



(See "Continuing Disclosure of Information" herein)

NEW ISSUE - Book-Entry-Only

PRELIMINARY OFFICIAL STATEMENT

Dated December 4, 2015

Ratings:
Moody's: "Aa2"
S&P: "AA+"
Fitch: "AA"
See ("Other Information-Ratings" herein)

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

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$27,315,000*
CITY OF MANSFIELD, TEXAS
(Tarrant, Johnson and Ellis Counties, Texas)
WATERWORKS AND SEWER SYSTEM REVENUE
REFUNDING AND IMPROVEMENT BONDS, SERIES 2016

Dated Date: December 1, 2015
Interest Accrues: Date of Delivery

Due: August 1, as shown on Page 2

PAYMENT TERMS . . . Interest on the \$27,315,000* City of Mansfield, Texas, Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2016 (the "Bonds") will accrue from the date of delivery to the Underwriters (the "Date of Delivery"), and will be payable on February 1 and August 1 of each year commencing August 1, 2016, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas (see "The Bonds - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the general laws of the State of Texas, particularly, Texas Government Code, Chapters 1207 and 1502, as amended, Section 9.13 of the City's Home Rule Charter and an ordinance (the "Ordinance") passed by the City Council and, together with outstanding parity revenue bonds (the "Previously Issued Bonds") and any additional parity revenue bonds (the "Additional Bonds"), are special obligations of the City of Mansfield, Texas (the "City"), payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Pledged Revenues of the City's Waterworks and Sewer System (the "System"). **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "The Bonds - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purpose of (i) refunding a portion of the City's outstanding Waterworks and Sewer System debt (the "Refunded Bonds," see Schedule I, "Schedule of Refunded Bonds") in order to lower the overall debt service requirements of the City, (ii) constructing, acquiring and installing improvements, additions and extensions to the System, and (iii) paying the cost of issuing the Bonds.

CUSIP PREFIX: 564395

MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani LLP, Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Locke Lord LLP, Dallas, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on January 13, 2016.

RAYMOND JAMES

BOSC, INC.

A SUBSIDIARY OF BOK FINANCIAL CORPORATION

STEPHENS INC.

* Preliminary, subject to change.

MATURITY SCHEDULE*

<u>1-Aug Year</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Price or Yield</u>	<u>CUSIP Suffix</u>
2016	\$ 1,190,000			
2017	820,000			
2018	830,000			
2019	2,005,000			
2020	1,760,000			
2021	1,785,000			
2022	1,830,000			
2023	1,870,000			
2024	1,925,000			
2025	1,975,000			
2026	2,030,000			
2027	2,130,000			
2028	2,245,000			
2029	2,350,000			
2030	390,000			
2031	405,000			
2032	420,000			
2033	435,000			
2034	450,000			
2035	470,000			

(Interest to accrue from the Date of Delivery)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor, nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

* Preliminary, subject to change.

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

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

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

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance 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 Underwriters do not guarantee the accuracy or completeness of such information.

Neither the City, its Financial Advisor nor the Underwriters 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 herein, as such information has been provided by DTC.

The Bonds are exempt from registration with the 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 these securities have been registered or exempted should not be regarded as a recommendation thereof.

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

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES 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 hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of Mansfield is a political subdivision and municipal corporation of the State, located in Tarrant, Johnson, and Ellis Counties, Texas. The City covers approximately 38.6 square miles (see "Introduction - Description of City").
THE BONDS	The Bonds are issued as \$27,315,000* Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2016. The Bonds are issued as serial bonds maturing on August 1 of the years 2016 through 2035, unless the Underwriters designate one or more maturities as a Term Bond (see "The Bonds - Description of the Bonds").
PAYMENT OF INTEREST	Interest on the Bonds accrues from the Date of Delivery and is payable August 1, 2016 and each February 1 and August 1 thereafter until maturity or prior redemption (see "The Bonds - Description of the Bonds" and "The Bonds - Optional Redemption").
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the general laws of the State, including particularly Texas Government Code, Chapters 1207, and 1502, as amended, Section 9.13 of the City's Home Rule Charter and an Ordinance passed by the City Council of the City (see "The Bonds - Authority for Issuance").
SECURITY FOR THE BONDS	The Bonds, together with the Previously Issued Bonds and any Additional Bonds, constitute special obligations of the City, payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Pledged Revenues of the City's Waterworks and Sewer System. The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see "The Bonds - Security and Source of Payment").
QUALIFIED TAX-EXEMPT OBLIGATIONS	The City will not designate the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.
REDEMPTION	The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").
TAX EXEMPTION	In the opinion of Bond Counsel, under existing laws interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not private activity bonds. See "Tax Matters" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for the purpose of (i) refunding a portion of the City's outstanding Waterworks and Sewer System debt (the "Refunded Bonds," see Schedule I, "Schedule of Refunded Bonds") in order to lower the overall debt service requirements of the City, (ii) constructing, acquiring and installing improvements, additions and extensions to the System, and (iii) paying the cost of issuing the Bonds.
RATINGS	The Bonds and the presently outstanding waterworks and sewer system revenue debt of the City are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's"), "AA+" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Service LLC business ("S&P") and "AA" by Fitch Ratings ("Fitch"), without regard to credit enhancement (see "Other Information - Ratings").

* Preliminary, subject to change.

BOOK-ENTRY-ONLY

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

PAYMENT RECORD The City has never defaulted in payment of its bonds.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 30-Sep	Estimated City Population ⁽¹⁾	Water Usage (gallons)			Net Revenue Available For Debt Service	Annual Debt Service Requirements	Coverage of Debt
		Average Day Usage	Peak Day Usage	Total Usage			
2011	56,850	11,793,000	24,752,000	4,521,164,000	\$ 13,953,188	\$ 6,311,369	2.21x
2012	57,494	10,360,000	21,944,000	4,015,353,000	11,646,920	3,133,611	3.72x
2013	58,106	9,915,000	20,565,000	3,619,022,000	13,932,590	6,311,729	2.21x
2014	59,230	10,270,000	21,030,000	3,902,516,000	10,910,069	6,313,316	1.73x
2015 ⁽²⁾	60,180	10,770,000	24,680,000	3,941,276,000	12,976,429	6,278,331	2.07x

(1) Source: City staff estimates.

(2) Unaudited.

For additional information regarding the City, please contact:

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Elected	Term Expires	Occupation
David L. Cook Mayor, Place 1	Re-elected May, 2013	May 2016	Attorney
Brent Newsom Councilmember Place 2	Re-elected May, 2013	May 2016	Bank Manager
Stephen Lindsey Councilmember Place 3	Re-elected May, 2015	May 2018	Gas Industry Consultant
Darryl Haynes Councilmember Place 4	Re-elected May, 2015	May 2018	Corporate Risk Manager
Cory Hoffman Councilmember Place 5	Re-elected May, 2015	May 2018	CPA
Wendy Burgess Councilmember Place 6	Re-elected May, 2014	May 2017	Business Owner
Larry Broseh Councilmember Place 7	Re-elected May, 2014	May 2017	President, Cam Tech Inc.

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service to City	Total Length of Governmental Service
Clayton W. Chandler, MPA, ABJ Regional Entrepreneur of the Year June 1992, INC. Magazine	City Manager	30 Years	40 Years
Chris Burkett, PE	Assistant City Manager	31 Years	38 Years
Peter K. Phillis, CPA	Deputy City Manager	17 Years	23 Years
Shelly Lanners	Deputy City Manager	15 Years	15 Years
Joe Smolinski	Deputy City Manager	14 Year	14 Years
Susana Marin	Interim City Secretary	9 Years	9 Years
E. Allen Taylor, Jr.	City Attorney	18 Years	27 Years
Steve Freeman	Director of Public Works	20 Years	20 Years

CONSULTANTS AND ADVISORS

Auditors	KPMG LLP Dallas, Texas
Bond Counsel	Bracewell & Giuliani LLP Dallas, Texas
Financial Advisor.....	First Southwest Company, LLC Dallas, Texas

PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$27,315,000*
CITY OF MANSFIELD, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE
REFUNDING AND IMPROVEMENT BONDS, SERIES 2016

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$27,315,000* City of Mansfield, Texas, Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2016. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance to be adopted on the date of sale of the Bonds which will authorize the issuance of the Bonds, except as otherwise indicated herein (see "Selected Provisions of the Bond Ordinance").

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, LLC, Dallas, Texas.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "Other Information - Forward-Looking Statements").

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1890, and first adopted its Home Rule Charter in 1975 and amended its Home Rule Charter on May 7, 1988. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Council members. The term of office is a staggered three-year term. The City Manager is the chief executive officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 56,368, while the estimated 2016 population is 63,248. The City covers approximately 38.6 square miles.

PLAN OF FINANCING

PURPOSE . . . The Bonds are being issued for the purpose of (i) refunding a portion of the City's outstanding Waterworks and Sewer System debt (the "Refunded Bonds," see Schedule I, "Schedule of Refunded Bonds") in order to lower the overall debt service requirements of the City, (ii) constructing, acquiring and installing improvements, additions and extensions to the System, and (iii) paying the cost of issuing the Bonds.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the redemption dates of such Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Bank of Texas, N.A., Dallas, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, plus available funds of the City, if any, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"), and a portion of such funds shall be used to purchase securities authorized by Chapter 1207, Government Code, as amended (the "Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

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

* Preliminary, subject to change.

By the deposit of the Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Bonds in accordance with the law and the ordinances authorizing the Refunded Bonds. 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 Bonds will be outstanding only for the purpose of receiving payments from the Securities and the cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from revenues of the System nor for the purpose of applying any limitation on the issuance of debt.

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

Sources:

Par Amount	\$ -
Reoffering Premium	
TOTAL SOURCES	\$ -

Uses:

Deposit to Escrow Fund	\$ -
Deposit to Construction Fund	
Deposit to Debt Service Fund	
Costs of Issuance	
Total Underwriter's Discount	
TOTAL USES	\$ -

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THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated December 1, 2015, and mature on August 1 in each of the years and in the amounts shown on page 2 hereof. Interest on the Bonds will accrue from the Date of Delivery, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 1 and August 1, commencing August 1, 2016. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the general laws of the State of Texas, particularly, Texas Government Code, Chapters 1207, and 1502, as amended, section 9.13 of the City's Home Rule Charter and the Ordinance passed by the City Council.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are special obligations of the City payable, both as to principal and interest, solely from and, together with certain outstanding revenue bonds of the City (the "Previously Issued Bonds") and any additional parity bonds (the "Additional Bonds") which may be issued in the future, secured by a lien on and pledge of the Pledged Revenues of the System. Pledged Revenues include the Gross Revenues of the System less maintenance and operating expenses (the "Net Revenues") plus other resources of the City which in the future may, at the option of the City, be pledged to the payment of the Bonds, the Previously Issued Bonds and any Additional Bonds. (See "Selected Provisions of the Bond Ordinance."). Maintenance and operating expenses include contractual payments which under Texas laws and their provisions are established as operating expenses.

The City has outstanding Previously Issued Bonds secured by and payable from Net Revenues on parity with the Bonds, as follows:

Dated Date	Outstanding Debt ⁽¹⁾	Issue Description
12/1/06	\$ 275,000	Waterworks & Sewer System Revenue Bonds, Series 2007
12/1/08	3,165,000	Waterworks & Sewer System Revenue Bonds, Series 2008
12/1/09	2,090,000	Waterworks & Sewer System Revenue Bonds, Series 2009
1/15/11	10,475,000	Waterworks & Sewer System Revenue Refunding and Improvement Bonds, Series 2011
12/1/11	1,700,000	Waterworks & Sewer System Revenue Refunding Bonds, Series 2012
12/1/14	8,320,000	Waterworks & Sewer System Revenue Refunding Bonds, Series 2015
	<u>\$ 26,025,000</u>	

(1) As of September 30, 2015. Excludes the Refunded Bonds. Preliminary, subject to change.

