Remaining	Date of Redemption
2016	$ 280,000	3.000%	$ -	$ 280,000	
2017	290,000	3.000%	-	290,000	
2018	295,000	3.500%	-	295,000	
2019	310,000	4.000%	-	310,000	
2020	325,000	4.000%	310,000	15,000	8/15/2019
2021	365,000	4.000%	345,000	20,000	8/15/2019
2022	375,000	4.000%	355,000	20,000	8/15/2019
	$ 2,240,000		$ 1,010,000	$ 1,230,000	

Total amount to be refunded: **$ 6,190,000**

[(1)] Represents a portion of term bond maturing 8/15/2032

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APPENDIX A

FINANCIAL INFORMATION OF THE ISSUER

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

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FINANCIAL INFORMATION OF THE CITY

ASSESSED VALUATION **TABLE 1**

2015 Actual Market Value of Taxable Property			$ 1,580,535,500
Less:			
Homestead Cap Loss	$	753,550	
Productivity Loss		44,516,760	
Total Loss	$	45,270,310	
Assessed Value	$	1,535,265,190	
Exemptions			
Local Over 65 / Freeze	$	17,764,460	
Disabled Veteran		5,321,866	
Freeport		2,533,196	
Other		1,177,016	
Constitutional		265,568,600	
Total Exemptions	$	292,365,138	
2015 Net Taxable Assessed Valuation			$ 1,242,900,052

Source: Hood County Appraisal District

GENERAL OBLIGATION BONDED DEBT **TABLE 2**

General Obligation Debt Principal Outstanding (as of May 31, 2016):	
Outstanding Debt	$ 54,495,000
Refunded Obligations	(6,190,000)
The Bonds	5,890,000
Total Gross General Obligation Debt Outstanding:	$ 54,195,000
Self-Supporting General Obligation Debt (See Table 7)	$ (22,825,000)
Total Net General Obligation Debt Outstanding:	**$ 31,370,000**
Ratio of Net General Obligation Debt to 2015 Net Assessed Valuation	2.52%
2015 Net Assessed Valuation	$ 1,242,900,052

Population: 2000-5,718 ; 2010-7,978; Current Estimate -	8,940
Per Capita 2016 Net Assessed Valuation -	$139,027
Per Capita Gross General Obligation Debt -	$6,062
Per Capita Net General Obligation Debt -	$3,509

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

(As of May 31, 2015)

Leases and Notes Payable

Original Date	Item Purchased	Original Amount	Date of Final Payment	Source of Funds	Current Amount Outstanding	Payment Schedule	Interest Rate
02/22/10	Granbury Opera House	$ 460,291	02/22/27	General Fund	$ 330,498	2,950/mo	3.250%
02/15/12	Forklift	69,455	11/01/16	General Fund	14,794	3,783/qtr	3.179%
02/15/12	Silverado Truck - Fire	22,986	11/01/16	General Fund	4,896	1,252/qtr	3.179%
02/15/12	Silverado Truck - Electric	46,376	11/01/16	Utility Fund	9,878	2,526/qtr	3.179%
05/01/13	T Hangars - Refinance	578,362	02/01/21	Airport Fund	404,515	20,745/qtr	3.000%
02/12/13	Maintenance & Storage H (2)	473,495	02/13/28	Airport Fund	439,737	10,106/qtr	3.350%
03/05/13	Police Equipment & 4 Trucks	214,208	12/05/17	General Fund	108,408	11,045/qtr	1.180%
03/05/13	2013 Chevy 2500 & Ford 250	68,593	12/05/17	Utility Fund	34,801	3,537/qtr	1.180%
01/28/14	2014 Chevy Tahoes (3)	81,313	01/28/16	General Fund	10,239	10,288/qtr	1.040%
01/28/14	Laserfiche & Vehicles (5)	273,846	01/28/19	General Fund	182,475	14,295/qtr	1.500%
01/28/14	2014 Trucks (4) & Other Equip.	485,573	01/28/19	Utility Fund	319,391	25,348/qtr	1.500%
07/22/14	CISCO Voice Over IP Phone	97,680	10/01/17	General Fund	65,120	32,560/yr	0.000%
02/18/15	Caterpillar Cmpt Const. Equip	83,939	03/01/20	General Fund	71,989	4,447/qtr	2.178%
02/18/15	(6) Trucks: (4) Police, WH, Pbl Wo	222,058	03/01/20	General Fund	192,999	11,923/qtr	2.178%
02/18/15	2015 Ford F250 Pickup Truck	23,881	03/01/20	Utility Fund	23,881	1,297/qtr	2.178%
02/18/15	Spartan Pumper Fire Truck	811,475	03/01/25	General Fund	793,849	23,308/qtr	2.750%
02/18/15	Tow Tractor Zenith Gas 2.8I/C6	37,463	03/01/20	Airport Fund	32,101	1,985/qtr	2.178%

Source: The Issuer

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS **TABLE 4**

Fisc Year 30-Sep	Current Total Debt Service	Refunded Obligations	The Bonds Principal	The Bonds Interest [b]	The Bonds Total	Combined Debt Service	Less: Self-Supporting Debt[a]	Net General Obligation Debt Service
2016	$ 3,561,801					$ 3,561,801	$ (868,138)	$ 2,693,663
2017	3,917,502	$ (760,663)	$ 495,000	$ 222,998	$ 717,998	3,874,837	(1,062,556)	2,812,281
2018	4,242,242	(970,463)	720,000	204,750	924,750	4,196,530	(1,330,474)	2,866,056
2019	4,251,767	(966,063)	730,000	190,350	920,350	4,206,055	(1,336,974)	2,869,081
2020	4,243,857	(1,280,663)	1,065,000	168,450	1,233,450	4,196,645	(1,334,339)	2,862,306
2021	4,255,694	(711,463)	550,000	115,200	665,200	4,209,432	(1,331,926)	2,877,506
2022	4,243,873	(768,263)	630,000	93,200	723,200	4,198,811	(1,334,304)	2,864,507
2023	3,497,336	(356,863)	240,000	68,000	308,000	3,448,474	(1,079,168)	2,369,306
2024	3,507,504	(350,863)	245,000	58,400	303,400	3,460,042	(1,079,761)	2,380,281
2025	3,073,094	(59,663)		48,600	48,600	3,062,032	(1,104,251)	1,957,781
2026	2,816,269	(59,663)		48,600	48,600	2,805,206	(1,100,525)	1,704,681
2027	2,816,396	(59,663)		48,600	48,600	2,805,333	(1,100,652)	1,704,681
2028	2,538,363	(59,663)		48,600	48,600	2,527,301	(819,620)	1,707,681
2029	2,535,283	(59,663)		48,600	48,600	2,524,221	(815,740)	1,708,481
2030	2,540,575	(59,663)		48,600	48,600	2,529,513	(821,332)	1,708,181
2031	2,543,305	(394,663)	300,000	48,600	348,600	2,497,243	(821,212)	1,676,031
2032	2,571,415	(999,169)	915,000	36,600	951,600	2,523,846	(800,565)	1,723,281
2033	1,571,486					1,571,486	(799,755)	771,731
2034	1,574,704					1,574,704	(803,523)	771,181
2035	1,571,794					1,571,794	(801,763)	770,031
2036	1,567,844					1,567,844	(799,563)	768,281
2037	801,915					801,915	(801,915)	
2038	798,770					798,770	(798,770)	
2039	1,000,225					1,000,225	(1,000,225)	
2040	1,001,907					1,001,907	(1,001,907)	
2041	997,987					997,987	(997,987)	
2042	998,566					998,566	(998,566)	
2043	998,527					998,527	(998,527)	
2044	997,957					997,957	(997,957)	
2045	1,001,756					1,001,756	(1,001,756)	
	$ 72,039,714	$ (7,917,106)	$ 5,890,000	$ 1,498,148	$ 7,388,148	$ 71,510,755	$ (29,943,746)	$ 41,567,010

[a] See "COMPUTATION OF SELF SUPPORTING DEBT BY SOURCE - TABLE 7".

[b] Assumed rates used for purposes of illustration.

TAX ADEQUACY (Includes Self-Supporting Debt) **TABLE 5**

2015 Assessed Valuation	$	1,242,900,052
Maximum Annual Debt Service Requirements (Fiscal Year Ending 2021) [(a)]	$	4,209,432
Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections	$	0.345590

[(a)] Includes general obligation self-supporting debt. Preliminary, subject to change (See "TABLE 7 - COMPUTATIONS OF SELF-SUPPORTING DEBT BY SOURCE").
Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

TAX ADEQUACY (Excludes Self-Supporting Debt) **TABLE 6**

2015 Assessed Valuation	$	1,242,900,052
Maximum Annual Debt Service Requirements(Fiscal Year Ending 2021) [(a)]	$	2,877,506
Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections	$	0.236240

[(a)] Excludes general obligation self-supporting debt. Preliminary, subject to change (See "TABLE 7 - COMPUTATIONS OF SELF-SUPPORTING DEBT BY SOURCE").
Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

COMPUTATION OF SELF-SUPPORTING DEBT BY SOURCE **TABLE 7**

(Following issuance of the Bonds. Preliminary, subject to change.)

Combination Tax and Revenue Certificates of Obligation, Series 2007 (excludes refunded obligations)		
Gross Balance Outstanding	$	485,000
% of Self Supporting Utility System		0.00%
Balance Supported by Utility System	$	-
General Obligation Refunding Bonds, Series 2008 (excludes refunded obligations)		
Gross Balance Outstanding	$	870,000
% of Self Supporting Utility System		50.00%
Balance Supported by Utility System	$	435,000
General Obligation Refunding Bonds, Series 2011 (excludes refunded obligations)		
Gross Balance Outstanding	$	1,230,000
% of Self Supporting Utility System		0.00%
Balance Supported by Utility System	$	-
General Obligation Refunding Bonds, Series 2013		
Gross Balance Outstanding	$	6,440,000
% of Self Supporting Utility System		37.66%
Balance Supported by Utility System	$	2,425,000
General Obligation Refunding Bonds, Series 2014		
Gross Balance Outstanding	$	7,980,000
% of Self Supporting Utility System		0.00%
Balance Supported by Utility System	$	-
Combination Tax and Revenue Certificates of Obligation, Series 2015		
Gross Balance Outstanding	$	2,460,000
% of Self Supporting Utility System		0.00%
Balance Supported by Utility System	$	-
Combination Tax and Revenue Certificates of Obligation, Series 2015A		
Gross Balance Outstanding	$	16,430,000
% of Self Supporting Utility System		100.00%
Balance Supported by Utility System	$	16,430,000
Combination Tax and Revenue Certificates of Obligation, Series 2016A		
Gross Balance Outstanding	$	9,690,000
% of Self Supporting Utility System		0.00%
Balance Supported by Utility System	$	-
Combination Tax and Revenue Certificates of Obligation, Series 2016B		
Gross Balance Outstanding	$	2,720,000
% of Self Supporting Utility System		100.00%
Balance Supported by Utility System	$	2,720,000
General Obligation Refunding Bonds, Series 2016		
Gross Balance Outstanding	$	5,890,000
% of Self Supporting Utility System		13.84%
Balance Supported by Utility System	$	815,000
Combined Totals:		
Gross Balance Outstanding:	$	54,195,000
Balance Supported by Utility System:	$	22,825,000
% Self Supporting from Utility System:		42.12%

COMPUTATION OF UTILITY SYSTEM SELF-SUPPORTING DEBT **TABLE 8**

(Includes the Bonds)

Net System Revenues Available, Fiscal Year End September 30, 2015	$ 4,082,260
Less: 2015 Annual Debt Service Requirements on Outstanding Revenue Bonds	1,244,278
Balance Available for Other Purposes	$ 2,837,982
Maximum Annual Debt Service for Self-Supporting Debt (2022)	$ 1,336,974

Source: The Issuer.

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE **TABLE 9**

Fiscal Year Ending 9/30	Outstanding Debt	Refunded Debt	The Bonds	Total	Bonds Unpaid at End of Year	Percent of Principal Retired (%)
2016	$ 2,310,000			$ 2,310,000	$ 51,885,000	4.26%
2017	2,305,000	$ (505,000)	$ 495,000	2,295,000	49,590,000	8.50%
2018	2,855,000	(735,000)	720,000	2,840,000	46,750,000	13.74%
2019	2,940,000	(760,000)	730,000	2,910,000	43,840,000	19.11%
2020	3,010,000	(1,105,000)	1,065,000	2,970,000	40,870,000	24.59%
2021	3,110,000	(580,000)	550,000	3,080,000	37,790,000	30.27%
2022	3,185,000	(660,000)	630,000	3,155,000	34,635,000	36.09%
2023	2,530,000	(275,000)	240,000	2,495,000	32,140,000	40.70%
2024	2,615,000	(280,000)	245,000	2,580,000	29,560,000	45.46%
2025	2,260,000			2,260,000	27,300,000	49.63%
2026	2,065,000			2,065,000	25,235,000	53.44%
2027	2,125,000			2,125,000	23,110,000	57.36%
2028	1,910,000			1,910,000	21,200,000	60.88%
2029	1,970,000			1,970,000	19,230,000	64.52%
2030	2,035,000			2,035,000	17,195,000	68.27%
2031	2,100,000	(335,000)	300,000	2,065,000	15,130,000	72.08%
2032	2,195,000	(955,000)	915,000	2,155,000	12,975,000	76.06%
2033	1,270,000			1,270,000	11,705,000	78.40%
2034	1,305,000			1,305,000	10,400,000	80.81%
2035	1,335,000			1,335,000	9,065,000	83.27%
2036	1,365,000			1,365,000	7,700,000	85.79%
2037	635,000			635,000	7,065,000	86.96%
2038	645,000			645,000	6,420,000	88.15%
2039	860,000			860,000	5,560,000	89.74%
2040	880,000			880,000	4,680,000	91.36%
2041	895,000			895,000	3,785,000	93.02%
2042	915,000			915,000	2,870,000	94.70%
2043	935,000			935,000	1,935,000	96.43%
2044	955,000			955,000	980,000	98.19%
2045	980,000			980,000		100.00%
	$ 54,495,000	$ (6,190,000)	$ 5,890,000	$ 54,195,000		

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2011-2015 **TABLE 10**

Year	Net Taxable Assessed Valuation	Change From Preceding Year Amount ($)	Change From Preceding Year Percent
2011	$ 1,040,534,979	$ (10,518,061)	(1.00%)
2012	1,087,038,259	46,503,280	4.47%
2013	1,113,466,317	26,428,058	2.43%
2014	1,144,587,761	31,121,444	2.80%
2015	1,242,900,052	98,312,291	8.59%

Source: Hood County Appraisal District

ASSESSED VALUATION AND EXEMPTION HISTORY **TABLE 11**

	Tax Year				
	2015	2014	2013	2012	2011
Total Market Value:	$ 1,580,535,500	$ 1,479,497,120	$ 1,447,353,790	$ 1,405,663,360	$ 1,349,677,330
Less:					
Homestead Cap Loss:	$ 753,550	$ 1,110,670	$ 1,502,480	$ 2,895,780	$ 4,606,300
Productivity Loss:	44,516,760	46,408,000	47,574,150	48,722,370	43,821,370
Total Loss:	$ 45,270,310	$ 47,518,670	$ 49,076,630	$ 51,618,150	$ 48,427,670
Assessed Value	$ 1,535,265,190	$ 1,431,978,450	$ 1,398,277,160	$ 1,354,045,210	$ 1,301,249,660
Exemptions:					
Local Over 65 / Freeze:	$ 17,764,460	$ 16,141,640	$ 14,880,720	$ 13,909,120	$ 13,421,820
Disabled Veteran:	5,321,866	4,469,320	4,479,249	3,917,120	3,800,520
Freeport / Other:	3,710,212	5,396,259	5,599,164	6,369,045	4,931,379
Constitutional:	265,568,600	261,383,470	259,851,710	242,811,666	238,560,962
Total Exemptions:	$ 292,365,138	$ 287,390,689	$ 284,810,843	$ 267,006,951	$ 260,714,681
Net Taxable Value:	$ 1,242,900,052	$ 1,144,587,761	$ 1,113,466,317	$ 1,087,038,259	$ 1,040,534,979

Source: Hood County Appraisal District and the Issuer

PRINCIPAL TAXPAYERS 2015 **TABLE 12**

Name	Type of Business	Assessed Valuation	Valuation
Health Care Reit Inc.	Health Care	$ 21,333,390	1.72%
Hood General Hospital	Health Care	15,554,560	1.25%
Kroger Texas LP	Retail	12,481,600	1.00%
ARI Industries	Manufacturing	10,613,240	0.85%
NEC US377 & Meander Rd.	Real Estate	10,517,700	0.85%
HEB Grocery Company	Retail	9,207,080	0.74%
Wal-Mart Real Properties	Real Estate	9,181,890	0.74%
Pacific Lake Granbury LP	Real Estate	9,000,000	0.72%
Wal-Mart Real Estate Business Trust	Real Estate	8,983,900	0.72%
Pioneer Natural Resources	Minerals	8,377,200	0.67%
		$ 115,250,560	9.27%

Information based on a 2015 Net Taxable Assessed Valuation of $ 1,242,900,052

Source: Hood County Appraisal District

PROPERTY TAX RATES AND COLLECTIONS **TABLE 13**

Tax Year	Net Taxable Valuation	Tax Rate	Tax Levy	% Collections Current	% Collections Total	Year Ended
2011	$ 1,040,534,979	0.4039	$ 4,131,615	98.45%	98.45%	9/30/2012
2012	1,087,038,259	0.3992	4,129,433	98.50%	99.73%	9/30/2013
2013	1,113,466,317	0.3946	4,361,775	99.28%	100.00%	9/30/2014
2014	1,144,587,761	0.3976	4,518,300	99.31%	99.31%	9/30/2015
2015	1,242,900,052	0.3976		(in process of collection)		9/30/2016

Source: Texas Municipal Reports and the City.

TAX RATE DISTRIBUTION **TABLE 14**

	2015-16	2014-15	2013-14	2012-13	2011-12
General Fund	$ 0.1802	$ 0.1529	$ 0.1574	$ 0.1429	$ 0.1198
I & S Fund	0.2174	0.2447	0.2372	0.2563	0.2841
TOTAL	$ 0.3976	$ 0.3976	$ 0.3946	$ 0.3992	$ 0.4039

Sources: City of Granbury.

MUNICIPAL SALES TAX **TABLE 15**

The City has adopted the provisions of Sections 321.506 and 321.507, Texas Tax Code, which provides for the maximum levy of a sales tax which may be used by the City for any lawful purpose except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of obligations or other indebtedness. In addition, the City adopted in 1987 an optional sales tax to be used for ad valorem tax reduction. Net collections on a calendar year basis are shown below.

Calendar Year	Total Collected	1.00% General Fund	0.50% Tax Reduction
2010	5,122,617	3,415,078	1,707,539
2011	5,665,020	3,776,680	1,888,340
2012	6,189,089	4,126,059	2,063,030
2013	6,305,478	4,203,652	2,101,826
2014	6,474,120	4,316,080	2,158,040
2015	7,085,779	4,723,853	2,361,926
2016*	3,652,342	2,434,895	1,217,447

*For the six month period from January through June, 2016.

Source: Texas Comptroller of Public Accounts.