The Bonds are not a charge upon any other income or revenues of the City and **shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City.** The Ordinance does not create a lien or mortgage on the System, except the Pledged Revenues, and any judgment against the City may not be enforced by levy and execution against any property owned by the City.

As additional security, a Reserve Fund is required to be maintained in an amount at least equal to the average annual debt service requirements of the outstanding Previously Issued Bonds, the Bonds and any Additional Bonds issued on a parity with the Bonds. Any additional amount required to be accumulated in the fund by reason of the issuance of the Bonds will be funded over a sixty month period in accordance with the provisions of the Ordinance. The Reserve Fund may be funded in the amount of the Required Reserve by deposit of a Reserve Fund Surety Bond sufficient to provide such portion of the Required Reserve (see "Selected Provisions of the Bond Ordinance").

RATES . . . The City has covenanted in the Ordinance that it will at all times charge and collect rates and charges for services of the System which will produce Gross Revenues at least sufficient to pay all expenses of operation and maintenance of the System, to pay the principal of and interest on all Previously Issued Bonds, the Bonds and any Additional Bonds, and to make all required deposits to the funds provided for in the Ordinance, with such amounts being at least equal to 1.1 times the annual principal and interest requirements of all outstanding Previously Issued Bonds, the Bonds and any Additional Bonds. The City has further covenanted in the Ordinance that, if the System should become legally liable for any other obligations or indebtedness, it will charge and collect additional rates and charges for services rendered by the System sufficient to establish and maintain funds for the payment of such obligations.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar, or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. In the Ordinance, the City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available, in part or in whole, on or before the redemption date shall not constitute an Event of Default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

DEFEASANCE . . . The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in Book-Entry-Only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the 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.

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.

ADDITIONAL BONDS . . . The City may issue additional revenue obligations payable from the Pledged Revenues which together with the Previously Issued Bonds and the Bonds shall be equally and ratably secured by a parity lien on and pledge of the Pledged Revenues of the System, subject, however, to complying with certain conditions in the Ordinance. See "Selected Provisions of Bond Ordinance" for terms and conditions to be satisfied for the issuance of Additional Bonds.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such 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 securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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 certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only 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 Paying Agent/Registrar and request that copies of the notices be provided directly to them.

Redemption notices for the Bonds 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 City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and 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 City or the Paying Agent/Registrar of each series, 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 of each series, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar of each series, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System of one or more series of Bonds is discontinued, printed certificates will be issued to the DTC Participants or the holder, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "The Bonds - Transfer, Exchange and Registration" below.

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

In the event use of the Book-Entry-Only System should be discontinued, interest on the Bonds shall 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 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 at stated maturity or earlier redemption will be paid to the registered owner at the stated maturity or earlier redemption, as applicable, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "The Bonds – Record Date for Interest Payment" herein), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the principal corporate trust 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 is due. So long as CEDE & Co. is the registered owner of the Bonds, payment of principal of and interest on the Bonds will be made as described in "The Bonds - Book-Entry-Only- System" above.

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

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the 15th day of the month next preceding such interest payment date.

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

BONDHOLDERS' REMEDIES . . . The Ordinance authorizing the issuance of the Bonds establishes the following Events of Default with respect to the Bonds: (i) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement or obligation of the city, which default materially and adversely affects the rights of the Owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of sixty days after notice of such default is given by any Owner to the City. Upon any happening of any Event of Default and except as otherwise provided in the Ordinance, any Owner or an authorized representative, thereof, including, but not limited to, a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under the Ordinance, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained in the Ordinance, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners under the Ordinance or any combination of such remedies. It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all owners of the Bonds then outstanding. The Ordinance allows, but does not provide for a trustee to enforce the covenants and obligations of the City. In no event will registered owners have the right to have the maturity of the Bonds accelerated as a remedy. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. No assurance can be given that a mandamus or other legal action to enforce a default under the Ordinance would be successful.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("*Tooke*") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. As noted above, the Ordinance provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("*Chapter 9*"). Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

THE SYSTEM

WATERWORKS SYSTEM

Raw water is supplied to the City through a contract (the "Contract") between the City and the Tarrant Regional Water District, formerly known as the Tarrant County Water Control and Improvement District Number 1 (the "District"). The contract period commenced March 1, 1980 and runs for the life of the bonds which were issued by the District to provide water to the City and thereafter for the life of the District's facilities serving the City. Water is provided to the City from the District's Benbrook Reservoir, Cedar Creek Lake and Richland-Chambers Reservoir. Under the Contract, the City has a take-or-pay gallonage based on the greater of 1.3 million gallons or the average daily consumption for the previous five year period. The rate to be charged to the City for raw water is based upon the District's cost of debt service, operation and maintenance expenses, and any other miscellaneous expenses in connection with its water supply facilities, allocated on a proportionate share based upon actual water consumption of the City in relation to the actual use by the City of Fort Worth, the City of Arlington and the Trinity River Authority, after crediting amounts received by the District from water sales to other customers. The rate charged for fiscal year 2014 was \$0.97659 per 1,000 gallons. The rate charged for fiscal 2015 was \$1.08883 per 1,000 gallons. The rate to be charged for fiscal year 2016 is \$1.19436 per 1,000 gallons. The City believes that the raw water supply available to the City under the Contract is adequate for the currently foreseeable ultimate development of the City.

Presently, the City's existing water treatment plant has a capacity of 45.00 million gallons per day ("MGD") and receives raw water through a 30" and a 54" pipeline connected to the District's 72" pipeline from the Cedar Creek Reservoir and the District's 90" pipeline from the Richland-Chambers Reservoir. Water is brought in from Benbrook Reservoir through a 108" pipeline. The water treatment plant is designed to serve a population of approximately 112,500. The City presently has three elevated storage tanks with a combined capacity of 4,000,000 gallons: one has a capacity of 2,000,000 gallons and two have capacities of 1,000,000 gallons each. Also, the City has six ground storage tanks with a combined capacity of 4,240,000 gallons: 300,000 gallons, 440,000 gallons, two at 500,000 gallons each, one at 1,000,000 gallons, and one at 1,500,000 gallons in storage capacity. The City has a combined elevated and ground drinking water storage capacity of 8.24 million gallons.

The City has a contract with the City of Arlington for the City of Arlington to purchase treated water on a demand basis. The City has the option to renegotiate the Arlington water purchase contract on an as needed basis. More specifically the City of Arlington usage is metered by account and measured directly by Mansfield's water system daily.

The City currently provides treated water to a portion of Johnson County Special Utility District (“JCSUD”) under a wholesale water supply contract. JCSUD currently takes 2 MGD, but has the ability to take up to 9 MGD. The City has entered into a similar wholesale water supply contract with the City of Grand Prairie whereby the City may supply Grand Prairie with up to 12 MGD of treated water. The City is also able to supply portions of Arlington with treated water through the aforementioned metered connections. The City’s waterworks system has a regional impact and, more importantly, enables the City to receive water from or supply water to surrounding entities during times of drought or emergency responses.

The City has adopted a Water Master Plan, prepared by Freese & Nichols. The master plan analyzes the existing water system and contains recommendations for immediate construction improvements as well as staged construction for the ultimate development of the System.

TABLE 1 - HISTORICAL WATER CONSUMPTION (GALLONS)

Fiscal Year Ended 9/30	Total Usage	Peak Day	Average Day
2011	4,521,164,000	24,752,000	11,793,000
2012	4,015,353,000	21,944,000	10,360,000
2013	3,619,022,000	20,565,000	9,915,000
2014	3,902,516,000	21,030,000	10,270,000
2015 ⁽¹⁾	3,941,276,000	24,680,000	10,770,000

(1) Unaudited.

TABLE 2 - TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED)⁽¹⁾

Customer	2015 Water Usage	% of Total Water Usage	Water Revenue	Percent of Water Revenues
Johnson County SUD	981,748,000	24.91%	\$ 1,168,348	6.94%
Mansfield ISD	122,253,270	3.10%	839,770	4.99%
City of Mansfield	97,956,680	2.49%	523,732	3.11%
Walnut Creek Country Club	73,722,640	1.87%	103,119	0.61%
Mansfield National Golf Club	36,121,600	0.92%	44,492	0.26%
Methodist Mansfield Medical Center	31,282,580	0.79%	134,645	0.80%
Mid America Apartments LP	25,800,780	0.65%	111,197	0.66%
Equistar Chemicals	20,360,380	0.52%	71,167	0.42%
Gem Microelectronics	19,323,500	0.49%	61,353	0.36%
Goodman Food Products	19,226,900	0.49%	72,984	0.43%
	<u>1,427,796,330</u>	<u>36.23%</u>	<u>\$ 3,130,806</u>	<u>18.61%</u>

(1) Golf courses and gas companies purchase non-potable water and they pay a discounted rate for the non-potable water. As of September 30, 2015. Unaudited

TABLE 3 - MONTHLY WATER RATES

Meter Size	Current Rates Effective as of October 2015
Residential < 2,000 gallons	\$7.39
3/4" & 5/8"	\$22.40
1"	\$56.00
1 1/2"	\$112.00
2"	\$179.20
3"	\$358.40
4"	\$616.00
6"	\$1,254.40

Volumetric Rate per 1,000 Gallons Water (Effective October 2015)		
	Industrial	Residential / Commercial
First 2,000 Gallons	\$0.00	\$0.00
Next 30,000 Gallons	\$2.52	\$3.20
Over 32,000 Gallons	\$3.15	\$4.00

WASTEWATER SYSTEM

On August 23, 1974, the City Council approved a contract with the Trinity River Authority of Texas to become a contracting party in the Authority's Central Regional Wastewater System, along with twenty-four other area cities and the Dallas-Fort Worth International Airport.

The contracting parties have agreed to pay the Authority its net cost of operation and maintenance, including debt service requirements, on the Central Regional Wastewater System. Payments made by the respective cities are pursuant to authority granted by Texas Local Government Code Sections 402.022 and 402.023, as amended, and Chapter 30, Texas Water Code, as amended, and constitute operating expenses of their waterworks and sewer systems.

The expense of operating the Authority's Central Regional Wastewater System, including administrative overhead and amounts necessary to pay debt service, is paid monthly by contracting parties based on a formula of dividing each contracting party's estimated contributing flow to the Central System for such year by the total estimated contributing flow by all contracting parties being served at the beginning of each such year, with a year-end adjustment based on actual metered contributing flow to the Central System by all contracting parties. The wastewater treatment rate for fiscal year 2014 was \$2.124 per 1000 gallons. The actual wastewater treatment rate for fiscal 2015 was \$2.226 per 1000 gallons. The budgeted wastewater treatment rate for fiscal year 2016 is \$2.387 per 1000 gallons.

The City has adopted a Wastewater Collection Master Plan, prepared by Freese & Nichols. The master plan analyzes the existing wastewater system and contains recommendations for immediate construction improvements as well as staged construction for the ultimate development of the system.

TABLE 4 - WASTEWATER USAGE (GALLONS)

Fiscal Year Ending 9/30	Amount in Gallons (000)
2011	1,885,862
2012	1,994,587
2013	2,058,804
2014	2,161,063
2015	2,168,915 ⁽¹⁾

(1) Unaudited.

TABLE 5 - MONTHLY SEWER RATES

	Current Rates Effective as of October, 2015
<u>Residential</u>	
Base 2,000 Gallons	\$ 9.01
Base 2,001 Gallons	27.32
Each 1,000 Over 2,000 Gallons	3.17
Maximum	65.36
Sewer Service Only - Flat Rate	52.68
<u>Commercial</u>	
Base 2,000 Gallons	\$ 27.32
Each 1,000 Over 2,000 Gallons	3.16

DEBT INFORMATION

TABLE 6 - PRO-FORMA WATERWORKS AND SEWER SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Year Ended 30-Sep	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Debt Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2016	\$ 3,380,000	\$ 1,091,328	\$ 4,471,328	\$ 1,190,000	\$ 507,160	\$ 1,697,160	\$ 6,168,488	
2017	3,520,000	950,234	4,470,234	820,000	862,515	1,682,515	6,152,749	
2018	3,490,000	796,009	4,286,009	830,000	854,397	1,684,397	5,970,406	
2019	2,190,000	642,734	2,832,734	2,005,000	843,524	2,848,524	5,681,258	
2020	1,710,000	553,434	2,263,434	1,760,000	811,645	2,571,645	4,835,078	39.17%
2021	1,770,000	493,271	2,263,271	1,785,000	779,437	2,564,437	4,827,708	
2022	1,835,000	425,771	2,260,771	1,830,000	740,881	2,570,881	4,831,652	
2023	1,380,000	355,184	1,735,184	1,870,000	696,778	2,566,778	4,301,961	
2024	1,195,000	301,109	1,496,109	1,925,000	648,532	2,573,532	4,069,640	
2025	1,015,000	251,331	1,266,331	1,975,000	595,594	2,570,594	3,836,925	70.26%
2026	1,060,000	208,031	1,268,031	2,030,000	538,122	2,568,122	3,836,153	
2027	1,105,000	161,900	1,266,900	2,130,000	436,622	2,566,622	3,833,522	
2028	755,000	113,100	868,100	2,245,000	330,122	2,575,122	3,443,222	
2029	790,000	77,663	867,663	2,350,000	217,872	2,567,872	3,435,534	
2030	830,000	40,575	870,575	390,000	100,372	490,372	1,360,947	95.91%
2031	-	-	-	405,000	86,020	491,020	491,020	
2032	-	-	-	420,000	70,589	490,589	490,589	
2033	-	-	-	435,000	54,167	489,167	489,167	
2034	-	-	-	450,000	36,941	486,941	486,941	
2035	-	-	-	470,000	18,941	488,941	488,941	100.00%
	<u>\$ 26,025,000</u>	<u>\$ 6,461,674</u>	<u>\$ 32,486,674</u>	<u>\$ 27,315,000</u>	<u>\$ 9,230,225</u>	<u>\$ 36,545,225</u>	<u>\$ 69,031,900</u>	

(1) Excludes the Refunded Bonds. Preliminary, subject to change.

(2) Average life of the Bonds is 9.126 years. Interest is calculated at an average rate of 3.845% for purposes of illustration only. Preliminary, subject to change.

TABLE 7 - AUTHORIZED BUT UNISSUED REVENUE BONDS

As of September 30, 2015, the City has no authorized but unissued revenue debt.

ANTICIPATED ISSUANCE OF REVENUE BONDS . . . The City anticipates the issuance of \$4,000,000 in additional Waterworks and Sewer System revenue bonds in the Fall of 2016.

PENSION FUND

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 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. Benefits 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. Plan provisions for the City were as follows:

	Plan Year 2013	Plan Year 2014
Employee deposit rate	7%	7%
Matching ratio (City to employee)	2 to 1	2 to 1
Years require for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Employees covered by benefit terms:

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

Inactive employees or beneficiaries currently receiving benefits	132
Inactive employees entitled to but not yet receiving benefits	137
Active employees	496
Total	765

Contributions - The contribution rates for employees in TMRS is 7% of employee gross earnings, and the city matching percentages is 14.49%, 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 the benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Mansfield, Texas, were required to contribute 7% of their gross earnings during the fiscal year. The contribution rates for the City of Mansfield, Texas were 14.84% and 14.49% in calendar years 2014 and 2015 respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2015 were \$4,595,653, 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%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

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

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

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

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

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 the statute. Based on that assumption, the pension plans' Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability:

	Total Pension. Liability (a)	Increase (Decrease, Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2013	\$ 111,899,202	\$ 97,979,794	\$ 13,919,408
Changes for the year:			
Service Cost	5,030,515	-	5,030,515
Interest	7,925,143	-	7,925,143
Change in benefit terms	-	-	-
Difference between expected and actual experience	72,552	-	72,552
Changes of assumptions	-	-	-
Contributions - employer	-	4,469,146	(4,469,146)
Contributions - employee	-	2,108,088	(2,108,088)
Net investment income	-	5,606,309	(5,606,309)
Benefit payments, including refunds of employee contributions	(2,396,267)	(2,396,267)	-
Administrative expense	-	(58,519)	58,519
Other changes	-	(4,811)	4,811
Net changes	10,631,943	9,723,946	907,997
Balance at 12/31/2014	\$ 122,531,145	\$ 107,703,740	\$ 14,827,405

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

The following presents the net position 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	\$ 35,225,137	\$ 14,827,405	\$ (1,698,467)

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.tnrs.com.

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

For the year ended September 30, 2014, the City recognized expense of \$4,313,284. At September 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Recognition Period (or Amortized yrs)	Total (Inflow) or Outflow of Resources	(2014) Recognized in current pension expense	Deferred (Inflow)/Outflow in future expense
Due to Liabilities:				
Difference in expected and actual experience actuarial (gains) or losses	6.9001	\$ 72,552	\$ 10,515	\$ 62,037
Difference in assumption changes actuarial (gains) or losses	6.9001	-	-	-
			<u>\$ 10,515</u>	<u>\$ 62,037</u>
Due to Assets:				
Difference in projected and actual earnings on pension plan investments actuarial (gains) or losses	5.0000	1,252,277	250,455	1,001,822
			<u>\$ 250,455</u>	<u>\$ 1,001,822</u>
				<u>\$ 1,063,859</u>

\$260,970 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the 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:

	Net deferred Outflows/(Inflows) of resources
2015	\$ 260,970
2016	260,970
2017	260,970
2018	260,972
2019	10,515
Therafter	9,462
Total	<u>\$ 1,063,859</u>

SUPPLEMENTAL DEATH BENEFITS

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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 earnings (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

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

The City's contributions to the TMRS SDBF for the fiscal years ended 2015, 2014, and 2013 were \$43,367, \$40,870, and \$36,303, respectively, which equaled the required contributions each year.

OTHER POST-EMPLOYMENT BENEFITS

Plan Description - City employees retiring on TMRS will be provided the opportunity to receive health insurance benefits from the City from the City's existing health care plan. The City established by ordinance a single-employer defined benefit postemployment healthcare plan that covers retired employees of the City. The City established an irrevocable trust and contracted with an administrator as well as a custodial bank to manage the plan's assets or the retiree's medical benefits.

The Plan does issue a stand-alone financial report. For inquiries relating to the plan, please contact The City of Mansfield, Business Services Division, 1200 East Broad Street, Mansfield, Texas 76063.

Measurement Focus and Basis of Accounting - The City of Mansfield, Texas Retiree Health Insurance Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the determination of the employer.

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Benefits - City employees will be provided the opportunity to elect employer-subsidized health programs until the age of 65. After the age of 65, the City will pay the following percentage of employer-subsidized premium as a lifetime-only benefit. At the time of the actuarial valuation, the City paid retired employee premiums of \$891.82 for medical coverage and \$38.89 for dental coverage and \$6.65 for monthly vision premium. The City does not subsidize family health coverage. The years of service must be worked for the City, and other creditable years of service are excluded when determining the percentage:

Years of Service with the City	Percentage of Employer- Subsidized Premium
20 and more	100%
19	95%
18	90%
17	85%
16	80%
15	75%
14	70%
13	65%
12	60%
11	55%
10	50%

At the time of the actuarial valuation, the City had 475 active plan members and only 43 retired plan members receiving benefits.

Participants included in the actuarial valuation include retirees and survivors, and active employees who may be eligible to participate in the Plan upon retirement. Expenditures for post-retirement healthcare and other benefits are recognized monthly and funded into the irrevocable trust. The City funds 100% of the ARC, which approximates the annual OPEB cost, and totaled \$1,212,510 for the fiscal year ended September 30, 2014. The City also funded 100% of the ARC, which approximates the annual OPEB cost, and totaled \$1,000,959 and \$703,567 for each of the fiscal years ended September 30, 2013 and 2012, respectively. The retirees are responsible for funding approximately 2% of the healthcare and other benefit premiums.

Eligible retired employees participating in the City's Retiree Health Insurance Plan pay their premiums directly to the City. The City paid the ARC, including the employee portions of healthcare premiums directly to the Trust in the amount of \$1,075,045 for fiscal year 2015.

Funding - The City makes an annual contribution to the plan approximately equal to the ARC. The City commissioned an updated actuarial valuation of the plan for October 1, 2015, in fiscal year 2016.

The funded status as of October 1, 2014 (unaudited), the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2014	\$ 5,566,589	\$ 12,524,764	44%	\$ 6,958,175	\$ 30,976,477	22.46%
10/1/2013	4,025,043	13,155,090	31%	9,130,047	28,061,984	32.54%
10/1/2012	3,233,404	10,608,407	30%	7,375,003	27,925,254	26.41%

Note: ARC of \$1,075,045 for fiscal year 2015 as of September 30, 2015 is based on the current practice of funding the plan in a segregated GASB qualified trust.

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Actuarial Methods and Assumptions

Actuarial Cost Method - Projected Unit Credit

Actuarial Valuation Date - October 1, 2014

Discount Rate - 7%

Amortization method - 30 years, level dollar open amortization

Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Healthcare Cost Trends Rates 8% initially graded downward 0.05% per year to 5.0% in year 7 and later.

Mortality - IRS 2008 Combined Static Mortality Table

Retirement Rate

<u>Attained Age</u>	<u>Rates per 100 Participants</u>
50	3.00
51	1.50
55	7.50
58	10.00
60	25.00
61	10.00
65	100.00

Withdrawal Rate

<u>Attained Age</u>	<u>Rates per 100 Participants</u>
25	19.50
30	18.80
35	17.68
40	15.90
45	13.42
50	9.74

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

For more information concerning the City's post-employment benefits, see the financial statements of the City, and the notes thereto.

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FINANCIAL INFORMATION

TABLE 8 - CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended September 30,				
	2015 ⁽¹⁾	2014	2013	2012	2011
Revenues					
Water Service	\$ 17,105,911	\$ 15,662,227	\$ 15,053,456	\$ 14,966,864	\$ 15,982,205
Sewer Service	9,790,377	9,267,629	8,600,592	8,220,411	8,250,025
Charges for Services	1,286,973	1,106,380	3,015,063	1,172,611	1,094,104
Interest Earnings	16,645	22,178	42,861	23,832	4,497
Impact Fees	1,894,021	1,596,243	1,508,905	1,297,649	1,067,671
Total Revenues	\$ 30,093,927	\$ 27,654,657	\$ 28,220,877	\$ 25,681,367	\$ 26,398,502
Expenses					
Water Distribution	\$ 1,031,489	\$ 961,970	\$ 751,125	\$ 841,334	\$ 827,503
Wastewater Collection	6,119,999	5,729,654	4,913,513	4,528,682	4,117,479
Water Quality Control	7,458,431	7,126,755	6,417,764	6,111,884	5,413,935
Administration	2,507,579	2,926,209	2,205,885	2,552,547	2,086,397
Total Expenses	\$ 17,117,498	\$ 16,744,588	\$ 14,288,287	\$ 14,034,447	\$ 12,445,314
Net Available for Debt Service	\$ 12,976,429	\$ 10,910,069	\$ 13,932,590	\$ 11,646,920	\$ 13,953,188
Water Customers	20,404	19,908	19,871	19,247	19,097
Sewer Customers	17,974	17,730	17,656	17,154	16,987

(1) Unaudited.