OVERLAPPING DEBT DATA AND INFORMATION **TABLE 16**

Taxing Body	As of	Amount		% Overlapping	Amount Overlapping
Granbury ISD	5/31/2016	$ 116,660,063		25.68%	$ 29,958,304
Hood County	5/31/2016	20,370,000		22.78%	4,640,286
Total Gross Overlapping Debt					$ 34,598,590
City of Granbury			54,195,000 [1]	100.00%	54,195,000
Total Direct and Overlapping Debt					$ 88,793,590

Ratio of Direct and Overlapping Debt to 2014 Assessed Valuation	7.14%
Ratio of Direct and Overlapping Debt to 2014 Actual Value	5.62%
Per Capita Direct and Overlapping Debt	$9,932.17

Note: The above figures show Gross General Obligation Debt for the City of Granbury, Texas
The Issuer's Net General Obligation Debt is $ 31,370,000 [1]
Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Direct and Overlapping Debt	$ 65,968,590
Ratio of Direct and Overlapping Debt to 2014 Assessed Valuation	5.31%
Ratio of Direct and Overlapping Debt to 2014 Actual Value	4.17%
Per Capita Direct and Overlapping Debt	$7,379.04

[1] Includes the Bonds and excludes the refunded obligations. (See "GENERAL OBLIGATION BONDED DEBT" herein.)

Source: City of Granbury and Municipal Advisory Council of Texas

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES **TABLE 17**

Governmental Entity	2015 Valuation	2015 Tax Rate
Granbury ISD	$ 4,642,225,017	$ 1.2650
Hood County	5,456,393,461	0.3757

Source: Hood County Appraisal District

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT **TABLE 18**

The City does not anticipate the issuance of any additional debt in 2016.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES
AND ANALYSIS OF CHANGES IN FUND BALANCES **TABLE 19**

	Fiscal Year Ending September 30				
	2015	**2014**	**2013**	**2012**	**2011**
Fund Balance - Beginning of Year	$ 4,435,928	$ 5,512,719	$ 5,563,883	$ 5,203,862	$ 4,197,764
Revenues:					
Taxes	$ 1,763,490	$ 1,761,949	$ 1,543,656	$ 1,491,582	$ 1,496,874
Sales Taxes	7,151,484	6,599,573	6,440,471	6,282,851	5,810,019
Franchise Tax	1,639,843	1,575,029	1,505,084	1,433,587	1,463,008
Fines & Fees	190,154	149,611	184,388	201,206	225,678
Licenses and Permits	703,918	595,351	561,786	521,189	586,854
Charges for services	33,887	49,358	61,506	62,541	122,594
Intergovernmental Revenue & Grants	858,629	267,614	197,729	204,720	148,656
Parks & Recreation	133,782	485,692	133,236	108,792	205,935
Interest Income	9,582	17,214	27,844	26,832	15,039
Miscellaneous	318,575	312,132	506,206	271,633	272,979
Total Revenues	$ 12,803,344	$ 11,813,523	$ 11,161,906	$ 10,604,933	$ 10,347,636
Expenditures:					
General Government	$ 4,745,797	$ 3,840,821	$ 3,636,842	$ 3,339,088	$ 2,959,350
Public Safety	5,123,326	4,085,731	4,232,488	3,697,344	3,427,714
Highways & Streets	534,995	562,719	421,448	587,464	425,147
Public Works	578,796	547,800	408,090	381,797	257,252
Community Dev/Nbrhd Svcs/Cemetery	672,887	486,545	740,144	607,289	645,256
Cultural and recreational	2,114,803	1,762,250	1,479,716	1,337,862	1,561,616
Total Expenditures	$ 13,770,604	$ 11,285,866	$ 10,918,728	$ 9,950,844	$ 9,276,335
Other Sources (Uses)					
Excess (Deficit) of Revenues Over Expenditures	$ (967,260)	$ 527,657	$ 243,178	$ 654,089	$ 1,071,301
Other Financing Sources (Uses)					
Sale of Real and Personal Property	$ 72,944	$ -	$ -	$ -	$ -
Operating transfer in	1,610,262	351,470	398,664	328,212	373,830
Operating transfer out	(1,042,428)	(2,408,757)	(907,214)	(715,054)	(439,033)
Net Proceeds of capital lease	1,121,210	452,839	214,208	92,774	-
Debt Proceeds	-	-	-	-	-
Total	$ 1,761,988	$ (1,604,448)	$ (294,342)	$ (294,068)	$ (65,203)
Net Change in Fund Balances	$ 794,728	$ (1,076,791)	$ (51,164)	$ 360,021	$ 1,006,098
Fund Balance - End of Year	$ 5,230,656	$ 4,435,928	$ 5,512,719	$ 5,563,883	$ 5,203,862

Source: The Issuer's Financial Statements.

NOTE: The decrease in 2014 was due to a planned one-time use of fund balance of $800,000 for renovation of the City's Opera House.

Fiscal Year Ending 9/30	Principal	Interest	Total
2016	$ 821,000	$ 421,318	$ 1,242,318
2017	849,000	395,623	1,244,623
2018	878,000	366,168	1,244,168
2019	901,000	338,658	1,239,658
2020	935,000	308,875	1,243,875
2021	963,000	275,019	1,238,019
2022	998,000	239,334	1,237,334
2023	337,000	201,480	538,480
2024	351,000	187,515	538,515
2025	366,000	172,970	538,970
2026	381,000	157,800	538,800
2027	397,000	142,005	539,005
2028	412,000	125,540	537,540
2029	432,000	108,450	540,450
2030	448,000	90,535	538,535
2031	464,000	71,950	535,950
2032	146,000	52,695	198,695
2033	152,000	46,125	198,125
2034	159,000	39,285	198,285
2035	166,000	32,130	198,130
2036	174,000	24,660	198,660
2037	183,000	16,830	199,830
2038	191,000	8,595	199,595
	$ 11,104,000	$ 3,823,558	$ 14,927,558

REVENUE BONDS OUTSTANDING — TABLE 21

(As of September 30, 2015)

Subordinate Lien Utility System Revenue Bonds, Series 1998	$ 2,589,000
Subordinate Lien Utility System Revenue Bonds, Series 1999	205,000
Utility System Revenue Refunding Bonds, Series 2010	4,310,000
Utility System Revenue Bonds, Series 2012	4,000,000
Total Revenue Bond Debt Outstanding	$ 11,104,000

REVENUE BONDS AUTHORIZED BUT UNISSUED — TABLE 22

None

UTILITY PLANT IN SERVICE — TABLE 23

(As of September 30, 2015)

Land	$ 885,750
Building and improvements	284,000
Improvements other than building	50,968,163
Construction in progress	2,569,708
Machinery and equipment	4,507,536
Total	$ 59,215,157

Source: The Issuer's audited financial statements

UTILITY SYSTEM OPERATING STATEMENT — TABLE 24

	Fiscal Year Ended				
	2015	**2014**	**2013**	**2012**	**2011**
Revenues	$ 19,710,933	$ 19,551,251	$ 18,614,717	$ 17,721,637	$ 18,705,689
Expenses	15,659,883	16,272,446	15,333,091	14,554,481	14,791,791
Net Revenue Available for Debt Service	$ 4,051,050	$ 3,278,805	$ 3,281,626	$ 3,167,156	$ 3,913,898
Annual Debt Service Requirements	$ 1,244,278	$ 1,244,153	$ 1,247,523	$ 1,168,704	$ 896,608
Debt Service Coverage	3.26 x	2.64 x	2.63 x	2.71 x	4.37 x
Customer Count:					
Water	5,157	5,509	5,008	4,615	4,491
Sewer	4,050	3,891	3,780	3,672	3,440
Electric	3,270	3,286	3,242	3,223	3,672

Source: The Issuer's financial statements. Expenses are net of depreciation.

Note: The annual debt service requirements shown includes utility revenue bonds only.

WATER RATES — TABLE 25

(Effective June, 2013)

Residential Rates

	Inside City Limits	Outside City Limits
Customer Charge (Minimum)	$16.00	$24.60
User Charge Per 1,000 Gallons		
0 - 2,000 Gallons	$5.00	$7.00
2,001 - 10,000 Gallons	$6.75	$9.45
10,001 - 20,000 Gallons	$7.75	$9.75
Over 20,000 Gallons	$8.00	$10.00

Monthly Residential Small User Discount
(Water Customer using under 2,000 gallons per month prior to June 2013)
Year 1 - $15.00; Year 2 - $10.00; Year 3 - $5.00

Commercial Rates

	Inside City Limits	Outside City Limits
Minimum Per Meter Size		
3/4" Meter	$18.00	$25.00
1" Meter	$37.00	$52.00
2" Meter	$174.00	$244.00
3" and 4" Meters	$348.00	$488.00
User Charge Per 1,000 Gallons		
0 - 2,000 Gallons	$5.00	$7.00
2,001 - 10,000 Gallons	$6.75	$9.45
10,001 - 20,000 Gallons	$7.75	$9.75
Over 20,000 Gallons	$8.00	$10.00

PRINCIPAL WATER CUSTOMERS — TABLE 26

Name of Customer	Average Monthly Bill
Lake Granbury Medical Center	$ 114,492.42
Waterview Point	59,531.85
Hood County	26,631.77
City of Granbury	20,839.85
Creative Sollutions	13,943.33
Lake Granbury Youth Services	10,702.64
Jerry Durant Toyota	6,984.19
Wash My Ride	6,930.21
Granbury SNF, LLC	3,952.07
Kroger	2,620.98

Source: City of Granbury

WATER SALES **TABLE 27**

Fisc. Year Ending 9/30:	Million Gallons Sold
2011	501.827
2012	546.446
2013	583.836
2014	555.566
2015	557.171

Source: City of Granbury

SEWER RATES **TABLE 28**

(Effective June 2013)

Residential Rates

	Inside City Limits	Outside City Limits
Customer Charge (Minimum)	$24.00	$34.00
Rate Per 1,000 Gallons	$3.50	$5.25

Commerical Rates

	Inside City Limits	Outside City Limits
Minimum - Small Commercial	$36.50	$44.50
Minimum - Large Commercial	$36.50	$44.50
Minimum - Multi Unit	$6.50	$10.00
User Charge Per 1,000 Gallons	$3.50	$5.25

PRINCIPAL SEWER CUSTOMERS **TABLE 29**

Name of Customer	Average Monthly Bill
Lake Granbury Medical Center	$ 63,334.09
GISD	43,922.94
Waterview Point Retirement	35,099.28
Hood County	21,601.07
Creative Solutions	13,943.33
Hilton Garden Inn	12,946.62
Lake Granbury Youth Services	10,702.64
Harborlakes Plaza Nursing	10,227.87
Jerry Durant Toyota	5,299.57
Granbury SNF, LLC	3,952.07

ELECTRIC RATES **TABLE 30**

(Effective May 2016)

Residential Rates

	Inside City Limits	Outside City Limits
Customer Charge (Minimum)	$13.75	$25.00
Rate Per kWh	$0.0246	$0.0246

Power Cost Adjustment - In addition to the base rates, each customer's monthly charges shall be increased by an amount equal to the total power cost incurred in providing service. The applicable per kilowatt hour power cost adjustment (PCA) shall be computed according to the following formula: PCA = PC + PCCF / S. PC = Estimated cost of power, including, but not limited to, fuel expense, transmission charges, and ancillary charges of all customers. PCCF = Power cost correction factor which is applied to compensate for prior period's over or under collection of power costs due to the variance between actual power costs including fuel and revenues received from application of the power cost adjustment. S = Energy (kilowatt hours) estimated to be sold to consumers

Commerical Rates

	Inside City Limits	Outside City Limits
Minimum - Small Commercial	$35.00	$45.00
Minimum - Large Commercial	$72.00	$82.00
Rate Per kWh	$0.0246	$0.0246

Power Cost Adjustment - In addition to the base rates, each customer's monthly charges shall be increased by an amount equal to the total power cost incurred in providing service. The applicable per kilowatt hour power cost adjustment (PCA) shall be computed according to the following formula: PCA = PC + PCCF / S. PC = Estimated cost of power, including, but not limited to, fuel expense, transmission charges, and ancillary charges of all customers. PCCF = Power cost correction factor which is applied to compensate for prior period's over or under collection of power costs due to the variance between actual power costs including fuel and revenues received from application of the power cost adjustment. S = Energy (kilowatt hours) estimated to be sold to consumers

PRINCIPAL ELECTRIC CUSTOMERS **TABLE 31**

Name of Customer	Average Monthly Bill
Granbury ISD GHS	$ 86,049.84
City of Granbury	74,780.51
Waterview Point Retirement	38,447.87
Lake Granbury Medical Center	35,581.05
Hood County	35,269.55
Brookshire's	21,329.09
Lowe's	16,979.80
Hilton Garden Inn	12,946.62
Kroger	12,930.52
AT&T	11,495.92

Source: City of Granbury

ELECTRIC SALES **TABLE 32**

Fisc. Year Ending 9/30:	MWH Sold
2010	89,810
2011	76,060
2012	91,760
2013	91,010
2014	95,020
2015	93,639

Source: City of Granbury

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF GRANBURY AND HOOD COUNTY, TEXAS

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INFORMATION REGARDING THE CITY OF GRANBURY AND HOOD COUNTY, TEXAS

GENERAL

The City of Granbury is a dynamic and growing community located in the heart of Hood County and is approximately 30 miles southwest of Fort Worth. Granbury was settled in 1847 by Charles Barnard, who opened a trading post along the commerce rich Brazos River. In 1887, the Fort Worth and Rio Grande Railroad arrived in Granbury bringing an economic boom that resulted in a new college and a new major bank. Granbury offers unique dichotomy of both historic attractions and present day accommodations and shopping. With the restoration and development of the downtown area Granbury has become known as the town "Where Texas History Lives". Many of the buildings located on the "Square" are registered as historic landmarks. The Granbury Courthouse Square became the first in Texas to be added to the *National Register of Historic Places*. The City is a great attraction for visitors with the restored 1886 Opera House (where live theatrical performances are still on going) and the Brazos Drive-In (only a handful are left in the state) where you can still watch movies from your car.

Recreation and tourism abound with Lake Granbury (a 35.5 mile long lake created in 1969), 3 public and 5 private golf courses, lodging in historical homes that are now "Bed and Breakfasts" and many antique stores.

The regional economy has enjoyed an expansion in its retail/commercial opportunities. The stability of Wal-Mart Supercenter, H-E-B, Home Depot, and Lowe's Home Improvement Center continues to be a catalyst for growth in the regional economy. These establishments, along with other restaurants, banks, supermarkets, hotels and retail stores located along U.S. Highway 377 and in other sections of the City, provide outlets to meet any of the needs of area residents as well as providing a solid retail sales base for the City.

Hood County was organized and created in 1866. The County is named for John Bell Hood, a Confederate lieutenant general and the commander of "Hood's Texas Brigade". The county is well diversified with timber, prairie, rock-crested cliffs and silvery-winding streams.

POPULATION TRENDS

Year	City of Granbury	Hood County
2015 Estimate	8,940	54,300
2010 Census	7,978	51,182
2000 Census	5,718	41,100
1990 Census	4,045	28,981

Source: United States Census Bureau and North Central Texas Council of Governments and the Issuer.

LEADING EMPLOYERS

Employer	Principal Line of Business	2015 Approximate Number Of Employees
Granbury ISD	Education	1,028
Lake Granbury Medical Center	Health Care	570
Walmart Supercenter	Retail	380
Hood County	County Government	356
H-E-B	Retail	244
Kroger	Retail	205
City of Granbury	Municipal Government	175
United Cooperative Svc	Utility Services	153
Granbury Care Center	Health Care	145
Total Equipment & Service	Oilfield Services	143

Source: The Issuer

EMPLOYMENT STATISTICS

	Hood County		State of Texas	
	April 2016	April 2015	April 2016	April 2015
Total Civilian Labor Force	24,772	24,330	13,257,468	13,054,103
Total Employed	23,707	23,329	12,696,755	12,524,751
Total Unemployed	1,065	1,001	560,713	529,352

Source: Texas Workforce Commission – Labor Market Review, Austin, Texas

UNEMPLOYMENT RATES

	April 2016	April 2015
Hood County	4.3	4.1
State of Texas	4.2	4.1
United States of America	4.7	5.1

Source: Texas Workforce Commission – Labor Market Review, Austin, Texas

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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NORTON ROSE FULBRIGHT

[Closing Date]

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

IN REGARD to the authorization and issuance of the “City of Granbury, Texas, General Obligation Refunding Bonds, Series 2016,” dated August 1, 2016, in the principal amount of $5,890,000 (the “Bonds”), we have examined into their issuance by the City of Granbury, Texas (the “City”), solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the City’s outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of $5,000 or any integral multiple thereof (within a maturity). The Bonds mature on August 15 in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the “Ordinance” and, jointly with the Pricing Certificate, the “Bond Ordinance”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Bond Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Bond Ordinance, a Special Escrow Agreement (the “Escrow Agreement”) between the City and U.S. Bank National Association (the “Escrow Agent”), a special report of Grant Thornton LLP, Certified Public Accountants (the “Accountants”) and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Bond Ordinance, are valid, legally binding and enforceable obligations of the City payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the City, 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 the general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a fund with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the special report of the Accountants as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

APPENDIX D

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

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

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2015

WHERE TEXAS HISTORY LIVES

GRANBURY

Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2015

CITY OF GRANBURY, TEXAS

CITY OF GRANBURY, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

Prepared by the Finance Department.

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CITY OF GRANBURY, TEXAS
Annual Financial Report
For the Year Ended September 30, 2015

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CITY OF GRANBURY, TEXAS

Annual Financial Report

For the Year Ended September 30, 2015

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INTRODUCTORY SECTION

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116 West Bridge Street • Granbury, Texas 76048 • 817-573-1114

March 1, 2016

Honorable Mayor and City Council
City of Granbury, Texas

Dear Mayor and City Council:

The City Manager's Office is pleased to present the Comprehensive Annual Financial Report for the City of Granbury, Texas for the fiscal year ended September 30, 2015.

This report is published to provide the City Council, citizens, bondholders, City staff and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief the enclosed data is accurate in all respects, and is organized in a manner designed to fairly present the financial position and results of City operations, which are measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

THE REPORT

The reporting model issued by the Governmental Accounting Standards Board (GASB) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). We believe our presentation provides better information to users of the comprehensive annual financial report. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Granbury's MD&A can be found immediately following the independent auditor's report.

This report is presented in three sections: introductory, financial and statistical. The introductory section includes this transmittal letter, a listing of the City Officials and an organizational chart of the City. The financial section includes the MD&A, Government-wide and Major Fund presentations, Required Supplementary Information, Combining and Individual Fund Statements and schedules, as well as the independent auditors' report on the basic financial statements. The statistical section includes financial and demographic information, usually presented on a multi-year basis that is relevant to the financial statement reader.

The basic Financial Statements of the City include all governmental activities, organizations and functions for which the City is financially accountable as defined by the Governmental Accounting Standards Board (GASB). Based on these criteria no other governmental organizations are included in this report.

CITY PROFILE

Location

Granbury is located in Hood County, in the heart of north Texas, just southwest of the Dallas-Fort Worth Metroplex. Granbury is home to approximately 8,940 people, and serves as the center of commerce and recreation to over 53,921 county residents (US Census Bureau). There are currently 13.99 square miles of land within the City's boundaries.

Government Structure

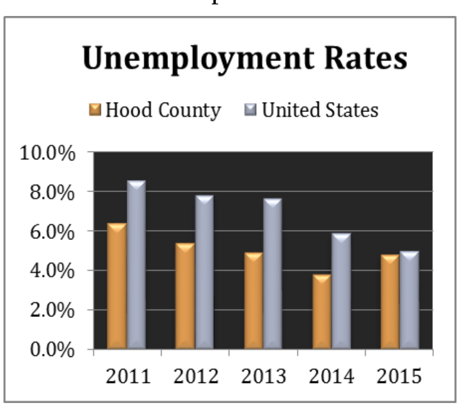
Founded in 1873, Granbury is a Home Rule Charter City and operates under a Council-Manager form of government. The City Council is comprised of a mayor and five council members and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing members of various statutory and advisory boards, the City Manager, the City Attorney, the City Secretary and the Municipal Judge. The City Manager is responsible for the enforcement of laws and ordinances, the appointment and supervision of the directors and department heads, and the performance of functions within the municipal organization.