TABLE 9 - COVERAGE AND FUND BALANCES⁽³⁾

Average Annual Principal and Interest Requirements, 2016-2035	\$ 3,451,595 ⁽¹⁾
Coverage of Average Requirements by 9/30/15 Net Available for Debt Service	3.76x ⁽¹⁾
Maximum Principal and Interest Requirements, 2016	\$ 6,168,488 ⁽¹⁾
Coverage of Maximum Requirements by 9/30/15 Net Available for Debt Service	2.10x ⁽¹⁾
Waterworks and Sewer System Bonds Outstanding, 9/30/15	\$ 26,025,000 ⁽²⁾
Water and Sewer Sinking and Reserve Funds, 9/30/15	\$ 3,041,348 ⁽³⁾

(1) Projected; excludes the Refunded Bonds; includes the Bonds; Preliminary, subject to change.

(2) Excludes the Refunded Bonds; includes the Bonds; Preliminary, subject to change.

(3) Unaudited.

TABLE 10 - VALUE OF THE SYSTEM

	Fiscal Year Ended September 30,				
	2015 ⁽¹⁾	2014	2013	2012	2011
Buildings and Systems	\$ 200,337,060	\$ 189,430,954	\$ 180,846,525	\$ 179,098,844	\$ 178,071,888
Land	138,191	138,191	138,191	138,191	138,191
Improvements	62,818	62,818	62,818	62,818	62,818
Machinery and Equipment	3,555,792	2,459,124	2,238,231	2,191,835	2,016,272
Construction in Progress	12,424,650	11,690,330	7,008,887	2,997,261	2,097,066
Total Value	\$ 216,518,511	\$ 203,781,417	\$ 190,294,652	\$ 184,488,949	\$ 182,386,235
Less: Accumulated Depreciation	48,250,000	44,391,687	40,659,096	36,994,666	33,365,177
Net System Value	\$ 168,268,511	\$ 159,389,730	\$ 149,635,556	\$ 147,494,283	\$ 149,021,058

(1) Unaudited.

TABLE 11 - CITY'S EQUITY IN SYSTEM

<u>Resources</u>	Fiscal Year Ended September 30,				
	2015 ⁽¹⁾	2014	2013	2012	2011
Net System Value	\$ 168,268,511	\$ 159,389,730	\$ 149,635,556	\$ 147,494,283	\$ 149,021,058
Cash and Investments	27,053,601	32,460,470	39,775,251	38,166,098	34,555,887
Other Resources	4,973,257	4,307,142	4,914,170	4,679,107	5,265,263
Total Resources	\$ 200,295,369	\$ 196,157,342	\$ 194,324,977	\$ 190,339,488	\$ 188,842,208
<u>Obligations</u>					
Revenue Bonds Payable	\$ 44,690,453	\$ 48,543,624	\$ 52,264,594	\$ 55,865,564	\$ 59,363,510
Other Obligations	4,155,884	4,096,859	3,279,010	2,882,813	2,592,731
Total Obligations	\$ 48,846,337	\$ 52,640,483	\$ 55,543,604	\$ 58,748,377	\$ 61,956,241
City's Equity in System	\$ 151,449,032	\$ 143,516,859	\$ 138,781,373	\$ 131,591,111	\$ 126,885,967
Percentage City's Equity in System	75.61%	73.16%	71.42%	69.13%	67.19%

(1) Unaudited.

FINANCIAL POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies used by the City are described below. The audited financial statements of the City for the year ended September 30, 2014, prepared in accordance with the GASB Statements, are included in Appendix B hereto.

Government-wide and Fund Financial Statements . . . The government-wide financial statement (i.e., the statement of net assets and the statement of activities) 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. Government 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of intergovernmental revenues, which have a one-year period of availability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, landfill closure/post closure costs, are recorded only when the liability has matured.

Property taxes, sales taxes, franchise fees and licenses, intergovernmental revenues, certain charges for services, 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 City receives the cash as the resulting receivables are deemed immaterial.

Fund Balances . . . The City has a written fund balance policy requiring the general fund's balance to be at least 25% of the next fiscal year's budget. It is the City's policy to maintain this percentage to assure adequate funding of the general operating fund.

Use of Bond Proceeds . . . The City's policy is to use bond proceeds for capital expenditures only. Such revenues are never to be used to fund normal City operations.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year, by the middle of June, the departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. After review by the Finance Department and the City Manager, a budget of estimated revenues and expenditures is submitted to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with state statutes. The City Council will adopt a budget prior to September 15. If the Council fails to adopt a budget then the budget proposed by the City Manager is deemed to have been adopted.

During the fiscal year, budgetary control is maintained by the monthly review of departmental appropriation balances. Actual operations are compared to the amounts set forth in the budget. Departmental appropriations that have not been expended lapse at the end of the fiscal year if no disbursement from or encumbrance of the appropriation has been made.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities 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 (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that 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 Bonds 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 branch office in this state and is selected from a list adopted by the City; (ii) a depository institution, that has a main office or branch office in this state and that is selected by the City; (b) the broker or depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; and (d) the City appoints the depository institution acts as a custodian for the City with respect to the certificates of deposit an entity described by 2257.041(d) 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); (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), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-loan money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

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

ADDITIONAL PROVISIONS . . . Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution; (3) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (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 repurchase agreement; (8) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; (10) at least annually, review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 12 - CURRENT INVESTMENTS

As of September 30, 2015, the City's Water and Sewer investable funds were invested in the following categories:

Description of Investment	Percent of Portfolio	Total Investment
Nations Money Market Funds	37.80%	\$ 8,706,828
TEXSTAR (investment pool)	62.20%	14,327,498
	<u>100.00%</u>	<u>\$ 23,034,326</u>

SELECTED PROVISIONS OF THE BOND ORDINANCE

The City Council will adopt the Ordinance authorizing the Bonds, which will be in substantially the same form as the Ordinance(s) authorizing the City's outstanding parity revenue bonds, selected provisions of which are shown below:

DEFINITIONS

"Additional Bonds" means additional parity revenue bonds permitted to be issued by the Ordinance.

"Capital Improvements Plan" means the City's capital improvements plan that identifies water supply, treatment and distribution facilities and wastewater collection and treatment facilities constituting capital improvements or facility expansion for which impact fees may be assessed.

"Fund" means any fund established pursuant to the Ordinance or any ordinance authorizing the issuance of the Previously Issued Bonds and any Additional Bonds.

"Gross Revenues" means all revenues and income of every nature derived or received by the City from the operation and ownership of the System, including impact fees imposed by the City to finance capital improvements and facility expansions identified in the Capital Improvement Plan, and the interest income from the investment or deposit of money in any special fund created by the Ordinance or any ordinance authorizing the issuance of Previously Issued Bonds, the Bonds and any Additional Bonds.

"Interest and Sinking Fund" means the interest and sinking fund previously established by the City and confirmed by the Ordinance.

"Net Revenues" means all Gross Revenues after deducting there from an amount equal to the current expenses of operation and maintenance of the System, including all salaries, labor, materials, repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised by the adoption of appropriate resolutions, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from the Net Revenues of the System, shall be deducted in determining "Net Revenues." Payments required to be made by the City for water supply or water facilities, sewer services or sewer facilities, fuel supply, which payments under law constitute operation and maintenance expenses of any part of the System, shall constitute and be regarded as expenses of operation and maintenance of the System. Depreciation and amortization shall not constitute or be regarded as expenses of operation and maintenance of the System.

"Pledged Revenues" means (1) the Net Revenues, plus (2) resources which are expected to be available to the City on a regular periodic basis, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which in the future may, at the option of the City, be pledged to the payment of Previously Issued Bonds, the Bonds and any Additional Bonds.

"Previously Issued Bonds" means the outstanding and unpaid revenue bonds of the City designated as, Waterworks and Sewer System Refunding Revenue Bonds, Series 2005, dated July 1, 2005, Waterworks and Sewer System Revenue Bonds, Series 2007, dated December 1, 2006, Waterworks and Sewer System Revenue Bonds, Series 2008, dated December 1, 2008, Waterworks and Sewer System Revenue Bonds, Series 2009, dated December 1, 2009, Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2011, dated January 15, 2011, Waterworks and Sewer System Revenue Refunding Bonds, Series 2012, and Waterworks and Sewer System Revenue Refunding Bonds, Series 2015.

"Prior Ordinances" means the respective ordinances that authorized the issuance of the Previously Issued Bonds.

"Reserve Fund Surety Bond" means while any Previously Issued Bonds issued prior to the City's Waterworks and Sewer System Revenue Refunding Bonds, Series 2015 are outstanding, any surety bond or insurance policy having a rating in the highest respective rating categories by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, issued to the City for the benefit of the Owners of the Bonds to satisfy any part of the Required Reserve as provided in the Ordinance. At such time as all of the Previously Issued Bonds issued prior to the City's Waterworks and Sewer System Revenue Refunding Bonds, Series 2015 are no longer outstanding, "Reserve Fund Surety Bond" means any surety bond or insurance policy having a rating in the two highest generic rating categories by Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, or Fitch Ratings, Inc., issued to the City for the benefit of the Owners of the Bonds to satisfy any part of the Required Reserve as provided in the Ordinance.

"System" means (1) the City's entire existing waterworks and sewer system, together with all future extensions, improvements, enlargements, and additions thereto, and all replacements thereof, and (2) any other related facilities, all or any part of the revenues or income from which, in the future, at the option of the City, in accordance with law, become "Pledged Revenues" as herein defined; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not mean any water, sewer, or other facilities of any kind which are declared not to be a part of the System, and which are acquired or constructed by the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special

revenue obligations of the City which are not payable from or secured by any Pledged Revenues, but which are secured by and payable from liens on and pledges of any other revenues, sources, or payments, including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities; and such revenues, sources, or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such "Special Facilities Bonds."

"Unclaimed Payments" means money deposited with the Paying Agent/Registrar for the payment of principal of or interest on the Bonds as the same come due and payable and remaining unclaimed by the Owners of such Bonds for 90 days after the applicable payment or redemption date.

PLEDGE

Pledge. The Bonds are "Additional Bonds" described in the Prior Ordinances, and the payment of the principal, premium, if any, and interest on the Previously Issued Bonds, the Bonds and any Additional Bonds is secured by and of payable from a lien on and pledge of the Pledged Revenues, and the Pledged Revenues are further pledged to the establishment and maintenance of the Funds created by the Ordinance, and any Funds created by any ordinance authorizing the issuance of any Previously Issued Bonds and any Additional Bonds. The Previously Issued Bonds, the Bonds and any Additional Bonds are not and will not be secured by or payable from a mortgage or deed of trust on any real, personal, or mixed properties constituting the System.

Bonds as Special Obligations. The Bonds are special obligations of the City payable solely from the Pledged Revenues, as described in the Ordinance, and the Owners thereof shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation.

FUNDS AND ACCOUNTS

The Ordinance confirms the prior establishment of the System Fund, the Interest and Sinking Fund and the Reserve Fund, each to be kept and maintained separately and apart from all other monies of the City.

System Fund. All Gross Revenues shall be deposited to the System Fund upon receipt. All current expenses of operation and maintenance of the System shall be paid from such Gross Revenues. The City shall, before making other required deposits, retain in the System Fund an amount at least equal to one-sixth of the amount budgeted for the then-current fiscal year for the operation and maintenance expenses of the System.

Interest and Sinking Fund. Monies deposited to the Interest and Sinking Fund shall be applied solely to the payment when due of principal of and interest on the Bonds, the Previously Issued Bonds and any Additional Bonds.

Reserve Fund. Monies on deposit in the Reserve Fund shall be used to pay the principal of and interest when due on the Bonds, the Previously Issued Bonds and any Additional Bonds, in the event and to the extent that amounts in the Interest and Sinking Fund are insufficient for such purpose, and may be applied to the final payment of such obligations. Money on deposit in the Reserve Fund may be applied to the acquisition of a Reserve Fund Surety Bond. (See "Reserve Fund Requirements")

Investments. Money in any Fund established pursuant to the Ordinance or any ordinance authorizing the issuance of the Previously Issued Bonds and any Additional Bonds, may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested in direct obligations of the United States of America or obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in obligations of instrumentalities of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that any such investments are authorized investments for the funds of the City and shall be made in such manner as will, in the opinion of the City, permit the money required to be expended from any Fund to be available at the proper time or times as expected to be needed. Such investments (except United States Treasury Obligations--State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value as of the last day of each fiscal year. Unless otherwise set forth in the Ordinance, all interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, and surpluses in any Fund shall or may be disposed of as hereinafter provided. Such investments are required to be sold promptly when necessary to prevent any default in connection with the Previously Issued Bonds, the Bonds and any Additional Bonds consistent with the respective ordinances authorizing their issuance.

Funds Secured. Money in all Funds created or confirmed by the Ordinance, to the extent not invested, are required to be secured in the manner prescribed by law.

Priority of Transfers from System Fund. The City will make transfers from the Pledged Revenues on deposit in the System Fund, in the amounts and in the manner required by the Ordinance and the ordinances authorizing the Previously Issued Bonds and any Additional Bonds, first, to the Interest and Sinking Fund, and, second, to the Reserve Fund.

Interest and Sinking Fund Requirements. All amounts received on the date of delivery representing accrued interest on the Bonds will be deposited to the Interest and Sinking Fund and will be applied to the payment of interest next coming due on the Bonds. Each month, in approximately equal monthly installments, the City will transfer from the Pledged Revenues to the Interest and Sinking Fund such amounts as will be sufficient, together with any amounts then on deposit in such Fund, to pay principal of and interest on the Bonds, the Previously Issued Bonds and any Additional Bonds coming due on the next succeeding payment date for such obligations, whether at maturity or upon the prior redemption thereof.

Reserve Fund Requirements. The City agrees to maintain in the Reserve Fund an amount of money and investments equal to the average annual principal and interest requirements of the Previously Issued Bonds, the Bonds and any Additional Bonds then outstanding (the "Required Reserve Amount"). After the delivery of any Additional Bonds, the City agrees to cause the Reserve Fund to be increased, if and to the extent necessary, so that such Fund will contain an amount of money and investments equal to the Required Reserve Amount. Any increase in the Required Reserve Amount may be funded from Pledged Revenues or from proceeds from the sale of any Additional Bonds, or any other available source or combination of sources. All or any part of the Required Reserve Amount not funded initially and immediately after the delivery of any installment or issue of Additional Bonds shall be funded, within not more than five years from the date of such delivery, by deposits of Pledged Revenues in approximately equal monthly installments. Principal amounts of any Previously Issued Bonds and any Additional Bonds which must be redeemed pursuant to any applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal for the purpose of calculating principal and interest requirements on such bonds. When and so long as the amount in the Reserve Fund is not less than the Required Reserve Amount no deposits shall be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve Amount, then the City agrees to transfer from Pledged Revenues in the System Fund, and deposit to the credit of the Reserve Fund, monthly, a sum equal to 1/60th of the Required Reserve Amount, until the Reserve Fund is restored to the Required Reserve Amount. The City specifically covenants that when and so long as the Reserve Fund contains the Required Reserve Amount, the City shall cause all interest and income derived from the deposit or investment of the Reserve Fund to be deposited to the credit of the System Fund, provided that interest and income from moneys representing bond proceeds deposited to the Reserve Fund shall only be used for the same purposes for which such bonds are authorized.

The Reserve Fund may be funded in the amount of the Required Reserve by the deposit of a Reserve Fund Surety Bond sufficient to provide such portion of the Required Reserve. Following such discharge, the City further expressly reserves the right to substitute at any time a Reserve Fund Surety Bond for any funded amounts in the Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related parity revenue bonds were issued or to pay debt service on the parity revenue bonds. The City shall not employ any Reserve Fund Surety Bond unless (i) the City officially finds that the purchase of such Reserve Fund Surety Bond is cost effective, (ii) the Reserve Fund Surety Bond does not impose upon the City repayment obligations (in the event the Reserve Fund Surety Bond is drawn upon) greater than can be funded from Pledged Revenues on a parity with the deposits that are otherwise required to be made to the Reserve Fund, and (iii) that any interest due in connection with such repayment obligations does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Reserve Fund Surety Bond.

Deficiencies: Excess Pledged Revenues. (a) If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits into the Interest and Sinking Fund or the Reserve Fund, such deficiency is required to be made up as soon as possible from the next available Pledged Revenues.

(b) Subject to making the required deposits to the credit of the various Funds when and as required by the Ordinance or any ordinance authorizing the issuance of Previously Issued Bonds or any Additional Bonds, any surplus Pledged Revenues may be used by the City for any lawful purpose.

ADDITIONAL BONDS

The City has reserved the right to issue additional parity revenue bonds ("Additional Bonds"), in accordance with law and the requirements of the Ordinance and the ordinances authorizing the Previously Issued Bonds and any Additional Bonds, payable from and secured by a lien on and pledge of the Pledged Revenues, equally and ratably on a parity in all respects with the Bonds, the Previously Issued Bonds and any Additional Bonds; provided that such Additional Bonds shall not be delivered unless: (i) the principal of such Additional Bonds is scheduled to be paid on February 1 or August 1, or both; (ii) the Mayor and City Secretary of the City certify, in writing, that the City is not then in default as to any covenant, condition, or obligation in connection with the Bonds, the Previously Issued Bonds and any Additional Bonds or the ordinances authorizing such obligations, and each respective Fund contains the amount required to be on deposit therein; (iii) an independent certified public accountant certifies, in writing, that, in his or her opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the ordinance authorizing the proposed Additional Bonds is passed, the Pledged Revenues were at least 1.25 times the average annual principal and interest requirements and 1.10 times the maximum annual principal and interest requirements of the Bonds, all Previously Issued Bonds and any Additional Bonds scheduled to be outstanding after the delivery of the proposed Additional Bonds; provided, that in calculating the amount of Pledged Revenues for such purpose, if there has been an increase in rates charged for services of the System which are then in effect, but which were not in

effect during all or any part of the entire period for which the Pledged Revenues are being calculated (the "entire period"), then the certified public accountant, or in lieu thereof, a firm of consulting engineers, shall determine and certify the amount of Pledged Revenues as being the total of (A) the actual Pledged Revenues for the entire period, plus (B) the aggregate amount by which the actual billings during the entire period would have been increased if such rates had been in effect during the entire period; (iv) provision is made in the proposed ordinance to increase the Reserve Fund to the Required Reserve Amount; and (v) all calculations of average annual debt service requirements of any bonds or obligations made in connection with the issuance of such proposed Additional Bonds shall be made as of the date of such Additional Bonds, and, for all purposes under the Ordinance, any principal amount of any bond or obligation required to be mandatorily redeemed shall be deemed to be maturing on the applicable mandatory redemption date.

REPRESENTATIONS AND COVENANTS

Payment of Bonds and Additional Bonds. The City will make available to the Paying Agent/Registrar, from the Interest and Sinking Fund, and, to the extent necessary, from the Reserve Fund, monies sufficient to pay the principal of and interest on all outstanding Bonds, Previously Issued Bonds and any Additional Bonds as the same shall come due for payment, either at maturity or upon prior redemption.

Rates. The City covenants and agrees with the holders of all the Previously Issued Bonds, the Bonds and any Additional Bonds as follows:

(a) that it will at all times fix, maintain, charge, and collect for services rendered by the System, rates and charges which will produce Gross Revenues, at least sufficient to pay all expenses of operation and maintenance of the System and to provide an additional amount of Net Revenues to pay promptly all of the principal of and interest on all Previously Issued Bonds, the Bonds and any Additional Bonds, and to make all deposits now or hereafter required to be made into the special funds created by the Ordinance or the ordinance or ordinances authorizing the issuance of Previously Issued Bonds, the Bonds or Additional Bonds, with such amounts being at least equal to 1.1 times the annual principal and interest requirements of all outstanding Previously Issued Bonds, the Bonds and any Additional Bonds; and

(b) that, if the System should become legally liable for any other obligations or indebtedness, the City shall fix, maintain, charge and collect additional rates and charges for services rendered by the System sufficient to establish and maintain funds for the payment thereof.

General Covenants. The City has further covenanted and agreed that in accordance with and to the extent required or permitted by law:

(a) Performance. It will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in the Ordinance, and each ordinance authorizing the issuance of the Previously Issued Bonds and Additional Bonds, and in each and every Previously Issued Bond, Bond and Additional Bond; that it will promptly pay or cause to be paid the principal of and interest on every Previously Issued Bond, Bond and Additional Bond, on the dates and in the places and manner prescribed in such ordinances, Previously Issued Bonds, Bonds and Additional Bonds; and that it will promptly pay or cause to be paid the principal of and interest on every Previously Issued Bond, Bond and Additional Bond, on the dates and in the manner prescribed in such ordinances and Previously Issued Bonds, Bonds and Additional Bonds; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Interest and Sinking Fund and the Reserve Fund; and any holder of the Previously Issued Bonds, the Bonds or Additional Bonds may require the City, its officials, and employees, to carry out, respect, or enforce the covenants and obligations of the Ordinance, or any ordinance authorizing the issuance of Additional Bonds or Previously Issued Bonds, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City, its officials, and employees.

(b) Legal Authority. The City covenants that it is a duly created and existing home rule city of the State of Texas, and is duly authorized under the laws of the State of Texas to create and issue the Previously Issued Bonds, the Bonds and any Additional Bonds; that all action on its part for the creation and issuance of the said obligations has been or will be duly and effectively taken; and said obligations in the hands of the holders and owners thereof are and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) Title. The City has or will obtain lawful title to the lands, buildings, structures, and facilities constituting the System, and the City warrants that it will defend the title to all the aforesaid lands, buildings, structures, and facilities, and every part thereof, for the benefit of the holders and owners of the Previously Issued Bonds, the Bonds and Additional Bonds, against the claims and demands of all persons whomsoever, and it is lawfully qualified to pledge the Pledged Revenues to the payment of the Previously Issued Bonds, the Bonds and any Additional Bonds in the manner prescribed herein, and has lawfully exercised such rights.

(d) Liens. The City will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, or the System; it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein; and it will not create or suffer to be created any mechanic's, laborer's, materialman's, or other lien or charge which

might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided, however, no such tax, assessment, or charge, and no such claims which might be used as the basis of a mechanic's, laborer's, materialman's, or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City.