Services Provided

The City provides a full-range of services, which have proven to be necessary and meaningful, at the least possible cost to its citizens. Major services provided under the general government and enterprise functions are: police and fire protection; electric, water and sewer utility services; airport facilities; park and recreational facilities; street and sidewalk improvements; and administrative services, supported by fleet maintenance, building maintenance operations, and information technology.

ECONOMIC CONDITIONS AND OUTLOOK

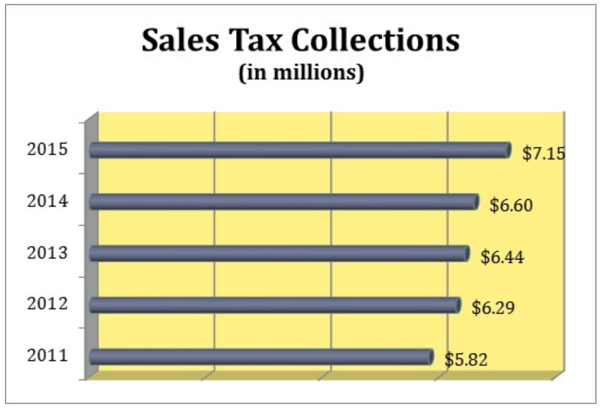
The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the City operates.



Regional Economy

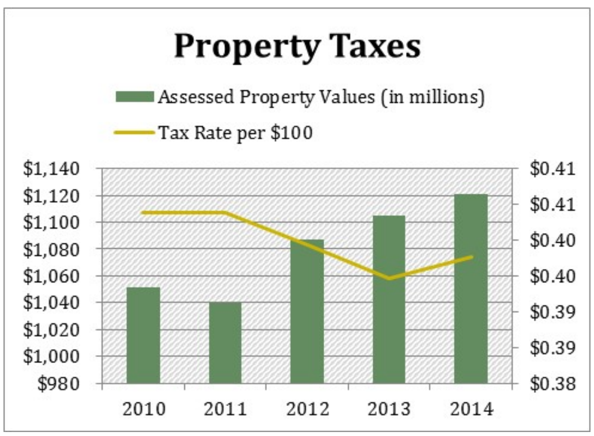
Granbury is only 30 miles from the Dallas-Fort Worth Metroplex, which has shown relatively strong economic growth over the past three years. Hood County has also enjoyed a robust economic environment for the past three years; unemployment rates have remained lower than national averages and sales taxes have increased.

Local Economy



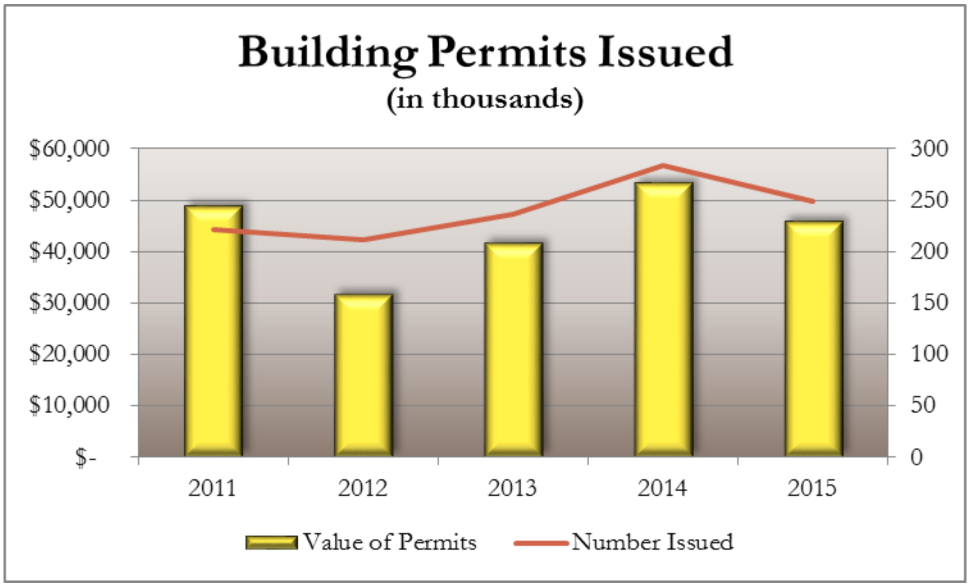
Granbury is the financial hub not only of Hood County but the surrounding area. Customers come from a 30-mile radius to shop in Granbury. The latest census figures show there are almost 30,000 people that live within 5 miles, 40,000 people that live within 10 miles and 130,000 people that live within 20 miles of Granbury. The stability of Wal-Mart Supercenter, H-E-B, Home Depot, Kroger and Lowe's Home Improvement Center continues to be a catalyst for growth in the regional economy. These establishments, along with other restaurants, banks, supermarkets, hotels and retail stores located along U.S. Highway 377 and in other sections of the City, provide outlets to meet any of the needs of area residents as well as providing a solid retail sales base for the City. Sales tax collections in Fiscal Year 2014-2015 were up by 8% compared to the prior year. The sales tax revenue for 2015-2016 has been conservatively budgeted to remain constant when compared to 2014-2015 collections.

Tourism plays an important role in maintaining the healthy economy of the City. The historical downtown district, with its shopping, bed and breakfasts, and other attractions, also serves the City well by drawing tourists from outside the region. Additionally, Granbury's 18,000-square-foot Resort Conference Center, which is adjacent to the Hilton Garden Hotel, continues to classify Granbury as a destination for meetings and conferences. This supplies a real stimulus to the Granbury economy during the week, as well as on the weekends, by creating hotel occupancy tax and sales tax collections that would not have been realized if the city had not developed this beautiful conference center on the lake. The City's historical hometown atmosphere combined with an aggressive development attitude is producing results.



Total assessed property values increased by approximately $16 million for the 2014 Tax Year to $1,121 million. The City's property tax rate increased from $.394593 to $.39758 for Tax Year 2014 when City Council adopted the effective tax rate as calculated by the Hood County Appraisal District. The change is tax rate represented the first slight increase in property tax rates since 1997.

Residential development continues in areas such as Abe's Landing, Harbor Lakes, and Catalina Bay. Additionally, there are potential commercial development opportunities that are in process which should help the City of Granbury maintain stable property valuations; including a new YMCA, Texas Stone Supply, Lumin Health, Mesquite Pit and CiCi's Pizza. While the value and the number of building permits slightly decreased when compared to the previous year, Granbury has experienced a tremendous growth in both commercial and residential development the last couple of years.



FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City's accounting records for general governmental operations are maintained on a modified accrual basis. Revenues are recorded when available and measurable and expenditures are recorded when the services or goods are received and the liabilities incurred. Accounting records for the City's utilities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City Charter provides that the City Council shall adopt the annual budget prepared by the City Manager. This budget is reviewed by the City Council and is formally adopted by the passage of a budget ordinance. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgetary control has been established at the individual fund and department level. Financial reports are produced showing budget and actual expenditures by line item, and are distributed monthly to City departmental management and to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item. Revenue budgets are reviewed monthly.

In addition, the City has implemented a five-year strategic plan process that projects full line-item and capital expenditure detail for all departments. The first year of this strategic plan is utilized as a starting basis for the annual budget.

<u>Cash Management</u>

As of February 1, 2014, the City's depository contract is with First National Bank of Granbury. It is a three-year relationship period with two one-year extension options, set to expire on January 31, 2017. The City has the option each year to choose the interest rate calculation for the year from two choices:

- Fixed rate of .25%
- Variable rate equal to the 90-day ask rate of US Treasury Bills, though not to fall below .05% nor to exceed 2.00%

The remaining idle cash is invested in government securities and government investment pools as allowed by State of Texas Statutes and by the City's investment policy.

The ending balance of the City's investment portfolio for Fiscal Year 2014-15 was approximately $4.M. The overall portfolio provided $2,394 in investment income, representing interest revenue net of realized gain, unrealized gains and losses and investment expenses.

It is the City's policy that all demand deposits and time deposits will have a collateralization level of not less than 102% of market value of principal and accrued interest, less an amount of $250,000, which represents insurance by the FDIC or FSLIC on certain types of bank deposits. Evidence of pledged collateral shall be documented by a safekeeping or a master repurchase agreement with the collateral pledged clearly listed in the agreement and safekeeping confirmations. Collateral is monitored monthly to ensure that the market value of the pledged securities equals or exceeds the related deposit or investment balance. A Finance Committee consisting of the City Manager, Assistant Finance Director and Financial Analyst meets periodically to determine general investment strategies, monitor results and to review quarterly and annual investment reports.

These reports reflect all investments and are sorted by asset type and, well describe the position of the portfolio on the date of the report by comparing book values versus market values and the unrealized gain or loss at the end of the period.

All investments transacted by the City are purchased using the delivery versus payment method. That is, funds are not wired or paid until verification has been made that the correct security has been received by the Custodian. Securities are held in the name of the City or held on behalf of the City. The original copy of the safekeeping statements is delivered to the City.

The City will not accept as depository collateral any security that is not specifically allowed to be held as a direct investment by the City's portfolio, and the maximum maturity of the collateral securities may be no greater than five years. Collateral is held by an independent third party with whom the depository bank has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) is supplied to the City and retained. The safekeeping institution will be the Federal Reserve Bank, Federal Home Loan Bank, or an institution not affiliated with the depository bank or the broker/dealer pledging the security. The safekeeping agreement includes the authorized signatories of the City and the depository bank.

All collateral shall be subject to verification and audit by the Finance Director or the City's independent auditors.

Long-Term Financing

The City intends that the length of any long-term financing matches the life of assets purchased with the financing. The City will generally use lease-purchase options for purchases of larger pieces of equipment with an expected useful life of at least five years. Certificates of obligation or bonded indebtedness are issued for projects and other significant capital improvements with longer useful lives.

Tax Appraisal/Collection Responsibilities

Under Texas law enacted in 1979 and subsequent revisions to the State Property Tax Code, the appraised value of taxable property in Granbury is established by the Hood County Appraisal District. The City of Granbury and the other taxing jurisdictions in Hood County provide a pro-rata share of the budgeted expenditures incurred by the Appraisal District, based upon individual levy. The Appraisal District also provides for tax collection services for the City and the other taxing jurisdictions in Hood County.

OTHER INFORMATION

Independent Audit

Section 7.13 of the City Charter requires the City Council to direct that an independent annual audit be made of all accounts of the City. This requirement has been complied with, and the independent auditor's report has been included in this report.

It should be noted that the auditors included all funds in their audit, performed their audit in accordance with generally accepted auditing standards, and stated that, in their opinion, the statements herein present fairly, in all material aspects, the financial position of the City at September 30, 2015, and the results of its operations and the cash flows of its proprietary fund type for the year ended in conformity with accounting principles generally accepted in the United States of America.

Certificate of Achievement

The Government Finance Officers Association of the United States of America and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Granbury for its comprehensive annual financial report for the fiscal year ended September 30, 2014. This was the eleventh consecutive year that the government has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Appreciation is expressed to City employees throughout the organization, especially those employees who were instrumental in the successful completion of this report.

The staff would like to thank the members of the City Council for their leadership and their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Chris Coffman
City Manager

CITY OF GRANBURY, TEXAS

MAYOR
Nin Hulett

MAYOR PRO-TEM
Mickey Parson

COUNCIL MEMBERS
Tony Allen
Gary Couch
Rose Myers
Laurel Pirkle

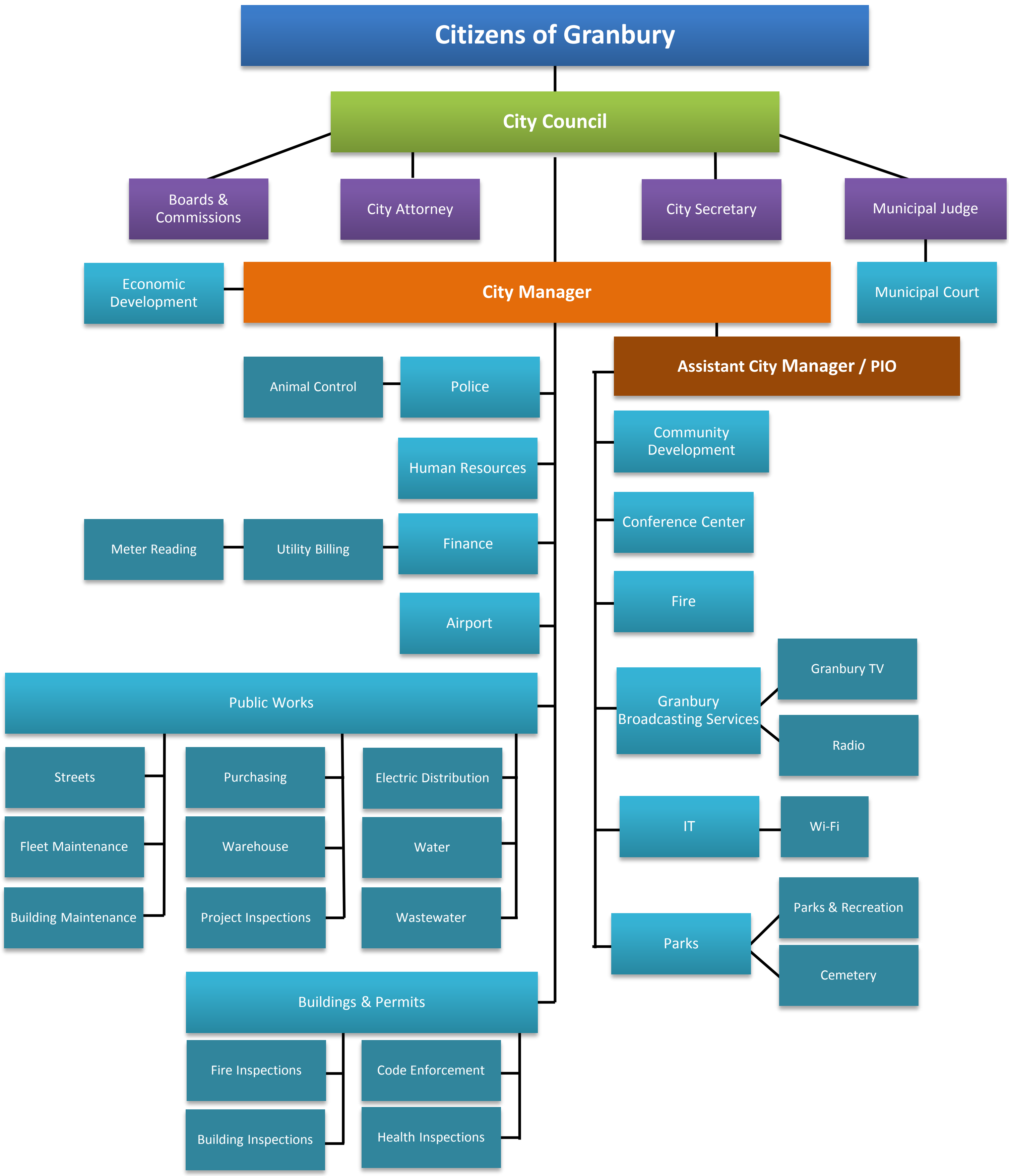
CITY MANAGER
Chris Coffman

ASSISTANT CITY MANAGER
Sheri Campbell-Husband

DEPARTMENT DIRECTORS

Alva Cox	**Public Works Director**
Mitch Galvan	**Police Chief**
Eva S Gregory	**Finance Director**
Gary Hawkins	**Airport Director**
Ben Macon	**Municipal Court Judge**
Carla Walker	**City Secretary**
Aaron Mclain	**Parks & Recreation Director**
Scott Sopchak	**Community Development Director**
Tony Tull	**Information Technology Director**
Steve Dieterichs	**Tourism Director**

CITY OF GRANBURY, TEXAS
Organizational Chart



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Granbury

Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2014

Executive Director/CEO

FINANCIAL SECTION

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GMS CERTIFIED PUBLIC ACCOUNTANTS
GEORGE | MORGAN | SNEED

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Granbury
Granbury, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

George, Morgan & Sneed, P.C.
1849 Wall Street | Weatherford, TX 76086 | *Phone* 817.594.2704 | *Fax* 817.599.7389
www.gms-cpa.com

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity 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 management's discussion and analysis on pages 4 – 16 and budgetary comparison schedule – general fund, schedule of changes in net pension liability and related ratios – Texas Municipal Retirement System, schedule of contributions – Texas Municipal Retirement System, schedule of the city's proportionate share of the net pension liability – Texas Emergency Services Retirement System, and schedule of contributions – Texas Emergency Services Retirement System on pages 63 - 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

George, Morgan & Sneed, P.C.
Weatherford, Texas
March 1, 2016

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CITY OF GRANBURY, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

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

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Granbury exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $54,880,936 (Net Position). Of this amount $6,186,375 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.

- The City's total net position decreased by $3,312,253. The City's operations decreased the governmental activities by $2,547,794 and increased the business-type activities by $4,824,156. Net position was decreased by a $5,588,615 prior period adjustment as a result of implementing new accounting standards. See note 19 to the financial statements for a description of the new standards.

- As of the close of the current fiscal year, the City of Granbury's governmental funds reported combined ending fund balances of $6,894,710.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $3,798,559 or 28% of the total General Fund expenditures.

- At the end of the current fiscal year, unrestricted net position for the Utility Fund was $4,235,536, or 27% of total Utility Fund operating expenses, excluding depreciation expense.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, development services, and cultural and recreation. The business-type activities of the City include water, sewer, electric and airport operations.

The government-wide financial statements can be found on Exhibits A-1 and B-1 of this report.

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

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

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

The City maintains five (5) governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund, and Capital Projects Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on Exhibits C-1 through C-4 of this report.

Proprietary Funds – The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Municipal Utility, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on Exhibits D-1 through D-3 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on Exhibits E-1 and E-2 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-62 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Granbury, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $54,880,936 as of September 30, 2015.

The largest portion of the City's net position (83%) reflects its investment in capital assets (e.g., land, buildings, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (5%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $6,186,375, may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2015, the City is able to report positive balances in three categories of net position, for the government as a whole, as well as for its separate categories – governmental and business-type activities.

Below are summaries of the City's Statement of Net Position and Statement of Activities.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	$ 9,626,139	$ 10,845,297	$ 25,782,941	$ 10,415,011	$ 35,409,080	$ 21,260,308
Capital assets	45,133,431	44,702,372	40,975,521	36,136,202	86,108,952	80,838,574
Total Assets	54,759,570	55,547,669	66,758,462	46,551,213	121,518,032	102,098,882
Deferred outflows of Resources	1,886,804	282,761	433,208	178,329	2,320,012	461,090
Total deferred outflows of resources	1,886,804	282,761	433,208	178,329	2,320,012	461,090
Current liabilities	1,635,602	739,431	2,160,463	1,614,026	3,796,065	2,353,457
Long-term liabilities	30,442,518	23,311,456	34,478,334	18,013,684	64,920,852	41,325,140
Total liabilities	32,078,120	24,050,887	36,638,797	19,627,710	68,716,917	43,678,597
Deferred inflows of resources	196,744	500,584	43,447	187,602	240,191	688,186
Total deferred inflows of resources	196,744	500,584	43,447	187,602	240,191	688,186
Net Position:						
Invested in capital assets net of related debt	21,537,158	26,045,119	24,172,309	19,645,350	45,709,467	45,690,469
Restricted	683,036	682,251	2,302,058	2,135,756	2,985,094	2,818,007
Unrestricted	2,151,316	4,551,589	4,035,059	5,133,124	6,186,375	9,684,713
Total Net Position	$ 24,371,510	$ 31,278,959	$ 30,509,426	$ 26,914,230	$ 54,880,936	$ 58,193,189

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues:						
Charges for services	$ 1,558,416	$ 1,435,030	$ 20,499,656	$ 20,406,111	$ 22,058,072	$ 21,841,141
Operating grants and contributions	476,781	772,777	12,250	-	489,031	772,777
Capital grants and contributions	503,633	821,184	732,847	806,241	1,236,480	1,627,425
General revenues:						
Property taxes	4,574,859	4,404,767	-	-	4,574,859	4,404,767
Sales taxes	7,232,245	6,632,629	-	-	7,232,245	6,632,629
Hotel/Motel Occupancy Taxes	626,203	557,166	-	-	626,203	557,166
Franchise taxes	1,669,455	1,603,479	-	-	1,669,455	1,603,479
Investment earnings	31,670	27,754	15,367	20,942	47,037	48,696
Other Revenue	359,722	317,355	-	-	359,722	317,355
Extraordinary items	-	-	499,448	-	499,448	-
Total revenues	17,032,984	16,572,141	21,759,568	21,233,294	38,792,552	37,805,435
Expenses						
City Council	175,756	205,274	-	-	175,756	205,274
Legal	216,540	180,338	-	-	216,540	180,338
Executive	566,955	541,084	-	-	566,955	541,084
Financial Administration	420,668	392,031	-	-	420,668	392,031
Purchasing	161,101	164,636	-	-	161,101	164,636
Social Services	53,989	44,000	-	-	53,989	44,000
Management Information Services	829,306	522,905	-	-	829,306	522,905
Economic Development	96,078	148,355	-	86,000	96,078	234,355
Human Resources	271,601	237,418	-	-	271,601	237,418
Warehouse	168,431	158,350	-	-	168,431	158,350
Fleet Maintenance	307,990	246,576	-	-	307,990	246,576
Building Maintenance	627,211	211,880	-	-	627,211	211,880
Granbury Public TV Channel 27	94,506	121,235	-	-	94,506	121,235
Other governmental functions	962,525	931,856	-	-	962,525	931,856
Police	3,497,261	3,464,007	-	-	3,497,261	3,464,007
Fire	487,921	475,344	-	-	487,921	475,344
Municipal Court	196,676	228,259	-	-	196,676	228,259
Streets	1,442,712	1,604,620	-	-	1,442,712	1,604,620
Public Works	548,552	518,811	-	-	548,552	518,811
Community Development	436,091	431,114	-	-	436,091	431,114
Clean Air Coalition	147,426	-	-	-	147,426	-
Airport	-	-	1,011,149	1,121,761	1,011,149	1,121,761
Cemetery	68,870	71,339	-	-	68,870	71,339
Tourism	1,413,290	1,114,430	-	-	1,413,290	1,114,430
Parks	1,979,717	2,078,875	-	-	1,979,717	2,078,875
Conference Center	635,391	667,948	-	-	635,391	667,948
Interest and fiscal charges	992,957	885,592	-	-	992,957	885,592
Water treatment and distribution	-	-	4,981,249	4,675,413	4,981,249	4,675,413
Wastewater collection and treatment	-	-	2,496,113	2,508,138	2,496,113	2,508,138
Electricity	-	-	11,228,158	11,644,931	11,228,158	11,644,931
Total expenses	16,799,521	15,646,277	19,716,669	20,036,243	36,516,190	35,682,520
Increase (decrease) in net position before transfers	233,463	925,864	2,042,899	1,197,051	2,276,362	2,122,915
Transfers	(2,781,257)	146,763	2,781,257	(147,964)	-	(1,201)
Increase (decrease) in net position	(2,547,794)	1,072,627	4,824,156	1,049,087	2,276,362	2,121,714
Net Position October 1	31,278,959	30,206,332	26,914,230	25,865,143	58,193,189	56,071,475
Prior period adjustment	(4,359,655)	-	(1,228,960)	-	(5,588,615)	-
Net Position September 30	$ 24,371,510	$ 31,278,959	$ 30,509,426	$ 26,914,230	$ 54,880,936	$ 58,193,189

Governmental Activities. Governmental activities decreased the City's net position by $2,547,794 compared with a $1,072,627 increase in the prior year. Total governmental activities revenues increased $460,843 (3%) to $17,032,984. Total governmental activities expenses increased $1,153,244 (7%) from the prior year. Key elements of these changes are as follows.

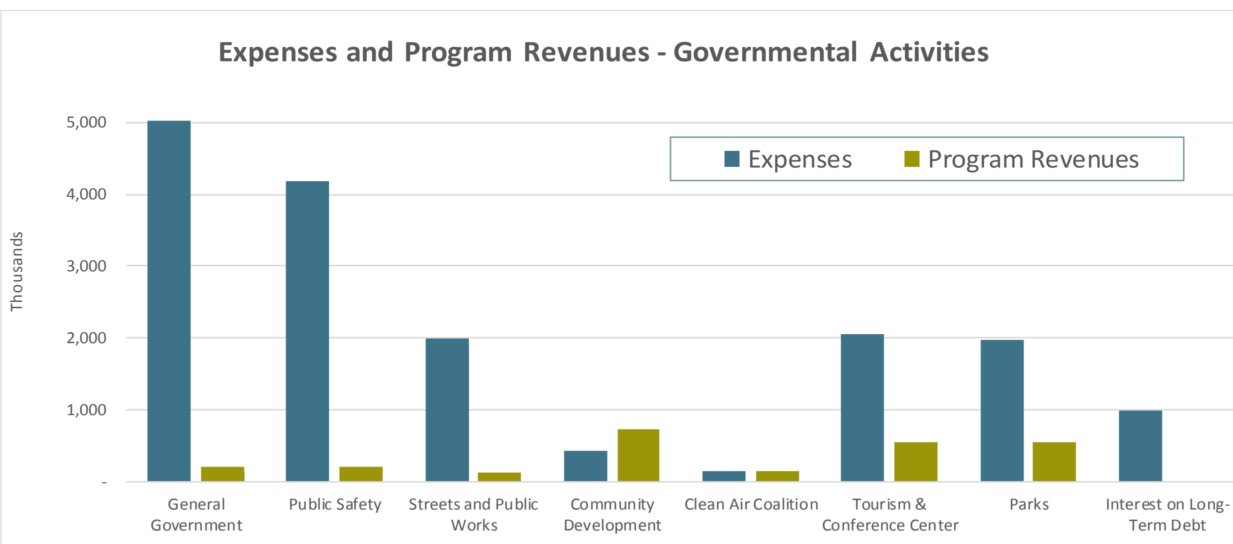
Revenues:

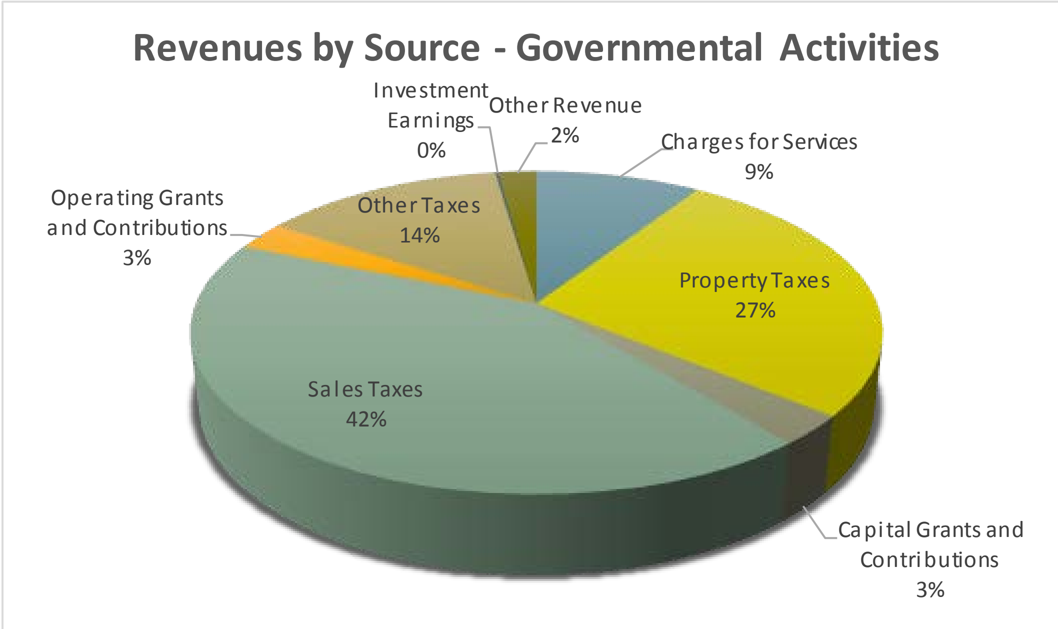
- Charges for services increased $123,386 primarily due to an increase in building permit revenue due to an increase in the value of commercial projects.
- Operating grants and contributions decreased $295,996 primarily because a $321,000 tree replacement grant was received in the prior year.
- Capital grants and contributions decreased $317,551 primarily due to contributions made by developers for street projects in the prior year.
- Property taxes increased $170,092 due to an increase in the assessed property value and an increase in tax rate.
- Sales tax revenue increased $599,616 (9%) in the current year due to the continued growth of the community. Sales tax reported in the governmental activities includes an adjustment for sales tax earned in September that is not considered available for the governmental fund statements.

Expenses:

- Management information services increased $306,401 and building maintenance increased $415,331 due to a change in the reporting of shared allocations. In previous years, these shared expenses were allocated and reported under operating expenses for both governmental and business-type activities. Beginning in fiscal year 2015, these expenses were recovered from the enterprise funds as transfers in.
- Streets increased $161,908 primarily due to an increase in depreciation due to developer street contributions in the prior year.
- Clean air coalition was new in the current year.
- Tourism increased $298,860 primarily due to an increase in depreciation expense since the Opera House was renovated and put into service during the prior year.
- Interest increased $107,365 due to having more debt in the current year.

Below are two graphs summarizing governmental revenue and expense:





Business-type activities. Business-type activities increased the City's net position by $4,824,156 in the current year compared to an increase of $1,049,087 in the prior year. The business-type activities total revenues increased $526,274 (2%) to $21,759,568 and total expenses decreased $319,574 (2%) to $19,716,669. Key elements of these changes are as follows.

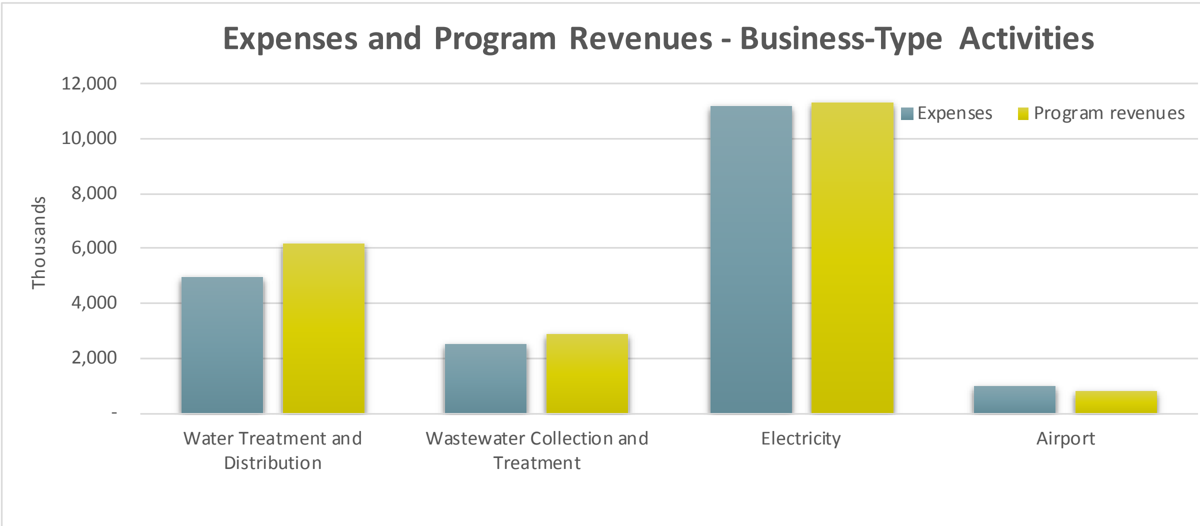
Revenues:

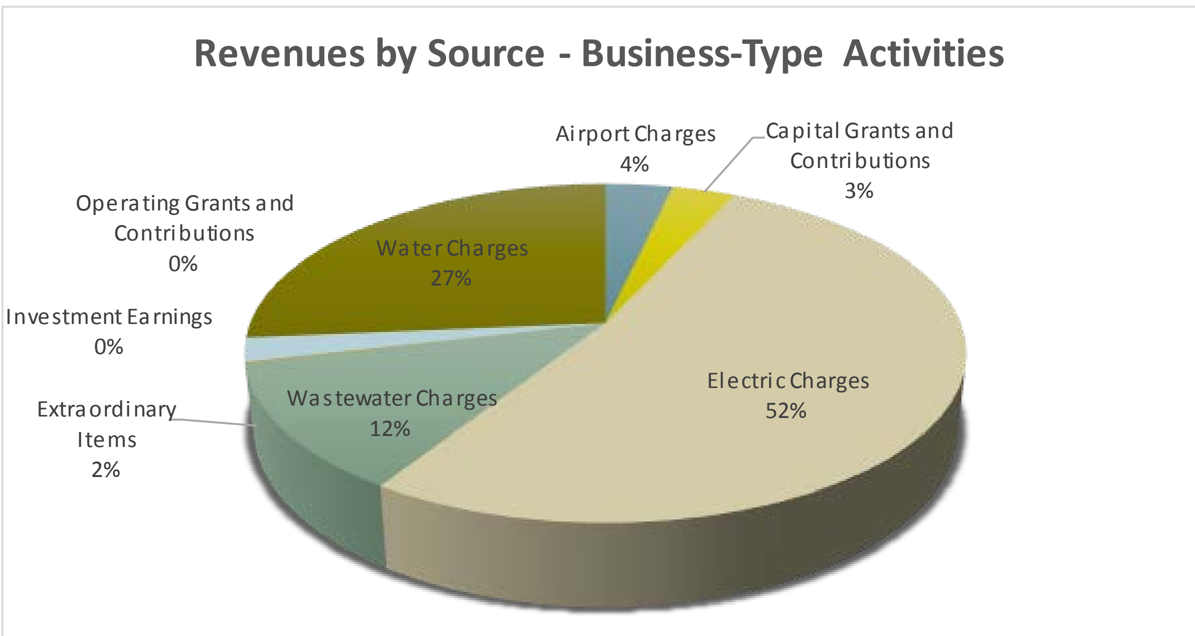
- There was a gain on the loss of a destroyed lift station in the current year in the amount of $499,448. See note 8 to the financial statements for additional details.

Expenses:

- Airport expenses decreased $110,612 primarily because fuel expense decreased due to lower fuel costs.
- Electric department expenses increased $314,328 due to an increase in the amount of electricity purchased for resale and repairs and maintenance.
- In the previous year the amounts paid to the general fund for the shared allocation of expenses were allocated to the MIS, building maintenance and fleet maintenance department. During the year the City changed its methodology for calculating the shared allocation of expenses and these amounts were reported as transfers. As a result expenses decreased and transfers out increased.

Below are two graphs summarizing business-type activities revenue and expense:





FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City of Granbury's governmental funds reported combined ending fund balances of $6,894,710. $3,581,181 (52%) of this amount constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was $3,798,559. The fund balance of the general fund increased $794,728. Sales tax increased 8% due to the continued growth of the community. Intergovermental revenue increased approximately $590,000 due to two grants received in the current year. Total revenue in the general fund increased by 8% overall. Expenditures increased 22% primarily due to the purchase of vehicles and equipment for the fire department, salary increases and vehicle purchases in the police department, land and property improvements in the parks department, and a change in the way shared allocation of expenses are reported.

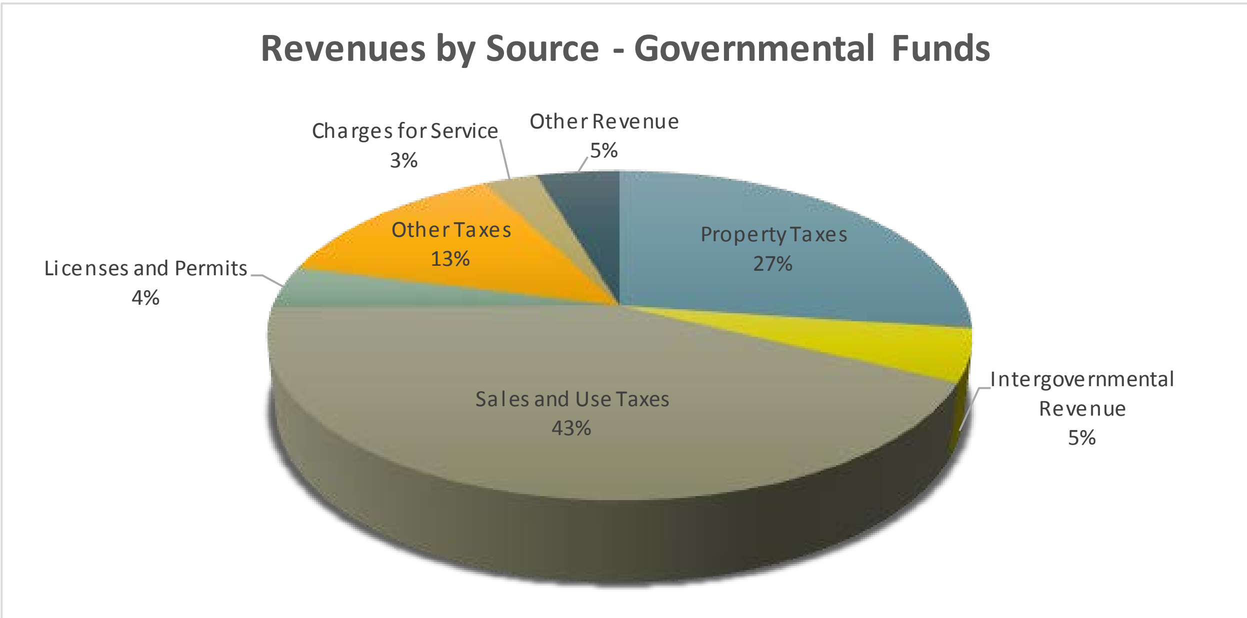
Below is a comparison of the general fund's net change in fund balance for 2015 and 2014.