(e) Operation of System; No Free Service. While the Previously Issued Bonds, the Bonds or any Additional Bonds are outstanding and unpaid, the City agrees to continuously and efficiently operate the System, and to maintain the System, or cause the System to be operated and maintained in good condition, repair, and working order, all at reasonable cost. No free service of the System shall be allowed, and should the City or any of its agencies, instrumentalities, lessors, or concessionaires make use of the services and facilities of the System, payment monthly of the standard retail price of the services provided shall be made by the City or any of its agencies, instrumentalities, lessors, or concessionaires out of funds from sources other than the revenues of the System, unless made from surplus Pledged Revenues as permitted by the Ordinance.

(f) Further Encumbrance. While the Previously Issued Bonds, the Bonds or any Additional Bonds are outstanding and unpaid, the City agrees that it will not additionally encumber the Pledged Revenues in any manner, except as permitted in this Ordinance in connection with Additional Bonds, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of the Ordinance and any ordinance authorizing the issuance of Previously Issued Bonds and any Additional Bonds; but the right of the City to issue revenue bonds payable from a subordinate lien on surplus Pledged Revenues is specifically recognized and retained.

(g) Sale or Disposal of Property. While any Previously Issued Bonds, Bonds or Additional Bonds are outstanding and unpaid, the City agrees that it will not sell, convey, mortgage, encumber, lease, or in any manner transfer title to, or dedicate to other use, or otherwise dispose of, the System, (except as permitted in paragraph (f) hereof) or any significant or substantial part thereof; provided that whenever the City deems it necessary to dispose of any property, machinery, fixtures, or equipment, or dedicate such property to other use, it may do so either when it has made arrangements to replace the same or provide substitutes therefor, or it is determined by resolution of the City Council that no such replacement or substitute is necessary.

(h) Insurance.

(1) The City agrees to cause to be insured such parts of the System as would usually be insured by corporations operating like properties, with a responsible insurance company or companies, against risks, accidents, or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance. Public liability and property damage insurance also shall be carried unless the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. All insurance premiums shall be paid as an expense of operation of the System. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the registered owners of the Bonds and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the System shall be deposited in a special and separate trust fund, at an official depository of the City, to be designated the "Insurance Account." The Insurance Account shall be held until such time as other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required.

(2) The annual audit hereinafter required may contain a section commenting on whether or not the City has complied with the requirements of this Section with respect to the maintenance of insurance, and shall state whether or not all insurance premiums upon the insurance policies to which reference is made have been paid.

(i) Annual Budget. The City covenants to prepare, prior to the beginning of each fiscal year, an annual budget, in accordance with law, reflecting an estimate of cash receipts and disbursements for the ensuing fiscal year in sufficient detail to indicate the probable Gross Revenues and Pledged Revenues for such fiscal year.

(j) Records. The City covenants to keep proper books of record and account in which full, true, proper, and correct entries will be made of all dealings, activities, and transactions relating to the System, the Pledged Revenues, and the Funds created pursuant to the Ordinance, and all books, documents, and vouchers relating thereto shall at all reasonable times be made available for inspection upon request of any Bondholder or citizen of the City. To the extent consistent with the provisions of the Ordinance, the City shall keep its books and records in a manner conforming to standard accounting practices as usually would be followed by private corporations owning and operating a similar System, with appropriate recognition being given to essential differences between municipal and corporate accounting practices.

(k) Audits. After the close of each fiscal year while any of the Previously Issued Bonds, the Bonds or Additional Bonds are outstanding, an audit will be made of the books and accounts relating to the System and the Pledged Revenues by an independent certified public accountant or an independent firm of certified public accountants. As soon as practicable after the close of each such year, and when said audit has been completed and made available to the City, a copy of such audit for the preceding year shall be mailed to the Municipal Advisory Council of Texas, to each paying agent for any bonds payable from Pledged Revenues, to any registered owner of the Bonds who shall so request in writing, and to First Southwest Company, LLC. The annual audit reports shall be open to the inspection of the registered owners of the Previously Issued Bonds, the Bonds and any Additional Bonds, and their agents and representatives at all reasonable times.

(l) Governmental Agencies. The City covenants to comply with all of the terms and conditions of any and all franchises, permits, and authorizations applicable to or necessary with respect to the System, and which have been obtained from any governmental agency; and the City has or will obtain and keep in full force and effect all franchises, permits, authorization, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System.

(m) No Competition. The City covenants that it will not operate, or grant any franchise or, to the extent it legally may, permit the acquisition, construction, or operation of, any facilities which would be in competition with the System, and to the extent that it legally may, the City will prohibit any such competing facilities.

(n) Impact Fees. None of the impact fees pledged in the Ordinance to the payment of the Previously Issued Bonds, the Bonds and any Additional Bonds will be used or expended for an improvement or expansion not identified in the Capital Improvements Plan.

DEFAULT AND REMEDIES

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

- (i) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable; or
- (ii) default in the performance or observance of any other covenant, agreement or obligation of the City, which default materially and adversely affects the rights of the Owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the City.

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

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

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

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

(c) By accepting the delivery of a Bond authorized under the Ordinance, such Owner agrees that the certifications required to effectuate any covenants or representations contained in the Ordinance do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers or employees of the City or members of the City Council.

DISCHARGE

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

TAX MATTERS

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

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

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the City, the City’s Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City’s Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. Bond Counsel will further rely on the report (the “Report”) of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations or the Report are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

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

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

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

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

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

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the Tables numbered 1 through 12 and in Appendix B. The City will update and provide this information in the numbered Tables within six months after the end of each fiscal year ending in or after 2015 and, if then available, audited financial statements of the City. If audited financial statements are not available when the information is provided, the City will provide unaudited financial statements when and if they become available. 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 statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-reference Tables must be provided by March 31 in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if audited financial statements are not yet available) must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES . . . The City shall notify the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Bonds: (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 City¹; (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) Appointment of a successor or additional Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, 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."

AVAILABILITY OF INFORMATION . . . All information and documentation filings required to be made by the City in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided by the MSRB, without charge to the general public, at www.emma.msrb.org.

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

¹ For the purposes of the event identified in (12), the event 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 U.S. 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.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 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 so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS. . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding waterworks and sewer system revenue debt of the City are rated "Aa2" by Moody's, "AA+" by S&P and "AA" by Fitch, without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. 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 either of such rating companies, if in the judgment of any such company, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

LITIGATION

Mantos v. City of Mansfield. On May 1, 2008, Valerie Mantos, ("Mantos") a resident of the City, filed a lawsuit in the 352nd Judicial District Court in Tarrant County, Texas (the "Court") against the City. Subsequently, on September 22, 2008 and October 21, 2008, Mantos amended her original petition. Plaintiff's complaints allege that the City violated the Texas Open Meetings Act in entering into a property purchase agreement and the subsequent resale of portions of that tract to a commercial developer. The complaint also alleges that the City did not receive adequate compensation for the sale of the property, and that the City's efforts to enter into an Economic Development Agreement with the developer were unlawful.

On May 30, 2008, the City filed its Answer and on August 11, 2008 filed a Motion for Partial Summary Judgment in the Court. On October 2, 2008, a hearing on the City's Motion for Partial Summary Judgment was held. Subsequent to the hearing, the Court allowed Mantos to amend her pleadings to more specifically state her claims against the City. After Mantos amended her pleadings, the Court granted the City's Motion for Partial Summary Judgment, leaving Mantos' challenge to the validity of the Economic Development Agreement as the only remaining issue pending before the trial court. The City and Mantos then entered into a Rule 11 Agreement to allow the issues covered by the City's Motion for Partial Summary Judgment to be severed from the rest of the case and to be disposed of via a final, appealable judgment. On May 22, 2009, the City filed a Motion to Sever and for Final Judgment which was granted by the Court on June 9, 2009. On September 8, 2009, Mantos filed a Notice of Appeal concerning the Final Judgment. On February 10, 2011, the Court of Appeals upheld an overwhelming portion of the City's Motion for Summary Judgment and remanded a few minor claims to the trial court. On October 7, 2011, the City filed a Summary Judgment Motion with respect to a portion of the remanded claims. The Court granted this motion on January 31, 2012. The City filed a second Summary Judgment Motion on all remaining remanded claims on July 27, 2012. This motion is still pending before the Court.

On October 8, 2015, the Court held a hearing on its own Motion to determine whether this cause of action should be dismissed in its entirety due to the Plaintiff's failure to prosecute the action in a timely manner. Plaintiff appeared at the hearing and requested that the case be retained and promised to move forward in a timely fashion. The Court granted the Motion to Retain the case, but set the matter for trial on the week of January 4, 2016.

The City believes it will prevail on this second Summary Judgment Motion and that it will ultimately prevail on all claims filed against the City by Mantos. If the City should not be successful in its defense of this case, the City would only be facing liability for court costs and attorney's fees in an amount less than \$100,000. No other monetary damages are sought.

Savering et al. v. City of Mansfield et al. On August 28, 2014, plaintiffs Josh and Kelli Savering and others filed suit against the City and others to resolve a dispute that has arisen between the plaintiffs and defendants over the construction of a bridge that connects a public park to a walking trail that abuts plaintiffs' property. Plaintiffs alleged causes of action against the City under the Declaratory Judgments Act, and for trespass to try title, trespass, and inverse condemnation under the Texas Constitution. Plaintiffs also sought equitable relief in the form of an injunction to require the City to prohibit members of the public from crossing the bridge. The City timely filed an answer and generally denied the plaintiffs' claims. To date, all of plaintiffs' requests for injunctive relief have been denied by the court. This case is still in the discovery stage and no dispositive motions have been filed with the court.

Plaintiffs' filed their original Motion Requesting a Temporary Injunction which was heard on January 24, 2014, and held a hearing on their Amended Motion on November 17, 2014. After an evidentiary hearing on the matter, the Court denied the Motion and Plaintiffs' gave notice of appeal. The case has been submitted to the Second Court of Appeals for a review of the trial court's decision to deny the Motion for Temporary Injunction. Briefs have been filed and the case was submitted on oral argument on September 1, 2015. The Court of Appeals has not yet returned a ruling on the appeal of the denial of the Temporary Injunction.

Although the plaintiffs are seeking an unspecified amount of damages from the City, the plaintiffs' claims are likely barred by the doctrine of governmental immunity. Such doctrine makes it clear that the City is immune from liability for all alleged torts. Moreover, the plaintiffs have failed to plead a waiver of immunity under the Declaratory Judgments Act. Finally, the plaintiffs have not plead sufficient facts to withstand a motion for summary judgment on the plaintiffs' takings claim. Specifically, plaintiffs have not plead (and cannot reasonably plead) that the City's actions have deprived the plaintiffs of all reasonable use of their property or have resulted in a substantial diminution of over 90% of the value of plaintiffs' property. For these reasons, the City believes that this suit will not have any significant impact on the financial condition of the City.

It is the opinion of the City Attorney and the City Staff that there is no other pending, or to their knowledge, threatened litigation or other proceeding against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with a capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding special obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds, subject to the matters described under "Tax Matters" herein, including alternative minimum tax consequences for corporations. A form of such opinion is attached hereto as Appendix C. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken

independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions "The Bonds" (except for the subcaption "Sources and Uses of Bond Proceeds," "Bondholders Remedies," and "Book-Entry-Only System"), "Selected Provisions of the Bond Ordinance," "Tax Matters" and "Continuing Disclosure of Information" (except the subcaption "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Bonds For Sale," "Legal Investments and Eligibility to Secure Public Funds in Texas" and "Legal Matters" under the caption "Other Information" and is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Locke Lord LLP, Dallas, Texas, Counsel to the Underwriters.