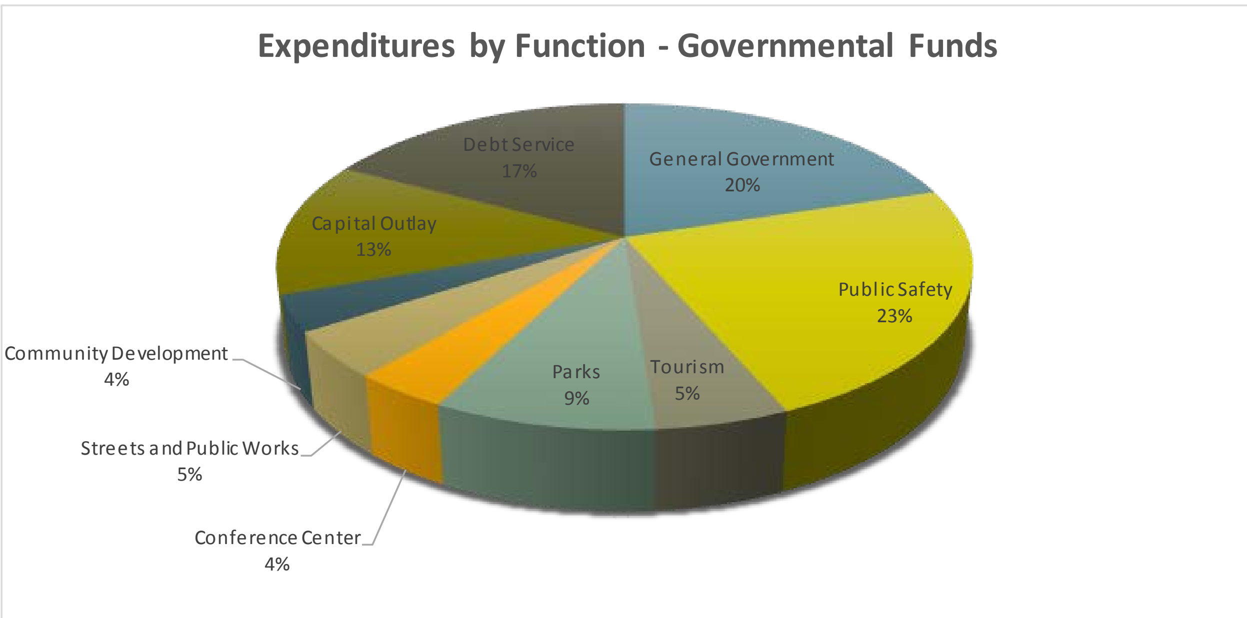
	2015	2014	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Taxes:				
Property	$ 1,763,490	$ 1,761,949	$ 1,541	0.09%
Sales and Use	7,151,484	6,599,573	551,911	8.36%
Franchise	1,639,843	1,575,029	64,814	4.12%
Fines and fees	190,154	149,611	40,543	27.10%
Licenses and permits	703,918	595,351	108,567	18.24%
Charges for service	33,887	49,358	(15,471)	-31.34%
Intergovernmental revenue	858,629	267,614	591,015	220.85%
Park and recreation	133,782	485,692	(351,910)	-72.46%
Interest income	9,582	17,214	(7,632)	-44.34%
Other revenue	318,575	312,132	6,443	2.06%
Total revenues	12,803,344	11,813,523	989,821	8.38%
Expenditures:				
General government	4,745,797	3,840,821	904,976	23.56%
Public Safety	5,123,326	4,085,731	1,037,595	25.40%
Streets	534,995	562,719	(27,724)	-4.93%
Public Works	578,796	547,800	30,996	5.66%
Community Development	441,303	430,693	10,610	2.46%
Clean Air Coalition	160,484	-	160,484	100.00%
Cemetery	71,100	55,852	15,248	27.30%
Parks	2,114,803	1,762,250	352,553	20.01%
Total expenditures	13,770,604	11,285,866	2,484,738	22.02%
Other financing sources (uses):				
Transfers in	1,610,262	351,470	1,258,792	358.15%
Transfers out	(1,042,428)	(2,408,757)	1,366,329	-56.72%
Insurance recoveries	72,944	-	72,944	100.00%
Issuance of Capital Lease	1,121,210	452,839	668,371	147.60%
Net change in fund balances	$ 794,728	$ (1,076,791)	$ 1,871,519	173.81%

The Debt Service fund has a total fund balance of $260,791, all of which is restricted for the payment of debt service. Debt Service fund balance increased in 2015 by $89,439.

The fund balance of the capital projects fund decreased $2,761,428 because of capital outlay for street improvements, skate park improvements, Moments in Time trail, downtown square improvement project, and property acquisiton. 100% of the fund balance is restricted to be used to fund projects with bond proceeds.

Below are two graphs summarizing governmental fund revenue and expenditures.





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

Unrestricted net position of the enterprise funds were $4,035,059 comprised of the Utility Fund $4,235,536 and the Airport Fund negative $200,477. The Utility Fund had a net position increase in 2015 of $673,983 and the Airport had a net position increase of $4,150,173 primarily due to the transfer of land from the capital projects fund in the amount of $4,159,058.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City made revisions to the general fund original appropriations approved by the City Council. Overall these changes resulted in an increase in expenditures from the original budget of 3% or $404,646. The most significant changes to general fund budgeted expenditures included: an increase to the executive budget of $55,175 mainly due to personnel retirement, an increase of $46,920 to management information services for additional software licensing fees, an increase in police of $153,707 for the purchase and maintenance of new vehicles, and an increase in parks of $90,531 primarily for the purchase of land.

General fund actual expenditures budgetary basis were $810,667 less than budgeted. The clean air coalition was not budgeted because it was funded with a grant. Police, parks and community development were under budget $145,359, $134,874 and $108,453, respectively.

CAPITAL ASSETS

The City of Granbury's investment in capital assets for its governmental and business-type activities as of September 30, 2015 amounts to $86,108,952 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, improvements other than buildings and construction in progress.

Major capital asset events during the current fiscal year included the following:

Governmental Activities:

- The City purchased vehicles, machinery and equipment, and improvements other than buildings with capital leases totaling $1,121,210.
- Drainage improvements of $77,900 were contributed by developers.
- Current year capital asset events funded with bond funds include $348,618 for Moments in Time trail and a skate park. Capital asset events for the Moments in Time trail not funded with bonds was $452,671.

Business-Type Activities:

- $4,159,058 of land was acquired for the airport.
- $466,727 of water improvements and $237,258 of sewer improvements were contributed by developers to the City.
- Current year capital asset events funded with the 2012 Utility System Revenue Bonds include $1,089,538 for new water wells and $131,096 for engineering and the pilot study.

- Current year capital asset events funded with the 2015A Combination Tax and Surplus Revenue Certificates of Obligation include $133,870 for professional services relating to the construction of a water treatment plant.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 5,430,577	$ 5,347,623	$ 5,192,631	$ 1,033,573	$ 10,623,208	$ 6,381,196
Buildings	13,654,988	14,042,841	147,915	135,485	13,802,903	14,178,326
Improvements other than buildings	21,901,506	22,529,432	31,705,098	30,360,642	53,606,604	52,890,074
Machinery and equipment	1,661,482	1,436,054	1,360,169	1,427,311	3,021,651	2,863,365
Construction in progress	2,484,878	1,346,422	2,569,708	3,179,191	5,054,586	4,525,613
Total	$ 45,133,431	$ 44,702,372	$ 40,975,521	$ 36,136,202	$ 86,108,952	$ 80,838,574

Additional information on the City of Granbury's capital assets can be found in Note 7 to the financial statements.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Granbury had total bonded debt, notes payable and capital leases payable of $58,035,802. Of this amount, $20,776,684 comprises bonded debt backed by the full faith and credit of the government, $22,891,198 are certificates of obligation secured by ad valorem taxes and surplus revenues of the utility fund and $11,302,269 represents bonds secured solely by electric, water and sewer revenues. The capital leases payable of $2,729,254 pertains to equipment and new airport hangars being financed by lease/purchase financing. The notes payable is the amount borrowed by the Granbury Historic Properties Corporation, a blended component unit, to purchases the opera house.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Capital Leases Payable	$ 1,472,077	$ 614,842	$ 1,257,177	$ 1,407,137	$ 2,729,254	$ 2,021,979
Notes Payable	336,397	360,392	-	-	$ 336,397	360,392
Revenue Bonds	-	-	11,302,269	12,114,241	11,302,269	12,114,241
General Obligation	16,840,147	9,509,707	3,936,537	4,376,581	20,776,684	13,886,288
Certificates of Obligation	6,461,198	12,447,293	16,430,000	-	22,891,198	12,447,293
Total Outstanding Debt	$ 25,109,819	$ 22,932,234	$ 32,925,983	$ 17,897,959	$ 58,035,802	$ 40,830,193

The City's bond ratings are listed below:

	General Obligation	Utility Revenue
Fitch Ratings	AA	Not rated
Standard & Poor's Corporation	AA	A+

No direct funded debt limitation is imposed on the City under current state law or the City's code.

Additional information on the City of Granbury's long-term debt can be found in Notes 9 and 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

General Fund revenues and transfers in are budgeted to remain consistent in fiscal year 2016 when compared to the 2014-2015 budget. Sales tax makes up about 50% of the General Fund budgeted revenues. Property tax revenue is budgeted to increase about 8% from the 2014-2015 budgeted amounts. Certified assessed property valuations increased approximately $104 million (9.3%) from the preceding year, but the property tax rate has remained the same at $.397584 per $100. The maintenance and operations portion of the tax rate was increased from $.152907 to $.180174 and the debt service rate decreased from $.244677 to $.217410. The increase in the maintenance and operations tax rate and reduction in the debt service rate were possible because of the increased property valuations, and because of the savings generated by the recent refinancing and debt roll off. Granbury has experienced tremendous growth in sales tax and property tax valuations during the last several years and therefore, continues to maintain its status as a regional retail and tourism hub. In fiscal year 2015 sales tax receipts were up 8.4% when compared with the previous year's actual collections.

Similarly, General Fund expenditures and transfers out are budgeted to remain consistent with 2014-2015 budgeted amounts. Total budget for the General Fund expenditures is $13,606,864. While the significant growth in sales tax and property valuation is attributable to the increased commercial and residential activity, the City recognizes its reliance on the economically sensitive sales tax revenue and continues to budget conservatively.

Operating revenue in the Utility Fund is budgeted to remain consistent with 2014-2015 budgeted amounts at $20,528,795. No rate adjustments were made for electric, water, and sewer services in fiscal year 2015. The City's electric provider is Bryan Texas Utilities (BTU). The existing 10-year contract for electric services will expire on December 31, 2017. The ten-year contract has locked in the energy cost at $72.75 per megawatt hour which is 65%-75% higher than the power purchase rate the market currently offers. The estimated "all-in" charge the City pays BTU is $84.99 per megawatt hour, including ancillary services, transmission services and transmission losses

Operating expenses for the Utility Fund, excluding depreciation, are budgeted to remain consistent with 2014-2015 budgeted amounts at $19,554,007.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance, Attn: Director of Finance, at P. O. Box 969, Granbury, Texas 76048, or call (817) 573-1114. A copy of this document is available on the City's website at www.granbury.org : go to Departments/Finance & Admin. Services.

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BASIC FINANCIAL STATEMENTS

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EXHIBIT A-1

City of Granbury, Texas
Statement of Net Position
September 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	$ 3,195,295	$ 1,866,582	$ 5,061,877
Investments	2,060,000	550,000	2,610,000
Receivables (Net of allowances for uncollectibles)			
Property taxes	95,957	-	95,957
Franchise taxes	372,829	-	372,829
Accounts	-	2,062,057	2,062,057
Due from other governments	1,223,762	-	1,223,762
Fines and fees receivable	93,364	-	93,364
Miscellaneous receivables	280,045	842,138	1,122,183
Accrued interest	155	150	305
Internal balances	245,873	(245,873)	-
Prepaid items	69,970	-	69,970
Inventories	100,313	1,436,380	1,536,693
Restricted assets:			
Cash and cash equivalents	1,888,576	17,816,446	19,705,022
Investments	-	1,455,061	1,455,061
Capital assets (net of accumulated depreciation):			
Land	5,430,577	5,192,631	10,623,208
Buildings	13,654,988	147,915	13,802,903
Improvements other than buildings	21,901,506	31,705,098	53,606,604
Machinery and equipment	1,661,482	1,360,169	3,021,651
Construction in progress	2,484,878	2,569,708	5,054,586
Total Assets	54,759,570	66,758,462	121,518,032
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows related to pensions	950,643	274,629	1,225,272
Deferred charges on refunding	936,161	158,579	1,094,740
Total Deferred Outflows of Resources	1,886,804	433,208	2,320,012
LIABILITIES:			
Accounts payable and accrued liabilities	1,065,196	1,216,966	2,282,162
Unearned revenue	436,559	95,734	532,293
Current Liabilities Payable from Restricted Assets:			
Accounts payable and accrued liabilities	-	132,718	132,718
Interest payable	133,847	114,953	248,800
Customer deposits	-	600,092	600,092
Noncurrent liabilities:			
Due Within One Year	2,553,858	1,580,730	4,134,588
Due in More Than One Year	27,888,660	32,897,604	60,786,264
Total Liabilities	32,078,120	36,638,797	68,716,917
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to pensions	196,744	43,447	240,191
Total Deferred Inflows of Resources	196,744	43,447	240,191
NET POSITION:			
Investments in Capital Assets, Net of Debt	21,537,158	24,172,309	45,709,467
Restricted Net Position			
Debt Service (Expendable)	185,641	1,049,749	1,235,390
Impact fees for capital improvements (Expendable)	-	1,252,309	1,252,309
Public Safety (Expendable)	39,026	-	39,026
Culture and Recreation (Expendable)	353,015	-	353,015
Public, educational, and governmental programing	65,895	-	65,895
Court technology and security (Expendable)	39,459	-	39,459
Unrestricted Net Position	2,151,316	4,035,059	6,186,375
Total Net Position	**$** 24,371,510	$ 30,509,426	$ 54,880,936

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

City of Granbury, Texas
Statement of Activities
For the Year Ended September 30, 2015

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
City Council	$ 175,756	$ -	$ -	$ -
Legal	216,540	-	-	-
Executive	566,955	-	-	-
Financial Administration	420,668	-	-	-
Purchasing	161,101	-	-	-
Social Services	53,989	-	-	-
Management Information Services and City WIFI	829,306	31,797	-	-
Economic Development	96,078	-	151,155	-
Human Resources	271,601	-	-	-
Warehouse	168,431	-	-	-
Fleet Maintenance	307,990	-	-	-
Building Maintenance	627,211	-	-	-
Granbury Public TV Channel 27	94,506	17,164	-	-
Other governmental functions	962,525	-	-	-
Police	3,497,261	124,102	54,725	-
Fire	487,921	-	-	-
Municipal Court	196,676	34,350	-	-
Streets	1,442,712	-	-	77,900
Public Works	548,552	44,570	-	-
Community Development	436,091	659,348	68,408	-
Clean Air Coalition	147,426	-	158,608	-
Cemetery	68,870	3,600	-	-
Tourism	1,413,290	134,441	43,885	-
Parks	1,979,717	135,563	-	425,733
Conference Center	635,391	373,481	-	-
Interest and fiscal charges	992,957	-	-	-
Total governmental activities	16,799,521	1,558,416	476,781	503,633
Business-type activities:				
Water treatment and distribution	4,981,249	5,744,707	12,250	446,727
Wastewater collection and treatment	2,496,113	2,645,515	-	237,258
Electricity	11,228,158	11,329,466	-	-
Airport	1,011,149	779,968	-	48,862
Total business-type activities	19,716,669	20,499,656	12,250	732,847
Total primary government	$ 36,516,190	$ 22,058,072	$ 489,031	$ 1,236,480

General Revenues:
Taxes:
Property Taxes, levied for general purposes
Property Taxes, levied for debt service
Sales Taxes
Hotel/Motel Occupancy Taxes
Franchise Taxes
Investment Earnings
Other Revenue
Extraordinary Items
Transfers
Total General Revenues, Extraordinary Items & Transfers

Change in Net Position

Prior Period adjustment

Net Position, October 1, 2014

Net Position, September 30, 2015

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
$ (175,756)	$ `	$ (175,756)
(216,540)	-	(216,540)
(566,955)	-	(566,955)
(420,668)	-	(420,668)
(161,101)	-	(161,101)
(53,989)	-	(53,989)
(797,509)	-	(797,509)
55,077	-	55,077
(271,601)	-	(271,601)
(168,431)	-	(168,431)
(307,990)	-	(307,990)
(627,211)	-	(627,211)
(77,342)	-	(77,342)
(962,525)	-	(962,525)
(3,318,434)	-	(3,318,434)
(487,921)	-	(487,921)
(162,326)	-	(162,326)
(1,364,812)	-	(1,364,812)
(503,982)	-	(503,982)
291,665	-	291,665
11,182	-	11,182
(65,270)	-	(65,270)
(1,234,964)	-	(1,234,964)
(1,418,421)	-	(1,418,421)
(261,910)	-	(261,910)
(992,957)	-	(992,957)
(14,260,691)	-	(14,260,691)
-	1,222,435	1,222,435
-	386,660	386,660
-	101,308	101,308
-	(182,319)	(182,319)
-	1,528,084	1,528,084
$ (14,260,691)	$ 1,528,084	$ (12,732,607)
$ 1,762,700	$ -	$ 1,762,700
2,812,159	-	2,812,159
7,232,245	-	7,232,245
626,203	-	626,203
1,669,455	-	1,669,455
31,670	15,367	47,037
359,722	-	359,722
-	499,448	499,448
(2,781,257)	2,781,257	-
11,712,897	3,296,072	15,008,969
(2,547,794)	4,824,156	2,276,362
(4,359,655)	(1,228,960)	(5,588,615)
31,278,959	26,914,230	58,193,189
$ 24,371,510	$ 30,509,426	$ 54,880,936

City of Granbury, Texas
Balance Sheet
Governmental Funds
September 30, 2015

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Assets:					
Cash and cash equivalents	$ 2,657,804	$ 261,952	$ 134,130	$ 141,409	$ 3,195,295
Investments	2,060,000	-	-	-	2,060,000
Receivables (Net of allowances for uncollectibles)					
Property taxes	37,260	58,697	-	-	95,957
Franchise taxes	372,829	-	-	-	372,829
Due from other governments	1,223,762	-	-	-	1,223,762
Fines and fees receivable	93,364	-	-	-	93,364
Miscellaneous receivables	208,003	-	-	72,042	280,045
Interest	155	-	-	-	155
Due from other funds	808,173	368	-	-	808,541
Inventories	97,512	-	-	2,801	100,313
Prepaid items	69,970	-	-	-	69,970
Restricted Assets:					
Cash and cash equivalents	70,350	-	1,818,226	-	1,888,576
Total assets	$ 7,699,182	$ 321,017	$ 1,952,356	$ 216,252	$ 10,188,807
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:					
Liabilities:					
Accounts payable and accrued expenses	$ 895,375	$ 1,529	$ 97,503	$ 70,789	$ 1,065,196
Unearned revenue	401,806	-	-	34,753	436,559
Due to other funds	368	-	341,300	221,000	562,668
Total liabilities	1,297,549	1,529	438,803	326,542	2,064,423
Deferred inflows of resources:					
Deferred revenue	1,170,977	58,697	-	-	1,229,674
Total deferred inflows of resources	1,170,977	58,697	-	-	1,229,674
Fund Balance:					
Nonspendable	619,482	-	-	-	619,482
Restricted	497,395	260,791	1,513,553	-	2,271,739
Committed	270,982	-	-	107,088	378,070
Assigned	44,238	-	-	-	44,238
Unassigned	3,798,559	-	-	(217,378)	3,581,181
Total fund balances	5,230,656	260,791	1,513,553	(110,290)	6,894,710
Total liabilities, deferred inflows of resources, and fund balances	$ 7,699,182	321,017	$ 1,952,356	$ 216,252	$ 10,188,807

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

City of Granbury, Texas
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
September 30, 2015

Total Fund Balances - Governmental Funds	$ 6,894,710
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was $87,511,341 and the accumulated depreciation was $42,377,910.	45,133,431
Deferred charges for refunding related to governmental activity debt are not financial resources and, therefore, are not reported in the governmental funds.	936,161
Included in the items related to noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of $4,952,310, a deferred resource inflow related to pensions of $196,744, and a deferred resource outflow related to pensions in the amount of $950,643. This amounted to a decrease in net position in the amount of $4,198,411.	753,899
Long-term liabilities, including $23,301,345 bonds payable, $336,397 notes payable, $1,472,077 capital leases payable and $380,389 compensated absences payable are not due and payable in the current period, and, therefore are not reported as liabilities in the fund financial statements.	(30,442,518)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.	(133,847)
Property taxes receivable, franchise taxes receivable, sales tax receivable and fines and fees receivable are not available soon enough to pay for the current period's expenditures and, therefore, are deferred revenue in the fund financial statements.	1,229,674
Net Position of Governmental Activities	$ 24,371,510

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

City of Granbury, Texas
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the year ended September 30, 2015

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Property	$ 1,763,490	$ 2,813,677	$ -	$ -	$ 4,577,167
Sales and Use	7,151,484	-	-	-	7,151,484
Hotel/Motel Occupancy	-	-	-	626,203	626,203
Franchise	1,639,843	-	-	-	1,639,843
Fines and fees	190,154	-	-	-	190,154
Licenses and permits	703,918	-	-	-	703,918
Charges for service	33,887	-	-	462,951	496,838
Intergovernmental revenue	858,629	-	-	-	858,629
Park and recreation	133,782	-	-	-	133,782
Interest income	9,582	16,581	5,402	105	31,670
Other revenue	318,575	-	-	88,856	407,431
Total revenues	12,803,344	2,830,258	5,402	1,178,115	16,817,119
Expenditures:					
Current					
General government					
City Council	175,756	-	-	-	175,756
Legal	216,540	-	-	-	216,540
Executive	609,269	-	-	-	609,269
Financial Administration	424,593	-	-	-	424,593
Purchasing	162,394	-	-	-	162,394
Social Services	53,989	-	-	-	53,989
Management Information Services and City WIFI	759,853	-	-	-	759,853
Economic Development	98,916	-	-	-	98,916
Human Resources	273,835	-	-	-	273,835
Warehouse	194,830	-	-	-	194,830
Fleet Maintenance	307,021	-	-	-	307,021
Building Maintenance	661,663	-	-	-	661,663
Granbury Public TV Channel 27	104,407	-	-	-	104,407
Other governmental functions	702,731	-	-	-	702,731
Public Safety:					
Police	3,666,497	-	-	-	3,666,497
Fire	1,255,424	-	-	-	1,255,424
Municipal Court	201,405	-	-	-	201,405
Streets	534,995	-	-	-	534,995
Public Works	578,796	-	-	-	578,796
Community Development	441,303	-	-	-	441,303
Clean Air Coalition	160,484	-	-	-	160,484
Cemetery	71,100	-	-	-	71,100
Tourism	-	-	-	797,357	797,357
Parks	2,114,803	-	-	-	2,114,803
Conference Center	-	-	-	644,068	644,068
Capital outlay	-	-	1,107,772	-	1,107,772
Debt service:					
Principal	-	2,326,476	-	23,994	2,350,470
Interest and fiscal charges	-	700,884	-	11,405	712,289
Debt issuance costs	-	206,070	91,534	-	297,604
Total expenditures	13,770,604	3,233,430	1,199,306	1,476,824	19,680,164
Excess (deficiency) of revenue over (under) expenditures	$ (967,260)	$ (403,172)	$ (1,193,904)	$ (298,709)	$ (2,863,045)
Other financing sources (uses):					
Transfers in	1,610,262	285,972	-	523,995	2,420,229
Transfers out	(1,042,428)	-	(4,159,058)	-	(5,201,486)
Certificates of Obligation issued	-	-	2,460,000	-	2,460,000
Refunding bonds issued	-	8,130,000	-	-	8,130,000
Bond (Discount)/Premium	-	860,333	131,534	-	991,867
Payment to bond refunding escrow agent	-	(8,783,694)	-	-	(8,783,694)
Insurance recoveries	72,944	-	-	-	72,944
Issuance of Capital lease	1,121,210	-	-	-	1,121,210
Total other financing sources (uses)	1,761,988	492,611	(1,567,524)	523,995	1,211,070
Net change in fund balances	794,728	89,439	(2,761,428)	225,286	(1,651,975)
Fund Balance, October 1, 2014	4,435,928	171,352	4,274,981	(335,576)	8,546,685
Fund Balance, September 30, 2015	$ 5,230,656	$ 260,791	$ 1,513,553	$ (110,290)	$ 6,894,710

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

EXHIBIT C-4

City of Granbury, Texas
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances of
The Governmental Funds to the Statement of Activities
For the year ended September 30, 2015

Total Net Change in Fund Balances - Governmental Funds	$ (1,651,975)
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 $3,215,086 of capital outlays, $77,900 of developer contributions and $2,350,470 of debt principal payments is to increase net position.	5,643,456
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 net position.	(2,861,926)
Current year issuance of capital lease are other financing sources in the fund financial statements. The effect of the $1,121,210 increase in capital leases payable is a decrease in net position.	(1,121,210)
Current year proceeds from the sale of bonds are other financing sources in the fund financial statements. The net effect of the increase in certificates of obligation is a decrease in net position.	(2,591,534)
Transactions involving the issuance of refunding bonds are expenditures and other financing sources (uses) in the fund financial statements but change in deferred charges for refunding and noncurrent liabilities in the government-wide financial statements. The net effect is a decrease to net position.	(206,639)
Current year interest payable and compensated absences of the governmental funds are not due and payable in the current period and, therefore are not reported as liabilities or assets in the funds. The $27,791 increase in interest payable, $1,167 increase in compensated absences, and $44,727 amortization of deferred charges, premiums and discounts increase net position.	15,769
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	65,021
GASB required the City to recognize their net pension liability, deferred resource inflow related to pensions, and deferred resource outflow related to pensions. The changes in these balances increased net position.	161,244
Change in Net Position of Governmental Activities	$ (2,547,794)

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

City of Granbury, Texas
Statement of Net Position
Proprietary Funds
September 30, 2015

	Business-type Activities Enterprise Funds		
	Utility Fund	Airport Fund	Totals
ASSETS:			
Current Assets:			
Cash and cash equivalents	$ 1,865,836	$ 746	$ 1,866,582
Investments	550,000	-	550,000
Receivables (Net of allowance for uncollectibles):			
Accounts	2,062,057	-	2,062,057
Miscellaneous Receivables	704,913	137,225	842,138
Interest	150	-	150
Supplies inventory	1,418,822	17,558	1,436,380
Restricted Assets:			
Cash and cash equivalents	17,816,446	-	17,816,446
Investments	1,455,061	-	1,455,061
Total current assets	25,873,285	155,529	26,028,814
Capital assets, at cost:			
Land	885,750	4,306,881	5,192,631
Construction in Progress	2,569,708	-	2,569,708
Buildings	284,000	256,487	540,487
Improvements other than buildings	50,968,163	4,444,715	55,412,878
Machinery and Equipment	4,507,536	238,320	4,745,856
Less: accumulated depreciation	(24,490,851)	(2,995,188)	(27,486,039)
Capital assets, net	34,724,306	6,251,215	40,975,521
Total noncurrent assets	34,724,306	6,251,215	40,975,521
Total assets	$ 60,597,591	$ 6,406,744	$ 67,004,335
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charge on refunding	$ 158,579	$ -	$ 158,579
Deferred outflow related to pensions	248,849	25,780	274,629
Total deferred outflows of resources	$ 407,428	$ 25,780	$ 433,208

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

EXHIBIT D-1

City of Granbury, Texas
Statement of Net Position
Proprietary Funds
September 30, 2015

	Business-type Activities Enterprise Funds		
	Utility Fund	Airport Fund	Totals
LIABILITIES:			
Current Liabilities:			
Accounts payable and accrued liabilities	$ 1,198,190	$ 18,776	$ 1,216,966
Unearned revenue	94,246	1,488	95,734
Compensated absences payable	65,668	2,199	67,867
Due to other funds	14,873	231,000	245,873
Current Liabilities Payable from Restricted Assets:			
Accounts payable and accrued liabilities	132,718	-	132,718
Current portion of long-term debt	1,397,257	115,606	1,512,863
Interest payable	114,953	-	114,953
Customer deposits payable	598,892	1,200	600,092
Total current liabilities	3,616,797	370,269	3,987,066
Noncurrent Liabilities:			
Compensated absences payable	66,015	-	66,015
Net pension liability	1,295,124	123,345	1,418,469
Capital leases payable	288,158	728,674	1,016,832
Bonds payable	30,396,288	-	30,396,288
Total noncurrent liabilities	32,045,585	852,019	32,897,604
Total liabilities	$ 35,662,382	$ 1,222,288	$ 36,884,670
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows related to pensions	$ 39,669	$ 3,778	$ 43,447
Total deferred inflows of resources	$ 39,669	$ 3,778	$ 43,447
NET POSITION:			
Investment in capital assets, net of debt	$ 18,765,374	$ 5,406,935	$ 24,172,309
Restricted for debt service (Expendable)	1,049,749	-	1,049,749
Restricted impact fees for capital improvements - water (Expendable)	358,617	-	358,617
Restricted impact fees for capital improvements - wastewater (Expendable)	893,692	-	893,692
Unrestricted	4,235,536	(200,477)	4,035,059
Total net position	$ 25,302,968	$ 5,206,458	$ 30,509,426

City of Granbury, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended September 30, 2015

	Business-type Activities Enterprise Funds		
	Utility Fund	Aiport Fund	Totals
Operating revenues:			
Charges for sales and services:			
Charges for Water and Sewer Sales	$ 7,913,291	$ -	$ 7,913,291
Charges for Electricity Sales	10,993,672	-	10,993,672
Charges for Airport Services	-	727,183	727,183
Impact fees	235,227	-	235,227
Intergovernmental	12,250	-	12,250
Other Revenue	556,493	52,785	609,278
Total operating revenue	19,710,933	779,968	20,490,901
Operating expenses:			
Administration	442,567	-	442,567
Airport	-	830,619	830,619
Water treatment and distribution	2,804,342	-	2,804,342
Wastewater collection and treatment	1,464,801	-	1,464,801
Electricity	9,933,954	-	9,933,954
Meter Reading	164,933	-	164,933
Utility Franchise Fees	849,286	-	849,286
Depreciation	2,046,110	151,055	2,197,165
Total operating expenses	17,705,993	981,674	18,687,667
Operating income	2,004,940	(201,706)	1,803,234
Nonoperating revenues (expenses):			
Interest revenue	15,367	-	15,367
Gain (loss) on disposal of capital assets	15,843	5,162	21,005
Interest expense	(637,987)	(29,475)	(667,462)
Debt issuance costs	(361,540)	-	(361,540)
Total nonoperating revenues (expenses)	(968,317)	(24,313)	(992,630)
Income (loss) before contributions and transfers	1,036,623	(226,019)	810,604
Capital contributions and transfers:			
Capital contributions	683,985	48,862	732,847
Transfers in	-	4,391,519	4,391,519
Transfers out	(1,546,073)	(64,189)	(1,610,262)
Net capital contributions and transfers	(862,088)	4,376,192	3,514,104
Extraordinary items			
Gain on destroyed lift station	499,448	-	499,448
Change in Net Position	673,983	4,150,173	4,824,156
Net Position, October 1, 2014	25,752,882	1,161,348	26,914,230
Prior Period Adjustment	(1,123,897)	(105,063)	(1,228,960)
Net Position, September 30, 2015	$ 25,302,968	$ 5,206,458	$ 30,509,426

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

City of Granbury, Texas
Statement of Cash Flows
Proprietary Funds
For the year ended September 30, 2015

	Business-type Activities Enterprise Funds		
	Utility Fund	Airport Fund	Totals
Cash flows from operating activities:			
Cash received from customers	$ 19,777,152	$ 785,364	$ 20,562,516
Payments to suppliers	(13,867,344)	(658,358)	(14,525,702)
Cash paid to employees	(1,618,050)	(169,522)	(1,787,572)
Net cash provided by operating activities	4,291,758	(42,516)	4,249,242
Cash flow from noncapital financing activities:			
Interfund Borrowing	-	-	-
Increase (decrease) in due to other funds	-	(59,000)	(59,000)
Transfers in	-	232,461	232,461
Transfers out	(1,546,073)	(64,189)	(1,610,262)
Contributions for Economic Development	-	-	-
Net cash provided (used) by noncapital financing activities	(1,546,073)	109,272	(1,436,801)
Cash flow from capital and related financing activities:			
Principal payments on long-term debt	(1,336,031)	(91,418)	(1,427,449)
Proceeds from issuance of certificates of obligation	16,068,460	-	16,068,460
Proceeds from sale of capital assets	15,843	5,162	21,005
Transfers in	-	4,159,058	4,159,058
Capital grants and contributions	-	48,862	48,862
Capital outlay	(1,998,762)	(4,159,030)	(6,157,792)
Interest paid on long-term debt	(574,520)	(29,475)	(603,995)
Insurance proceeds received on lift station	399,777	-	399,777
Expenses related to lift station	(457,215)	-	(457,215)
Net cash (used) by capital and related financing activities	12,117,552	(66,841)	12,050,711
Cash flow from investing activities:			
Proceeds from sales and maturities of investments	1,103,899	-	1,103,899
Purchase of investments	(500,000)	-	(500,000)
Interest Received	15,295	-	15,295
Net cash provided (used) by investing activities	619,194	-	619,194
Net increase (decrease) in cash and cash equivalents	15,482,431	(85)	15,482,346
Cash and cash equivalents, October 1, 2014	4,199,851	831	4,200,682
Cash and cash equivalents, September 30, 2015	$ 19,682,282	$ 746	$ 19,683,028
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	$ 2,004,940	$ (201,706)	$ 1,803,234
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	2,046,110	151,055	2,197,165
Loss on disposal of capital assets	-	-	-
(Increase) decrease in accounts receivable	65,415	-	65,415
(Increase) decrease in miscellaneous receivables	209,204	2,708	211,912
(Increase) decrease in prepaid items	-	1,055	1,055
(Increase) decrease in inventory	(157,964)	6,060	(151,904)
Increase (decrease) in accounts payable	143,242	(853)	142,389
Increase (decrease) in compensated absences payable	17,960	197	18,157
Increase (decrease) in unearned revenue	(93,356)	1,488	(91,868)
Increase (decrease) in customer meter deposits	94,160	1,200	95,360
Increase (decrease) in net pension balances	(37,953)	(3,720)	(41,673)
Total adjustments	2,286,818	159,190	2,446,008
Net cash provided by operating activities	$ 4,291,758	$ (42,516)	$ 4,249,242
Noncash Investing, Capital and Financing Activities			
Contribution of capital assets from developers	$ 683,985	$ -	$ 683,985
Capital assets purchased with capital lease	24,499	37,491	61,990
	$ 708,484	$ 37,491	$ 745,975

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

City of Granbury, Texas
Statement of Fiduciary Net Position
Fiduciary Fund
September 30, 2015

		Future Construction Escrow Agency Fund		Employee Benefits Trust
ASSETS:				
Assets:				
Cash and cash equivalents	$	44,510	$	156,632
Total assets	$	44,510	$	156,632
LIABILITIES				
Liabilities:				
Accounts payable	$	150	$	-
Escrow liability		44,360		-
Total liabilities	$	44,510	$	-
NET POSITION				
Unrestricted Net Position			$	156,632

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

EXHIBIT E-2

City of Granbury, Texas
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the year ended September 30, 2015

		Employee Benefits Trust
Additions		
Contributions		
Employer	$	1,127,699
Employees		63,299
Miscellaneous income		-
Interest Income		281
Total additions		1,191,279
Deductions		
Insurance Premiums		1,112,201
Change in net position		79,078
Net Position, October 1, 2014		77,554
Net Position, September 30, 2015	$	156,632

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Granbury is a charter city in which the citizens elect the mayor at large and five council members by wards. The financial statements of the City of Granbury, Texas ("City") include all governmental activities, organizations, and functions of the City. The criteria considered in determining governmental activities to be reported within the City's financial statements included: the City's accountability for the entity's fiscal matters; the scope of public service of the entity; and the nature of any special financing relationships which may exist between the City and a given governmental entity. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. The City has one blended component unit, which has a September 30 year-end.

Blended Component Unit.

June 6, 2006, the City created the Granbury Historic Properties Corporation pursuant to the Texas Transportation Corporation Act, Chapter 431 as amended. All powers of the Corporation are vested with a Board of Directors consisting of three directors, each of whom shall be a resident of the City and are determined as follows: the mayor of the city, city manager and either the chief financial officer of the City or a member of the city council as determined by the city council. The Corporation was created to assist the City in acquisition/control of historical properties deemed important to the growth and development of the City. The Corporation is presented as a blended component unit and reported as a special revenue fund because the City can impose its will on the Corporation by significantly influencing the programs, projects or activities performed by the Corporation and because the Corporation’s services are provided exclusively for the benefit of the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the later are excluded from the government-wide financial statements. Major individual funds and individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 30 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized when payment is due.

Property taxes, sales and use taxes, hotel/motel occupancy taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives payment.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

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

The *debt service fund* is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* is used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds).

The City reports the following major proprietary fund:

The *utility fund* is used to account for the operation of the utility systems of the City.

Additionally, the government reports the following fund and fund types:

The *tourism fund* is used to account for the financial resources to be used for the expenditures related to tourism, the Conference Center, the Langdon Center, and the Opera House.

The *airport fund* is an enterprise fund used to account for the operation of the City's municipal airport.

The future construction escrow *agency fund* is used to account for resources held in a purely custodial capacity for individuals and organizations outside the reporting government.

The *employee benefits trust is* used to account for employer and employee contributions for health insurance premiums and the payment of those premiums.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges and transfers between the governmental activities and the business-type activities, which cannot be eliminated.

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

Proprietary funds, distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Position or Equity

1. *Deposits and Investments*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased. Amounts invested in Tex-Pool and TexStar public investment pools are not considered cash and cash equivalents. Assets reported as cash and cash equivalents are considered cash and cash equivalents for the statement of cash flows.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

3. Property Tax

Ad valorem property taxes are levied each October 1, in conformity with Subtitle E, Texas Property Tax Code. The taxes are levied from valuations assessed as of the prior January 1. Taxes are due on October 1 immediately following the levy date and are delinquent after the following January 31. Tax liens are automatic on January 1 each year. Property tax revenues are recognized as revenue beginning on the date of levy, October 1, when they become available. "Available" means collected within the current period or expected to be collected soon thereafter to be used to pay current liabilities. Taxes not expected to be collected within sixty days of the fiscal year ending are recorded as deferred revenue and are recognized when they become available. Taxes collected prior to the levy date to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. *Inventory*

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

5. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30 are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid expenses in the governmental funds are accounted for using the purchases method.

6. *Capital Assets*

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary funds financial statements. The City defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life of two years or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the proprietary funds during the current fiscal year was $667,462. Of this amount $0 was included as part of the cost of capital assets under construction in connection with utility construction projects.

Property, plant and equipment of the primary government and proprietary funds are depreciated using the straight-line method over the following estimated useful lives.

Building and infrastructure	20 - 40 years
Improvements other than buildings	10 - 50 years
Machinery and equipment	7 - 20 years

The City has reported infrastructure capital assets acquired prior to the implementation of GASB Statement No. 34 at estimated historical cost and are reported with improvements other than buildings.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. *Compensated Absences*

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. When an employee leaves City employment, the employee is paid for earned but unused vacation time. This payout is limited to an amount equal to their annual vacation allowance based on years of service. Accumulated vacation time less than or equal to the employee's annual vacation allowance is accrued in the government-wide and proprietary fund financial statements. Accumulated sick time is accrued in the government-wide and proprietary fund financial statements for employees who are over sixty years old and have at least five years of service to the City or employees who have served the City for twenty years, regardless of age. A liability for these amounts are reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

8. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expenses as incurred. Deferred refunding charges are reported as deferred outflows of resources and are amortized over the life of the bonds.

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

9. *Fund Balance – Governmental Funds*

In accordance with GASB No. 54, the City classified fund balances in the governmental funds as follows:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form (such as prepaids or inventory) or are legally or contractually required to be maintained intact (such as endowment funds).