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

FINANCIAL ADVISOR

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

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company, LLC on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields of the Bonds and the Securities were verified by Grant Thornton, LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by First Southwest Company, LLC on behalf of the City. Grant Thornton, LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at the prices shown on page 2 of the official statement less an underwriting discount of \$_____. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

One of the Underwriters is BOSC, Inc., which is not a bank, and the Obligations are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance 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 Underwriters do not guarantee the accuracy or completeness of such information.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

KPMG LLP, the City's independent auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in this report. KPMG LLP also has not performed any procedures relating to this Official Statement.

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

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

Mayor
City of Mansfield, Texas

ATTEST:

City Secretary
City of Mansfield, Texas

SCHEDULE OF REFUNDED BONDS*

Waterworks & Sewer System Revenue Refunding Bonds, Series 2005

Original Dated Date	Original Maturity Date	Interest Rates	Principal	Redemption Date
			Refunded Amount	
7/1/2005	8/1/2016	4.000%	\$ 250,000	2/16/2016
	8/1/2017	4.000%	250,000	2/16/2016
	8/1/2018	4.050%	260,000	2/16/2016
	8/1/2019	4.100%	270,000	2/16/2016
			<u>\$ 1,030,000</u>	

Waterworks & Sewer System Revenue Bonds, Series 2008

Original Dated Date	Original Maturity Date	Interest Rates	Principal	Redemption Date
			Refunded Amount	
12/1/2008	8/1/2019	5.375%	\$ 1,165,000	8/1/2018
	8/1/2020	5.600%	1,230,000	8/1/2018
	8/1/2021	5.750%	1,295,000	8/1/2018
	8/1/2022	5.875%	1,370,000	8/1/2018
	8/1/2023	6.000%	1,450,000	8/1/2018
	8/1/2024	6.125%	1,540,000	8/1/2018
	8/1/2029 ⁽¹⁾	6.750%	9,350,000	8/1/2018
			<u>\$ 17,400,000</u>	

(1) Represents a Term Bond with mandatory sinking fund payments on August 1 in the years 2025, 2026, 2027, 2028 and final maturity on August 1, 2029.

* Preliminary, subject to change.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY . . . The City of Mansfield encompasses 38.6 square miles and is located in the southeastern portion of Tarrant County with small areas of the City extending into Johnson and Ellis Counties. The City is bounded by the cities of Arlington on the north, Grand Prairie on the east and Fort Worth on the west. Farm Road 157 is a direct route between the City and Arlington. U.S. Highway 287 passes directly through the City from east to west. Dallas is approximately 25 miles to the northeast via U.S. Highway 287 and U.S. Highway 67 or I-20. Downtown Fort Worth is approximately 20 miles to the northwest via U.S. Highway 287 and I-20. Highway 360 provides direct connection to the cities of Arlington and Grand Prairie and to the Dallas-Fort Worth International Airport.

POPULATION . . . The City's 2010 Census population was 56,368, increasing 101.09% since 2000. The City Planning Department estimates the 2016 population at 63,248 reflecting a 125.64% increase since 2000.

INDUSTRY . . . The City of Mansfield has five major industrial parks with over 150 businesses and a significant amount of developable land remaining. There are significant water and transportation resources available for future development.

In 1997, the voters passed a half cent sales tax for economic development and the Mansfield Economic Development Corporation was formed to administer the City's economic development program.

Since its inception the Mansfield Economic Development Corporation has assisted over 125 companies in making Mansfield their home by providing over \$15.8 million in economic assistance. These companies have made cumulative capital investments of over \$420 million and created over 3,000 jobs in the City.

Since 2010, the Mansfield Economic Development Corporation (MEDC) has assisted 21 companies with increasing their presence in Mansfield; six expansions and 15 new developments. The new developments include Klein Tools, a company that manufactures high quality hand tools which is creating almost 600 jobs and \$76 million in capital investment, Texas Refinery, which specializes in blending industrial lubricants and is making a \$20 million capital investment and New Tech Systems which manufactures equipment for the oil and gas industry and which will create 60 high quality jobs. MEDC also assisted in the construction of a new mixed use multi-family and retail development known as Villas De Luca, which will have 173 luxury apartment units and 25,500 sq. ft. of retail space, and Kroger Marketplace, a new 125,000 sq. ft. concept that combined an expanded offering of groceries with jewelry, soft goods and furniture.

PRINCIPAL EMPLOYERS

Company	Product Line	Number of Employees
Mouser Electronics	Distribution of Electronics Parts	1300
Methodist Mansfield Medical Center	Full Service Hospital	1207
Wal-Mart Super Center	Superstore	400
Kroger	Grocery Stores(2)	320
Pier 1 Distribution Center	Home Goods	285
Super Target	Super center	250
Klein Tools	Manufacturer of Hand Tool Products	233
Lifetime Fitness	Fitness Center	200
SJ Louis Construction of TX.	Utility Contractor	200
Hoffman Cabinets	Cabinet Manufacturer	200
Walnut Creek Country Club	Country Club	190
Best Buy	Electronics Store	180
Trinity Forge	Drop Forger	155
Kindred Hospital	Treatment Center	155
Sam's Club	Warehouse Store	150
Lowe's	Home Improvement Store	146
Home Depot	Home Improvement Store	145
BCB Transport	Transportation Provider	130
Conveyors, Inc.	Manufacturer Conveyor Equipment	130
On The Border	Mexican Restaurant	125
B-Way Packaging	Producer of Injection Molded Plastic Buckets	120
Gamma Engineering	CNC Machining	120
Term Billing /Intermedix	Medical Billing	116
Ramtech Building Systems	Manufacturer of Modular Office Buildings	100
LyondellBasell/Equistar Chemicals	Manufacturer of Plastic Polymers used in Auto Indust.	100
Skyline Industries	RV Manufacturer	100
Southern Champion Tray	Manufacturer of Paperboard Folding Cartons	90
Chemguard/Tyco	Manufacturer of Fire Fighting Suppression Products	60

HISTORICAL EMPLOYMENT DATA (ANNUAL AVERAGE DATA) ⁽¹⁾

City of Mansfield	2015 ⁽²⁾	2014	2013	2012	2011
Labor Force	32,779	32,790	32,299	31,374	30,600
Employed	31,688	31,398	30,647	29,630	28,663
Unemployed	1,091	1,392	1,652	1,744	1,937
% Unemployment	3.3%	4.2%	5.1%	5.6%	6.3%

Tarrant County	2015 ⁽²⁾	2014	2013	2012	2011
Labor Force	998,141	998,520	985,073	966,855	949,924
Employed	957,576	948,786	926,106	903,988	878,112
Unemployed	40,565	49,734	58,967	62,867	71,812
% Unemployment	4.1%	5.0%	6.0%	6.5%	7.6%

(1) Source: Texas Employment Commission.

(2) Through August 2015.

SERVICES . . . The City is served by hospitals within the City and the immediate area including Mansfield Methodist Hospital, Columbia HCA, Arlington Memorial Hospital, Huguley Hospital, Harris Hospital and John Peter Smith Hospital.

The City addresses the needs of its citizens by offering many varied services to its residents. The police and fire departments employ 124 and 83 persons, respectively. Emergency ambulance service is also offered. Park and recreation facilities include 13 City parks consisting of 802 acres, 10 playgrounds, 30 athletic fields and over two miles of running trails. The City also has one public library with approximately 65,527 volumes.

Electric, gas, telephone and cable television services are provided by Texas Utilities, Atmos Energy, AT&T and Charter Communications, respectively.

Several banks serve the City: Frost Bank, American National Bank, Southwest Bank, Bank of America, Mansfield Community Bank, JPMorgan Chase Bank, BBVA Compass Bank, Regions Bank and Wells Fargo Bank.

TRANSPORTATION . . . The City is traversed from east to west by U.S. Highway 287. U.S. Highway 360 traverses the City from north to south. The City has easy access to Interstate Highway 20 and Interstate 30. Railroad freight service is provided by Southern Pacific Railroad. The City is located approximately 30 miles south of the Dallas-Fort Worth International Airport.

EDUCATION . . . The City is served by the Mansfield Independent School District which consists of 22 elementary schools with grades pre-kindergarten through 4; six intermediate schools with grades 5 and 6; six middle schools for grades 7 and 8; five high schools, with grades 9 through 12; one charter & technology academy and one alternative school campus. Current enrollment for the District is approximately 32,732. The District employs a total of 3,819 personnel, of which 1,963 are classroom teachers or administrators. The District maintains pupil-teacher ratios of 22:1 for elementary, a 27:1 ratio for intermediate, and a 28:1 ratio for secondary education and one career tech center.

Colleges within close proximity to the City include Tarrant and Dallas County Community Colleges, Southern Methodist University, University of Dallas, University of North Texas, Texas Wesleyan, Texas Women's University, University of Texas at Arlington and Texas Christian University.

BUILDING PERMITS BY CATEGORY

Fiscal Year Ended 9/30	Commercial and Industrial		Residential		Grand Total
	Number	Amount	Number	Amount	
2011	17	\$ 19,778,957	208	\$ 47,376,754	\$ 67,155,711
2012	45	34,193,161	195	44,263,442	78,456,603
2013	46	96,289,168	205	59,260,578	155,549,746
2014	32	57,544,230	214	108,332,311	165,876,541
2015	63	102,367,778	314	147,302,936	249,670,714

The following tables illustrate projects underway in the City.

Estimate of Platted Residential Lots Available for Development			
Development	Number of Lots Remaining	Years To Build Out	Total Projected Population
Bower Ranch Ph 1	47	2.5	145
Cardinal Park Estates	40	2.5	123
Colby Crossing	16	1.5	49
Five Oaks Crossing	46	2.5	142
Garden Heights Phs 1 - 3.5	131	3.0	403
Knightsbridge	6	1.5	18
Lone Star Ranch - Phs 1 & 2	22	1.5	68
Pemberley Estates, Ph 1	88	2.5	271
Southpointe, Phs 1A, Sec 1&2 and 1B	290	4.0	893
Spring Lake Estates, Ph 2	20	1.5	62
Twin Creeks West	12	1.5	37
The Villages of Parkhill	50	3.5	154
Total	<u>768</u>		<u>2,365</u>

Estimate of Preliminary Platted Residential Lots for Future Development		
Development	Number of Lots to be Developed	Total Projected Population
Bower Ranch, Ph 2-4	174	536
Dove Chase	143	440
Five Oaks Creek	10	31
Five Oaks Crossing - Phase 2	57	176
Garden Heights Phs 4	131	403
Ladera (condominiums)	187	374
Lone Star Heights	50	154
Lone Star Ranch, Ph 3	70	216
M3 Ranch Ph 1 Sec 1 & 2	387	1192
Manschester Heights, Phs 1 & 2	45	139
Pemberely Estates	84	259
Somerset Addition, Phs 1 - 3	1105	3403
Southpointe, Ph 2	148	456
	<u>2,591</u>	<u>7,779</u>