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts constrained to specific purposes by a government itself, using its highest decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint (City Council ordinance).

Assigned – includes amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Action is required by the City Council to designate, remove or change the constraints on an item in this category.

Unassigned – All amounts not included in other spendable classifications.

City of Granbury, Texas
Notes to Financial Statements
September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The details of the fund balances of the governmental funds are as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepaids and inventory	$ 167,482	$ -	$ -	$ -	$ 167,482
Due from other funds	452,000	-	-	-	452,000
Restricted:					
Debt Service	-	260,791	-	-	260,791
Construction	-	-	1,513,553	-	1,513,553
Police training, K9 program and forfeiture funds	39,026	-	-	-	39,026
Park improvements	353,015	-	-	-	353,015
Public, educational and governmental programming	65,895	-	-	-	65,895
Court technology & security	39,459	-	-	-	39,459
Committed:					
Culture and Recreation	-	-	-	107,088	107,088
Encumbrances	270,982	-	-	-	270,982
Assigned					
Cemetery Gas Well	44,238	-	-	-	44,238
Unassigned	3,798,559	-	-	(217,378)	3,581,181
	$ 5,230,656	$ 260,791	$ 1,513,553	$ (110,290)	$ 6,894,710

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

The City Council adopted a minimum fund balance policy for the General Fund. The policy requires the City strive to maintain an unassigned fund balance of not less than 25% of the General Fund budgeted expenditures.

10. *Net Position*

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a reconciliation of restricted fund balance reported in the governmental fund financial statements to restricted net assets of the governmental activities reported in the government-wide financial statements.

Restricted Fund Balance (Exhibit C-1)	$ 2,271,739
Adjustments	
Unspent proceeds from bonds reclassified to investment in capital assets, net of debt	(1,513,553)
Accrued interest payable restricted for debt service	(133,847)
Deferred property tax revenue restricted for debt service	58,697
Total adjustments	(1,588,703)
Restricted Net Position (Exhibit A-1)	$ 683,036

11. *Use of Estimates*

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates.

12. *Comparative Data*

Comparative total data for the prior year has been presented only for individual funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

13. *Deficit Fund Equity*

The tourism fund reported a negative fund balance of $217,378. The deficit has been reduced from $447,076 in in 2013-2014 down to $217,378. Management expects the fund to report a positive change in fund balance next year. Additionally, the general fund will make transfers to cover the deficit fund equity.

NOTE 2: DEPOSITS AND INVESTMENTS

The Texas Public Funds Investment Act authorizes the government to invest in obligations of the U.S. Treasury, obligations of states, agencies, counties, cities and other political subdivisions, secured certificates of deposit, repurchase agreements, bankers′ acceptance, commercial paper, mutual funds, guaranteed investment contracts and investment pools. Investments are stated at fair value except for short-term highly liquid investments which are stated at cost or amortized cost. During the year ended September 30, 2015, the City did not own any types of securities other than those permitted by statute.

The City invests idle funds in the Texas Local Government Investment Pool (TexPool) and TexSTAR investment pool. The City's investment pools operate in a manner consistent with the SEC's Rule 2A7 of the Investment Act of 1940. The Pool's are required to maintain a fair value of its underlying investment portfolio within one half of one percent of the value of its shares.

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

The State Comptroller of Public Accounts exercises oversight responsibilities over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both partcipants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. As a requirement to maintain its rating, weekly portfolio information must be submitted to Standards and Poors, as well as the office of the Comptroller of Public Accounts for review.

TexSTAR has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. An advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR has been established and maintained.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's funds are required to be deposited and invested under the terms of a depository contract. The City's deposits are required to be collateralized with securities held by the pledging institution's trust department or agent in the City's name at a level of not less than 102% of fair value. At September 30, 2015, the City's deposits at all banks were adequately insured.

$15,934,970 of the City's cash balance is held in an escrow account and collateralized in the name of the financial institution, not the City.

Credit Risk– Investments

The City controls credit risk by limiting its investments to those instruments allowed by the State Public Funds Investment Act described above.

Interest Rate Risk – Investments

In accordance with its investment policy, the City manages interest rate risk by avoiding over-concentration of assets in a specific maturity sector, a specific issuer or a specific class of securities. Portfolio maturities are staggered in a way that protects interest income from volatility and concentrations in a specific maturity sector. The maximum dollar weighted average maturity will be limited to two years. The City's investments at September 30, 2015 included the following:

Investment	Credit Rating	Maturities	Percentage of Total Investments	Cost	Fair Value
Tex-Pool	AAAm	79 days	57.56%	$ 2,340,043	$ 2,340,043
TexStar Pool	AAAm	56 days	42.44%	1,725,018	1,725,018
			100.00%	$ 4,065,061	$ 4,065,061

NOTE 3: RESTRICTED ASSETS

The following cash and investments in the government-wide statement of net position are restricted for the following purposes:

	Cash	Investments
Governmental Activities		
PEG Fees	$ 70,350	$ -
Construction	1,818,226	-
Total	$ 1,888,576	$ -
Business-type Activities		
Customer deposits	$ 600,092	$ -
Impact fees restricted for capital improvements	882,322	370,000
Interest and sinking funds	120,148	-
Revenue bond reserve	159,495	885,061
Bond construction fund	16,054,389	200,000
Total	$17,816,446	$ 1,455,061

NOTE 4: RECEIVABLES

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is based upon historical experience and is equal to 15% of outstanding delinquent property taxes at September 30. In the governmental activities the fines and fees receivable is reported net of an allowance which is 80% of the outstanding receivable. Trade accounts receivable in the enterprise fund that are inactive at year-end comprise the trade accounts receivable allowance for uncollectible accounts. Receivables as of year-end for the governmental funds and enterprise fund, including the applicable allowances for uncollectible accounts are as follows:

	General	Debt Service	Tourism	Total Governmental Funds	Total Enterprise Funds
Receivables:					
Property taxes	$ 43,602	$ 69,055	$ -	$ 112,657	$ -
Franchise taxes	372,829	-	-	372,829	-
Accounts receivable	-	-	-	-	1,046,257
Earned income not billed	-	-	-	-	1,049,965
Fines and fees receivable	468,419	-	-	468,419	-
Due from other governments	1,223,762	-	-	1,223,762	-
Miscellaneous	208,003	-	72,042	280,045	842,138
Interest	155	-	-	155	150
Gross Receivables	2,316,770	69,055	72,042	2,457,867	2,938,510
Less: Allowance for Uncollectibles	(381,397)	(10,358)	-	(391,755)	(34,165)
Net Total Receivables	$1,935,373	$ 58,697	$ 72,042	$2,066,112	$2,904,345

NOTE 5: DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only two items that qualify in this category, deferred charges on refunding bonds and deferred outflows related to pensions reported in the government-wide statement of net position and proprietary funds statement of net position. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The City has two types of items in this category, unavailable revenues for governmental funds and deferred inflows related to pensions in the government-wide statement of net position and proprietary funds statements. At the end of the fiscal year, the components of deferred inflows in the governmental funds were as follows:

Deferred inflows of resources - governmental funds	
Deferred property taxes receivable (general fund)	$ 35,937
Deferred property taxes receivable (debt service fund)	58,697
Deferred sales tax receivable (general fund)	668,847
Deferred franchise tax receivable (general fund)	372,829
Deferred fines and fees receivable (general fund)	93,364
Total deferred inflows for governmental funds	$ 1,229,674

NOTE 6: INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

The composition of interfund balances for the City's individual major funds and nonmajor funds as of September 30, 2015, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Utility Fund	$ 14,873	Warehouse inventory
	Tourism Fund	221,000	Borrowings through pooled cash
	Airport Fund	231,000	Borrowings through pooled cash
	Capital Projects Fund	341,300	Capital outlay
Debt Service	General Fund	368	Debt service
Total Governmental Funds		$ 808,541	

NOTE 6: INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS (Continued)

The composition of interfund transfers for the City's individual major funds and nonmajor funds as of September 30, 2015, is as follows:

Transfer In	Transfer Out	Amount	Purpose
General	Airport	64,189	Allocation of shared expenses
	Enterprise	1,546,073	Unrestricted revenues of utility fund used to finance various general fund programs
Debt Service	General	285,972	Debt service
Nonmajor	General	483,995	Conference Center, Tourism, and Opera House
	General	40,000	Historic Properties
Total Governmental Funds Transfers In		$ 2,420,229	
Airport Fund	General	232,461	Airport
	Capital Projects	4,159,058	Land Purchase
Total Enteprise Funds Transfers In		$ 4,391,519	

NOTE 7: CAPITAL ASSETS

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

Governmental activities:	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
Non - Depreciable Assets:					
Land	$ 5,347,623	$ 82,954	$ -	$ -	$ 5,430,577
Construction in Progress	1,346,422	1,593,575	-	(455,119)	2,484,878
Total non-depreciable assets	6,694,045	1,676,529	-	(455,119)	7,915,455
Depreciable Assets:					
Buildings	19,430,446	200,745	-	-	19,631,191
Improvements other than buildings	49,519,242	908,933	-	-	50,428,175
Machinery and equipment	8,793,245	506,778	(194,615)	431,111	9,536,519
Total capital assets being depreciated	77,742,933	1,616,456	(194,615)	431,111	79,595,885
Accumulated Depreciation:					
Buildings	(5,387,605)	(588,598)	-	-	(5,976,203)
Improvements other than buildings	(26,989,810)	(1,536,859)	-	-	(28,526,669)
Machinery and equipment	(7,357,191)	(736,469)	194,615	24,008	(7,875,037)
Total accumulated depreciation	(39,734,606)	(2,861,926)	194,615	24,008	(42,377,909)
Governmental activities capital assets, net	$ 44,702,372	$ 431,059	$ -	$ -	$ 45,133,431

NOTE 7: CAPITAL ASSETS (Continued)

Depreciation expense was charged as a direct expense to programs of the governmental activities as follows:

Governmental activities:	
Executive	$ 671
Management Information Services	98,545
Fleet	8,647
Warehouse	19,329
Building maintenance	7,833
Channel 27	6,942
Other governmental functions	259,794
Police	117,966
Fire	168,540
Streets	992,879
Cemetary	16,140
Tourism	683,713
Parks	480,927
Total depreciation expense - governmental activities	$ 2,861,926

Business-type activities:	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
Non - Depreciable Assets:					
Land	$ 1,033,573	$ 4,159,058	$ -	$ -	$ 5,192,631
Construction in Progress	3,179,191	1,908,895	-	(2,518,378)	2,569,708
Total non-depreciable assets	4,212,764	6,067,953	-	(2,518,378)	7,762,339
Depreciable Assets:					
Buildings	516,542	23,945	-	-	540,487
Improvements other than buildings	52,120,497	774,003	-	2,518,378	55,412,878
Machinery and equipment	4,671,675	170,582	(120,409)	24,008	4,745,856
Total capital assets being depreciated	57,308,714	968,530	(120,409)	2,542,386	60,699,221
Accumulated Depreciation:					
Buildings	(381,057)	(11,515)	-	-	(392,572)
Improvements other than buildings	(21,759,855)	(1,947,925)	-	-	(23,707,780)
Machinery and equipment	(3,244,364)	(237,724)	120,409	(24,008)	(3,385,687)
Total accumulated depreciation	(25,385,276)	(2,197,164)	120,409	(24,008)	(27,486,039)
Business-type activities capital assets, net	$ 36,136,202	$ 4,839,319	$ -	$ -	$ 40,975,521

NOTE 7: CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type activities:	
Water treatment and distribution	$ 1,199,105
Wastewater collection and treatment	611,658
Electricity	235,347
Airport	151,055
Total depreciation expense - business-type activities	$ 2,197,165

NOTE 8: EXTRAORDINARY ITEM

In May 2015, a lift station was lost due to flooding. The lift station was insured at replacement cost. The lift station was about 40 years old and fully depreciated. The City received $956,663 in insurance proceeds and incurred expenses of $457,215 to secure the site and temporary measures to maintain services. The gain on the destroyed lift station of $499,448 is reported as an extraordinary item on the proprietary funds statement of revenues, expenses, and changes in fund net positon and of the government-wide statement of activities.

NOTE 9: GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

General Obligation Bonds, Certificates of Obligation Bonds and Capital Leases Payable principal and interest are paid by the debt service fund. The Note Payable to OmniAmerican Bank is paid by the Granbury Historic Properties Corporation. The compensated absences balances were earned in the funds as follows: general fund $372,697 and tourism fund $7,692.

November 12, 2014, the City issued $8,130,000 of General Obligation Refunding Bonds, Series 2014. The bonds consisted of general obligation bonds with interest rates ranging from 2.00% to 4.00%. The net proceeds were used to refund Combination Tax and Revenue Certificates of Obligation, Series 2006A with a total principal amount of $330,000 and Combination Tax and Revenue Certificates of Obligation, Series 2007 principal of $7,800,000. The refunding decreased debt service payments for the City by $850,618 with a net present value savings (economic gain) of $697,772 or 8.58%.

NOTE 9: GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

As of September 30 the City had the following governmental activities long-term debt outstanding:

	9/30/2014	Additions	Retirements	9/30/2015	Due Within One Year
General Obligation Bonds					
$4,980,000; General Obligation Refunding Bonds Series 2013 due in semi-annual installments from 8/15/2013; 2.00% to 3.00% until 8/15/2024.	$ 4,475,000	$ -	$ 460,000	4,015,000	$ 470,000
Series 2013 unamortized bond premium	309,275	-	30,928	278,347	30,927
$2,270,000; General Obligation Refunding Bonds Series 2008 due in semi-annual installments from 8/15/2008, 3.50% to 4.00% until 8/15/2024.	1,425,000	-	117,500	1,307,500	115,000
Series 2008 unamortized bond premium	27,292	-	2,730	24,562	2,730
$5,845,000; General Obligation Refunding Bonds Series 2011 due in annual installments beginning from 8/15/2011, 2.00% to 4.00% until 8/15/2022.	3,065,000	-	825,000	2,240,000	280,000
Series 2011 unamortized bond premium	208,140	-	23,127	185,013	23,127
$8,130,000; General Obligation Refunding Bonds Series 2014 due in annual installments beginning from 8/15/2015, 2.00% to 4.00% until 8/15/2031.	-	8,130,000	150,000	7,980,000	65,000
Series 2014 unamortized bond premium	-	860,333	50,608	809,725	50,608
Total General Obligation Bonds	$ 9,509,707	$ 8,990,333	$ 1,659,893	$16,840,147	$ 1,037,392
Certificates of Obligation					
$680,000; Combination Tax and Revenue Certificates of Obligation Series 2006A due in semi-annual installments at 4.45% until 8/15/2021.	$ 375,000	$ -	$ 375,000	$ -	$ -
$15,050,000; Combination Tax and Revenue Certificates of Obligation Series 2007 due in semi-annual installments at 4.00% to 4.70% until 8/15/2032.	12,185,000	-	8,265,000	3,920,000	485,000
Series 2007 unamortized bond discount	(112,707)	-	(75,524)	(37,183)	(8,112)
$2,460,000; Combination Tax and Revenue Certificates of Obligation Series 2015 due in semi-annual installments at 2.00% to 4.00% until 8/15/2025.	-	2,460,000	-	2,460,000	480,000
Series 2015 unamortized bond premium	-	131,534	13,153	118,381	13,153
Total Certificates of Obligation	$12,447,293	$ 2,591,534	$ 8,577,629	$ 6,461,198	$ 970,041

NOTE 9: GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

	9/30/2014	Additions	Retirements	9/30/2015	Due Within One Year
Notes Payable					
$483,450; Promissory Note to First Financial Bank payable in 12 monthly installments of $2,949.90 including interest at 3.25%. Note is secured by the opera house and related properties.	$ 360,392	$ -	$ 23,995	$ 336,397	$ 24,658
Total Notes Payable	$ 360,392	$ -	$ 23,995	$ 336,397	$ 24,658
Capital Leases Payable					
$370,000 Lease payable to SunTrust Leasing in 40 quarterly payments of $11,114 including interest at 3.71% until December 2014. Secured by rescue truck.	$ 11,011	$ -	$ 11,011	$ -	$ -
$100,710 Lease payable to Kansas State Bank in 20 quarterly payments of $5,035.49 including interest at 3.179% until November 2016. Secured by Forklift and Fire Chevy.	43,570	-	18,982	24,588	19,592
$214,208 Lease payable to Houston Community Bank in in 20 quarterly payments of $14,582.11 including interest at 1.18% until March 2018. Secured by (2) 2013 Ford F250 and (2) 2013 Chevy Silverado Trucks.	151,266	-	42,584	108,682	43,089
$273,846 Lease payable to BB&T in quarterly payments of $37,978.41, including interest at 1.5% until January 2019. Secured by multiple equipment purchases.	250,173	-	54,056	196,117	54,393
$81,313 Lease payable to BB&T in quarterly payments of $10,283.41, including interest at 1.040% until January 2016. Secured by (3) Chevrolet Tahoes.	61,142	-	40,656	20,486	20,487
$97,680 Lease payable to US Bank in three annual installments of $32,559.86 at 0% interest for 3 years.	97,680	-	32,560	65,120	32,560
$812,000 Lease payable to First Financial Bank NA in quarterly payments of $23,307.86, including interest at 2.750% until March 2025. Secured by 2014 Pumper Truck.	-	812,000	34,881	777,119	72,605
$309,210 Lease payable to First Financial Bank NA in quarterly payments of $19,652.43, including interest at 2.178% until March 2020. Secured by vehicles and equipment.	-	309,210	29,245	279,965	59,871
Total Capital Leases	$ 614,842	$ 1,121,210	$ 263,975	$ 1,472,077	$ 302,597
Compensated Absences Payable	$ 379,222	$ 380,389	$ 379,222	$ 380,389	$ 219,170
Net Pension Liability	$ -	$ 4,952,310	$ -	$ 4,952,310	$ -
Total Governmental Activities	$ 23,311,456	$ 18,035,776	$ 10,904,714	$ 30,442,518	$ 2,553,858

NOTE 9: GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

The aggregate debt service payments to maturity of the governmental activities general obligation bonds, certificates of obligation and notes payable are as follows:

	General Obligation Bonds			Certificates of Obligation		
	Principal	Interest	Total	Principal	Interest	Total
2016	930,000	539,200	$ 1,469,200	965,000	259,463	$ 1,224,463
2017	955,000	516,075	1,471,075	700,000	202,013	902,013
2018	982,500	489,825	1,472,325	725,000	175,962	900,962
2019	1,012,500	460,750	1,473,250	755,000	146,963	901,963
2020	1,042,500	429,125	1,471,625	785,000	118,862	903,862
2021-2025	6,230,000	1,457,175	7,687,175	1,160,000	382,813	1,542,813
2026-2030	3,855,000	582,000	4,437,000	-	298,312	298,312
2031-2035	535,000	21,400	556,400	1,290,000	103,831	1,393,831
Debt Service Requirements	15,542,500	4,495,550	20,038,050	6,380,000	1,688,219	8,068,219
Add: Unamortized Premium	1,297,647		1,297,647	118,381		118,381
Less: Unamortized Discount				(37,183)		(37,183)
	$16,840,147	$4,495,550	$21,335,697	$ 6,461,198	$ 1,688,219	$ 8,149,417

	Notes Payable		
	Principal	Interest	Total
2016	$ 24,658	$ 10,744	$ 35,402
2017	25,513	9,889	35,402
2018	26,367	9,035	35,402
2019	27,249	8,153	35,402
2020	28,140	7,262	35,402
2021-2025	155,565	21,444	177,009
2026-2030	48,905	1,140	50,045
	$ 336,397	$ 67,667	$ 404,064

NOTE 10: BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

Utility System Lien Subordinated Revenue Bonds – Series 1998 and 1999 are issued debt by the United States Department of Agriculture, Rural Development Agency – 40 year loans for the wastewater treatment facility expansion.

Two debt issues of the City are allocated between the governmental activities and business-type activities. The General Obligation Refunding Bonds Series 2008 were allocated $2,270,000 governmental activities and $2,270,000 business-type activities. The 2013 General Obligation refunding bonds were allocated $4,980,000 governmental activities and $3,190,000 business-type activities.

City of Granbury, Texas
Notes to Financial Statements
September 30, 2015

NOTE 10: <u>BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT</u> (Continued)

In June 2015, the City issued $16,430,000 in Combination Tax and Surplus Revenue Certificates of Obligation from the Texas Water Development Board's Drinking Water State Revolving Fund for the construction of improvements and extensions to the City's water system. As of September 30, 2015, expenditures for the project totaled $495,410. The funds are held in an escrow account and disbursed to pay for costs of the project. As of September 30, 2015, the balance of the escrow account was $15,934,970. October 20, 2015 the City awarded a $15,120,000 construction contract.

As of September 30 the City had the following business-type activities long-term debt outstanding:

	9/30/2014	Additions	Retirements	9/30/2015	Due Within One Year
Revenue Bonds					
$3,352,000; Utility System Subordinated Lien Revenue Bonds Series 1998 dated 3/30/1998, due in annual installments at 4.50% to 2038.	$ 2,652,000	$ -	$ 63,000	2,589,000	$ 66,000
$270,000; Utility System Subordinated Lien Revenue Bonds Series 1999 dated 6/28/1999, due in annual installments at 4.50% to 2038.	210,000	-	5,000	205,000	5,000
$5,910,000; Utility System Revenue Refuding Bonds Series 2010 due in annual installments at 2.00% to 3.625% to 9/15/2022.	4,855,000	-	545,000	4,310,000	560,000
Series 2010 unamortized bond premium	22,489	-	2,810	19,679	2,811
$4,700,000; Utility System Revenue Refunding Bonds Series 2010 due in annual installments at 3.00% to 4.00% to 9/15/2031.	4,185,000	-	185,000	4,000,000	190,000
Series 2012 unamortized bond premium	189,752	-	11,162	178,590	11,162
Total Revenue Bonds	$ 12,114,241	$ -	$ 811,972	$ 11,302,269	$ 834,973
General Obligation and Certificates of Obligation					
$3,190,000; General Obligation Refunding Bonds Series 2013 due in semi-annual installments from 8/15/2013 at 2.00% to 3.00% until 8/15/2024	$ 2,725,000	$ -	$ 300,000	$ 2,425,000	$ 300,000
Series 2013 unamortized bond premium	198,148	-	19,815	178,333	19,815
$2,270,000; General Obligation Refunding Bonds Series 2008 due in semi-annual installments from 8/15/2008 at 3.50% to 4.00% until 8/15/2024.	1,425,000	-	117,500	1,307,500	115,000
Series 2008 unamortized bond discount	28,433	-	2,729	25,704	2,729
$16,430,000; Combination Tax and Surplus Revenue Certificates of Obligation Series 2015A due in annual installments at 0.00% to 2.22% until 8/15/2045.	-	16,430,000	-	16,430,000	-
Total Certificates of Obligation	$ 4,376,581	$ 16,430,000	$ 440,044	$ 20,366,537	$ 437,544

City of Granbury, Texas
Notes to Financial Statements
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NOTE 10: BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (Continued)

	9/30/2014	Additions	Retirements	9/30/2015	Due Within One Year
Capital Leases Payable					
$574,094.46 Lease payable to Northstar Bank in 32 quarterly payments of $17,940 plus interest at 3.0% until February 2021 and secured by the airport hanger.	$ 466,452	$ -	$ 61,937	$ 404,515	$ 81,558
$188,705; Lease payable to First National Bank Granbury for an aircraft maintenance hangar payable in 60 quarterly payments of $4,028, including interest at 3.35% through February 2028.	172,065	-	10,336	161,729	10,677
$284,790; Lease payable to First National Bank Granbury for an aircraft storage hangar payable in 60 quarterly payments of $6,078, including interest at 3.35% through February 2028.	259,691	-	15,599	244,092	16,113
$50,524; Lease payable to Kansas State Bank in 20 quarterly payments of $2,526.22 including interest at 3.179% until November 2016. Secured by Electric Chevy.	21,859	-	9,523	12,336	9,829
$69,045; Lease payable to Houston Community Bank in 20 quarterly payments of $14,582.11 including interest at 1.18% until March 2018. Secured by (2) 2013 Ford F250 and (2) 2013 Chevy Silverado Trucks.	48,890	-	13,636	35,254	13,798
$485,573; Lease payable to BB&T in quarterly payments of $37,978.41, including interest at 1.5% until January 2019. Secured by various equipment purchases.	438,180	-	95,055	343,125	96,369
$24,499; Lease payable to First Financial Bank NA in quarterly payments of $19,652.43, including interest at 2.178% unitl March 2020. Secured by vehicles and equipment.	-	24,499	2,317	22,182	4,744
$37,491; Lease payable to First Financial Bank NA in quarterly payments of $19,652.43, including interest at 2.178% unitl March 2020. Secured by vehicles and equipment.	-	37,491	3,547	33,944	7,258
Total Capital Leases	$ 1,407,137	$ 61,990	$ 211,950	$ 1,257,177	$ 240,346
Compensated Absences Payable	$ 115,725	$ 133,882	$ 115,725	$ 133,882	$ 67,867
Net Pension Liability	$ -	$ 1,418,469	$ -	$ 1,418,469	$ -
Total Business-type Activities	$ 18,013,684	$ 18,044,341	$ 1,579,691	$ 34,478,334	$ 1,580,730

NOTE 10: BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (Continued)

The aggregate debt service payments to maturity of the business-type activities revenue bonds and certificates of obligation are as follows:

	Revenue Bonds			General Obligation and Certificates of Obligation		
	Principal	Interest	Total	Principal	Interest	Total
2016	$ 821,000	$ 421,317	$ 1,242,317	$ 415,000	$ 453,138	$ 868,138
2017	849,000	395,623	1,244,623	650,000	402,732	1,052,732
2018	878,000	366,167	1,244,167	662,500	390,607	1,053,107
2019	901,000	338,658	1,239,658	682,500	377,507	1,060,007
2020	935,000	308,875	1,243,875	692,500	363,722	1,056,222
2021-2025	3,015,000	1,076,318	4,091,318	3,010,000	1,573,003	4,583,003
2026-2030	2,070,000	624,240	2,694,240	2,775,000	1,319,570	4,094,570
2031-2035	1,087,000	242,185	1,329,185	2,955,000	1,071,818	4,026,818
2036-2040	548,000	49,985	597,985	3,640,000	762,380	4,402,380
2041-2045	-	-	-	4,680,000	314,783	4,994,783
Debt Service Requirements	11,104,000	3,823,368	14,927,368	20,162,500	7,029,260	27,191,760
Add: Unamortized Premium	198,269			204,037		
	$ 11,302,269	$ 3,823,368	$ 14,927,368	$ 20,366,537	$ 7,029,260	$ 27,191,760

The various bond ordinances contain a number of limitations and restrictions. Management believes the City is in compliance with all significant limitations and restrictions at September 30, 2015.

City of Granbury, Texas
Notes to Financial Statements
September 30, 2015

NOTE 11: **CAPITAL LEASES PAYABLE**

The City has committed under various noncancelable lease/purchase agreements, primarily for equipment and airport hangers. Future minimum lease/purchase commitments are as follows:

	Governmental Activities	Business-type Activities	Total
2016	$ 333,138	$ 271,592	$ 604,730
2017	297,466	251,977	549,443
2018	237,780	240,646	478,426
2019	189,839	179,871	369,710
2020	125,973	121,213	247,186
2021-2025	419,540	235,971	655,511
2026-2030	-	99,076	99,076
Total debt service requirements	1,603,736	1,400,346	3,004,082
Less: Interest Portion	131,659	143,169	274,828
Debt Principal	$ 1,472,077	$ 1,257,177	$ 2,729,254

The City rents the airport T-hangers to individuals on a monthly basis. The above lease commitment will be offset by approximately $255,000 rental income annually.

Assets under lease and related accumulated depreciation are as follows:

	Governmental Activities	Business-type Activities	Total
Improvements other than buildings	$ -	$ 1,459,027	$ 1,459,027
Machinery and equipment	1,871,636	660,775	2,532,411
Less: Accumulated Depreciation	(341,483)	(681,869)	(1,023,352)
Net	$ 1,530,153	$ 1,437,933	$ 2,968,086

NOTE 12: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Texas Municipal League and participates in the Intergovernmental Risk Pool insurance coverage and are 100% covered through third-party insurance policies. There has been no reduction in coverage and the amount of settlements during the past three years has not exceeded the insurance coverage.

NOTE 13: DEFINED BENEFIT PENSION PLANS

A. Texas Municipal Retirement System (TMRS)

Plan Description

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

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

Benefits Provided

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

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

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

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

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

Inactive employees or beneficiaries currently receiving benefits	76
Inactive employees entitled to but not yet receiving benefits	58
Active employees	163
	297

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.01% and 15.59% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were $1,207,638, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions:

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

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

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

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

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

NOTE 13: <u>DEFINED BENEFIT PENSION PLANS</u> (Continued)

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

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

Discount Rate

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

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2013	$ 32,261,788	$ 26,039,928	$ 6,221,860
Changes for the year:			
Service cost	1,146,288	-	1,146,288
Interest	2,247,052	-	2,247,052
Change of benefit terms	-	-	-
Difference between expected and actual experience	(235,764)	-	(235,764)
Changes of assumptions	-	-	-
Contributions - employer	-	1,210,021	(1,210,021)
Contributions - employee	-	529,121	(529,121)
Net investment income	-	1,489,869	(1,489,869)
Benefit payments, including refunds of employee contributions	(1,468,382)	(1,468,382)	-
Administrative expense	-	(15,553)	15,553
Other changes	-	(1,279)	1,279
Net changes	1,689,194	1,743,797	(54,603)
Balance at 12/31/2014	$ 33,950,982	$ 27,783,725	$ 6,167,257

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	$ 11,286,344	$ 6,167,257	$ 2,004,313

Pension Plan Fiduciary Net Position

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

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

B. Texas Emergency Services Retirement System (TESRS)

Plan Description

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

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

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

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

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

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

Funding Policy

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

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

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues, prior service, and interest on prior service financing) of $4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated $1,530,343 for the fiscal year ending August 31, 2014. The City's contributions for the years ended September 30, 2015, 2014 and 2013 were $53,760, $50,715 and $44,045, respectively.

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

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

Net Pension Liability

The System's net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2014.

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

	System 100.00%	City 1.12%
Total Pension Liability	$ 109,854,799	$ 1,230,374
Plan Fiduciary Net Position	91,683,156	1,026,851
Net Pension Liability	$ 18,171,643	$ 203,522
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.5%	83.5%

Actuarial Assumptions

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return (Arithmetic)
Equities		
Large cap domestic	32.0%	5.2%
Small cap domestic	10.0%	5.8%
Developed international	21.0%	5.5%
Emerging markets	6.0%	5.4%
Master limited partnership	5.0%	7.1%
Fixed income		
Domestic	21.0%	1.4%
International	5.0%	1.6%
Cash	0.0%	0.0%
Total	100.0%	

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 yeas using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was $7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
City's Proportional Share of the Net Pension Liability	$ 419,398	$ 203,522	$ 77,571

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2014, the City reported a liability of $203,522 for its proportionate share of the TESRS's net pension liability. This liability reflects a reduction for State pension support provided to the City. The amounts recognized by the City as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

	City
City's proportional share of the collective net pension liability	$ 203,522
State's proportionate share that is associated with the City	103,860
	$ 307,382

TESRS's net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's portion of the net pension liability was based on the City's contributions to the pension plan relative to the contribution of all entities to the plan for the period September 1, 2013 through August 31, 2014.

For the year ended September 30, 2015, the City recognized pension expense of $1,108,393. $1,077,978 of this expense was for TMRS and $30,415 was for TESRS.

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 188,901
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	266,341	-
Contributions subsequent to the measurement date	905,171	-
Total TMRS	$ 1,171,512	$ 188,901
Differences between expected and actual economic experience	$ -	$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	51,290
Contributions subsequent to the measurement date	53,760	-
Total TESRS	$ 53,760	$ 51,290
Total	$ 1,225,272	$ 240,191

$958,931 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	TMRS	TESRS	Total
Year Ended September 30:			
2016	$ 19,722	$ (12,822)	$ 6,900
2017	19,722	(12,822)	6,900
2018	19,722	(12,823)	6,899
2019	19,723	(12,823)	6,900
2020	(1,449)	-	(1,449)
Thereafter	-	-	-
Total	$ 77,440	$ (51,290)	$ 26,150

NOTE 14: OTHER POSTEMPLOYMENT BENEFITS

For the year ending September 30, 2009 the City was required to implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postretirement Benefits Other than Pensions. This statement establishes standards for the measurement, recognition and display of other postretirement benefits expenses/expenditures and related liabilities (assets), note disclosures and required supplementary information in the financial reports of state and local governmental employers. GASBS No. 45 has been implemented prospectively.

Supplemental Death Benefits Fund

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

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

	Plan Year 2014	Plan Year 2015
Your City offers supplemental death to:		
Active Employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

The city's contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were $16,054, $13,507 and $11,181, respectively, which equaled the required contributions for each year.

Schedule of Contribution Rates:
(retiree-only portion of rate)

Plan/ Calendar Year	Annual Required Contribution Rate	Actual Contribution Made Rate	Percentage of ARC Contributed
2013	0.03%	0.03%	100%
2014	0.03%	0.03%	100%
2015	0.04%	0.04%	100%

NOTE 15: CONTINGENT LIABILITIES

Federal and State Programs

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made, in compliance with program guidelines, to the grantor agency.

These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, the City has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of fund monies may be required.

As it pertains to other matters of compliance, in the opinion of the City's administration, there are no significant contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

NOTE 16: CONTRACTS AND COMMITMENTS

A. Purchased Power for Resale

In August of 2007, the City entered into an agreement with Bryan Texas Utilities ("BTU") effective January 1, 2008 through December 31, 2017 for the purchase of its power and energy to serve its retail customers. Each month during the term of this agreement Granbury shall pay BTU a monthly energy charge, calculated by multiplying the energy delivered times $72.75 per megawatt hour. Granbury will also pay BTU monthly an ancillary services charge, calculated by multiplying the energy delivered times $2.00 per megawatt hour. The total cost incurred under this agreement for the year ended September 30, 2015 was $8,551,866.

B. Water Capacity

The City has an annual agreement with the Brazos River Authority for 10,800 acre feet of water. The cost is adjusted annually by the Brazos River Authority. The amount paid to the Brazos River Authority under this agreement for the year ended September 30, 2015 was $760,319.

C. Water Treatment

In 2012 Acton Municipal Utility District ("AMUD") and Johnson County Special Utility District ("JCSUD") formed the Brazos Regional Public Utility Agency ("BRPUA") and purchased the SWATS Plant from BRA. As of June 1, 2012, the BRPUA assumed ownership and operational control of the SWATS Plant from BRA. The agreement requires the City to participate in the cost and maintenance of the water treatment plant and debt service obligations on a percentage basis. The City's payments are adjusted annually by the BRPUA for the City's water consumption in the preceding year.

The total cost to purchase water from the SWATS Plant for the year ended September 30, 2015 was $499,462.

D. Airport Expansion

The City and Texas Department of Transportation have agreed to a joint project to expand the Granbury Regional Airport. The City is responsible for acquiring the land. The Texas Department of Transportation will administer the project.

NOTE 16: CONTRACTS AND COMMITMENTS (continued)

E. Engineering Services

June 19, 2012, the City approved a contract for $1,363,000 for the design of a new reverse osmosis water treatment plant. The contract will be funded with the Utility System Revenue Refunding Bonds, Series 2012. As of September 30, 2015, $1,171,992 has been expended on the project.

NOTE 17: ECONOMIC DEVELOPMENT AGREEMENTS

A. Chapter 380 Agreements

The City entered into a Chapter 380 Economic Development Agreement with a developer and grocery store. Upon the construction of a grocery store, the City agrees to pay fifty percent of real and personal property taxes and fifty percent of 1 cent sales taxes collected from within the development property to the developer and grocery store. Payments will continue annually until either the maximum reimbursement amount is paid or December 31, 2021, even if the maximum reimbursement amount has not been paid. The maximum reimbursement amount is $1,154,787. $176,177 has been recorded as an expense for September 30, 2015.

The City entered into a Chapter 380 Economic Development Agreement with a grocery store. Upon the construction of a grocery store, the City agrees to pay fifty percent of real and personal property taxes and fifty percent of 1 cent sales taxes collected from within the development property to the developer and grocery store. Payments will continue annually until either the maximum reimbursement amount is paid or April 30, 2025, even if the maximum reimbursement amount has not been paid. The maximum reimbursement amount is $1,000,000. $12,402 has been recorded as an expense for September 30, 2015.

B. Property Lease

August 15, 2006 the City entered into an economic development agreement with Babe's-Granbury, LLC ("Babe's"). Under the terms of the agreement the City would fund up to $200,000 for improvements to real property the City purchased June 2006 for $531,264. Babe's agreed to lease the property for an initial term of ten years with an option to extend the terms of the agreement for two additional ten year periods. From September 1, 2007 to the end of the term of this agreement and any extensions thereof, the base rent shall be the greater of $5,500 per month or the amount which equals the interest accruing on the sum of money actually expended by the City to acquire, build out/remodel and maintain the premises through March 1, 2007 at the rate of 6% per annum. In addition, the City shall receive percentage rent which is 2% of annual gross sales exceeding the breakpoint of $4,000,000 per annum. During the year ended September 30, 2015 the City received $66,000 in rents under this agreement.

NOTE 18: SUBSEQUENT EVENTS

On January 19, 2016, City Council approved the issuance of the Combination Tax and Revenue Certificates of Obligation, Series 2016A in the amount of $10,000,000 to be utilized for funding the remaining purchase of the airport land protection zone and right-of-ways and any additional cost related to the relocation of power lines at the airport exceeding the amount funded by the Texas Department of Transportation. Additionally, the preliminary and final engineering design phase for the construction of associated taxiways, medium intensity runway lights, and associated expenses for the new runway will be included in the new obligation.

Subsequent events were evaluated through March 1, 2016, which is the date the financial statements were available to be issued.

NOTE 19: NEW ACCOUNTING PRONOUNCEMENTS

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* This Statement was issued to improve the accounting and financial reporting by state and local governments for pensions. This Statement requires government-wide and proprietary fund statements to recognize a liability equal to the net pension liability and changes in the net pension liability be included in pension expense in the period of change.

The City implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68.* This Statement addresses issues related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Beginning net position of the governmental activities, business-type activities, and component unit was reduced by the following prior period adjustments:

	Governmental Activities	Business-type Activities	Total
Net Pension Liability (12/31/13 measurement date)	$ (5,079,147)	$ (1,431,028)	$ (6,510,175)
Deferred Outflows of Resources	719,492	202,068	921,560
Prior Period Adjustment	$ (4,359,655)	$ (1,228,960)	$ (5,588,615)

NOTE 20: FUTURE ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board has issued several statements that will be effective in future years. The City has not yet determined the effect these statements will have on its financial reporting.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* replaces the requirements of Statements No. 45 and No. 57 for accounting and financial reporting of postemployment benefits other than pensions. This Statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures* will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial users. This Statement is effective for fiscal years beginning after December 15, 2015.

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