Estimate of Platted Commercial and Industrial Acreage Available for Development

<u>Development</u>	<u>Number of Acres</u>	<u>Uses</u>
Cannon Professional Plaza	4.860	Office
Creekside Plaza	2.260	Office
Enclave, The	3.350	Office
Heritage Industrial Park	71.250	Commercial/Industrial
Heritage Estates	15.250	Retail/Commercial
Hillcrest Addition	5.800	Commercial/Industrial
Hillcrest Business Park	12.630	Commercial/Industrial
Jacob Back Addition	7.500	Retail/Commercial
J.M. Thomas	1.360	Retail/Commercial
Knapp Sisters Business Park	3.290	Retail/Commercial
Lowe's Farm Market	2.180	Retail/Commercial
Mansfield 287 Addition	4.580	Retail/Commercial
Mansfield Debbie Lane Addition	1.270	Retail/Commercial
Mansfield Industrial Park East	2.860	Commercial/Industrial
Mansfield Marketplace	15.360	Retail/Commercial
Mansfield Town Center East	5.330	Retail/Commercial
Mansfield Town Center West	8.070	Retail/Commercial
McCaslin Business Park	4.860	Commercial/Industrial
R.T. Ray	5.550	Light Industrial
Sar Medical Plaza	4.430	Office
Sentry Industrial Park	16.290	Heavy Industrial
Tuscany at Walnut Creek	1.730	Office/Commercial
Village Off Broadway	13.910	Retail/Commercial
Walnut Creek Corner	4.460	Retail/Commercial
Walnut Creek Village	1.630	Retail/Commercial
Worldaire Addition	2.180	Light Industrial
Total	<u>222.24</u>	

APPENDIX B

EXCERPTS FROM THE
CITY OF MANSFIELD, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2014

The information contained in this Appendix consists of excerpts from the City of Mansfield, Texas Annual Financial Report for the Year Ended September 30, 2014, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Honorable Mayor and Members of the City Council
The City of Mansfield, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mansfield, Texas (the City), as of and for the year ended September 30, 2014, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mansfield, Texas, as of September 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note I to the basic financial statements, the City adopted Governmental Accounting Standards Board Statements No. 65, *Items Previously Reported as Assets and Liabilities*, and No. 66, *Technical Corrections 2012*, in fiscal year 2014. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 14–27, the budgetary comparison information on pages 72–73 and 77–78, and the schedules of funding progress on page 71 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.

Supplementary and 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 accompanying introductory section, combining and individual nonmajor fund financial statements and schedules, capital assets used in the operation of governmental funds schedules, and the 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 financial statements and schedules of capital assets used in the operation of governmental funds 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules of capital assets used in the operation of governmental funds schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.



The introductory section and statistical section 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 February 6, 2015 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 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.

KPMG LLP

Dallas, Texas
February 6, 2015

Management's Discussion and Analysis

As management of the City of Mansfield (City), 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, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The City's net position or assets less its liabilities at the close of the City's fiscal year is \$402 million. Of this amount, \$30 million may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City recognized \$120 million in revenue from various sources of taxes, services, and capital contributions and recognized \$98 million in expenses in servicing the City's governmental and business enterprises.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$43.1 million. Approximately 27% of this \$43.1 million is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11.7 million or 26% of total general fund expenditures.
- The City's total debt obligations increased by \$3.8 million (2.1%) during the current fiscal year. This is from \$24.5 million in new and refunding bond proceeds offset by \$20.7 million in scheduled principal payments and payments to escrow agents during the year. The key factors affecting the City's debt position are as follows:

Issuance of General Obligation Refunding Bonds of \$6.7 million for annual savings on principal and interest payments of refunded bonds and the issuance of Certificates of Obligation of \$17.8 million for the purpose of street improvements and other public purposes.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to 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 the City's assets less liabilities as the City's net financial position, or remaining net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported

in this statement for some items that will only result in cash flows in future fiscal years (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include a Water and Sewer Fund, Law Enforcement Center Fund, and Drainage Utility Fund.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Mansfield Economic Development Corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Mansfield Parks Facilities Development Corporation, although also legally separate, functions for all practical purposes as a department of the City and, therefore, has been included as an integral part of the primary government. The City has two Tax Increment Financing Reinvestment Zones (TIRZs), both legally separate entities, which are geographically defined regions within the City limits established by the City. The purpose of the reinvestment zone is to pay for the public's infrastructure to be owned by the City within the region. The TIRZs are an integral part of the primary government.

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains 10 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the street construction fund, the building construction fund, and the TIRZ Fund #1, all of which are considered to be major funds. Data from the other 6 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City maintains three different proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer Fund, Law Enforcement Center Fund, and Drainage Utility Fund.

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 Water and Sewer Fund, the Law Enforcement Center Fund, and the Drainage Utility Fund, all of which are considered to be major funds of the City.

Fiduciary Funds

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

Notes to 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.

Other Information

The City adopts an annual appropriated budget for its general fund and both debt service funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget. In addition to the basic financial statements and accompanying notes, this report also presents certain information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions.

Government-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, assets and deferred outflows exceeded liabilities and deferred inflows by \$401,584,527 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (82.01%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are 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.

City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other	\$ 51,889,936	\$ 38,393,368	\$ 40,014,764	\$ 48,575,545	\$ 91,904,700	\$ 86,968,913
Capital	321,912,487	311,570,707	173,177,023	163,482,458	495,089,510	475,053,165
Total assets	373,802,423	349,964,075	213,191,787	212,058,003	586,994,210	562,022,078
Deferred outflows:	1,147,989	-	543,902	-	1,691,891	-
Liabilities:						
Long-Term	119,471,866	108,755,675	56,096,077	59,965,551	175,567,943	168,721,226
Other	7,465,487	6,451,415	4,068,144	3,315,163	11,533,631	9,766,578
Total liabilities	126,937,353	115,207,090	60,164,221	63,280,714	187,101,574	178,457,804
Net position:						
Net investment in capital assets	210,129,999	211,269,350	119,190,128	105,677,483	329,320,127	316,946,833
Restricted	29,294,497	15,520,208	12,548,222	18,107,759	41,842,719	33,627,967
Unrestricted	8,588,563	7,967,427	21,833,118	24,992,047	30,421,681	32,959,474
Total net position	\$248,013,059	\$234,756,985	\$153,571,468	\$148,777,289	\$401,584,527	\$383,534,274

As of September 30, 2014, a portion of the City's net position, \$41,842,719 or 10.42% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$30,421,681, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reports positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

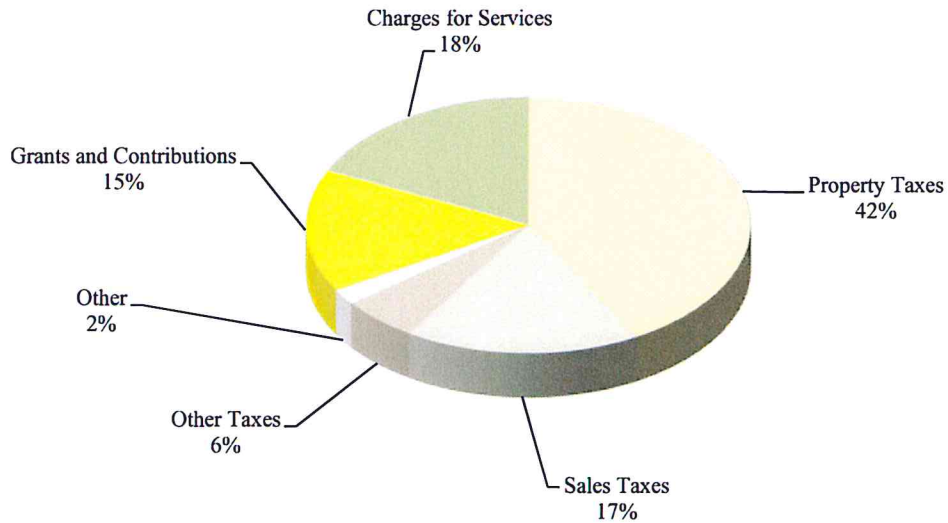
City's Changes in Net Position

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Beg - Net Position	\$232,461,533	\$234,782,424	\$147,808,243	\$140,839,572	\$380,269,776	\$375,621,996
Revenues	\$78,674,294	\$60,772,933	\$41,053,261	\$39,401,992	\$119,727,555	\$100,174,925
Expenses	63,933,300	60,572,215	34,479,504	31,690,432	98,412,784	92,262,647
Transfers, net	810,532	(226,157)	(810,532)	226,157	-	-
Net Change in Position	15,551,526	(25,439)	5,763,225	7,937,717	21,314,771	7,912,278
End - Net Position	\$248,013,059	\$234,756,985	\$153,571,468	\$148,777,289	\$401,584,527	\$383,534,274

Governmental Activities

City governmental activity revenue for fiscal year 2014 increased \$17.9 million from fiscal 2013. Revenues in fiscal year 2013 were \$60.8 million compared to this fiscal year revenue of \$78.7 million. The increases were from the City's reaction to the overall economy. The economy delivered better than expected results for the City during fiscal year 2014. The increases came from new property taxes from new development, sales taxes and better than expected collections in other taxes from improved franchise fees. Most of these increases were modest increases over prior year and primarily related to the improvements in the overall economy and the additional new retail and new residential growth in the City from the fiscal year ended 2014.

Governmental Activities - Revenues by Source for fiscal year ending 2014



Expenses in fiscal year 2014 compared to expenses in fiscal year 2013 increased by 5.6% or \$3.4 million. The demand for services increased funding in fiscal 2014 compared to prior year. The increases: infrastructure, public safety, and recreation have been a priority of the administration in recent years. The increases occurred in public safety primarily because the department added new personnel and it has greatest number of employees working for the City; in public works the increase was related to additional expenses for aging streets.

The public works program of the City spends most of its money on street improvements, which are recognized over the course of time through depreciation expense after the improvements have been capitalized. In fiscal 2014, the City recognized \$10.2 million in depreciation expense for street-related assets. Street improvements are expected to last twenty-five years with the appropriate level of maintenance and repair. This year, the City spent over \$2.5 million in maintenance and repairs on its 245 plus miles of linear streets. Interest expense is another component of expenses that is affected by the development of the City.

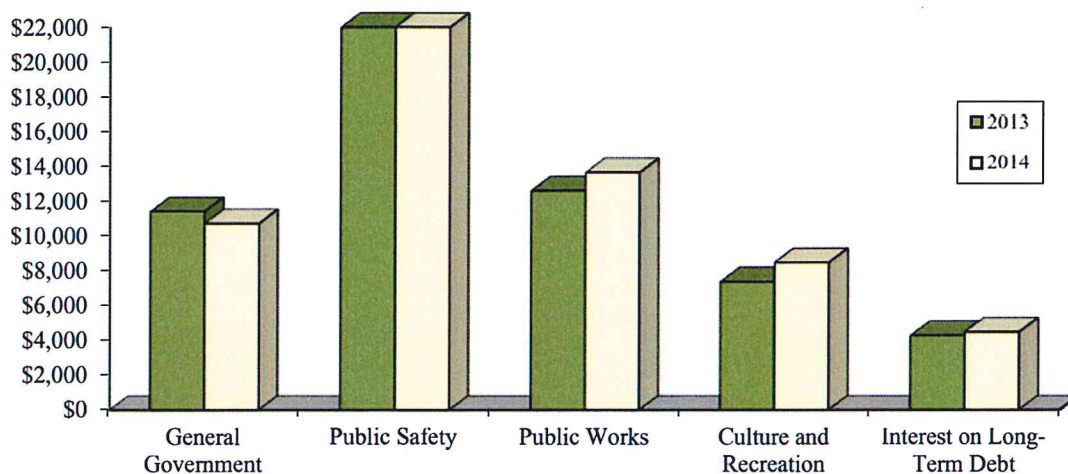
This year the City recognized \$4.5 million in interest expense. There was a one-time charge of \$2.3 million of debt related expenses or issuance costs from the implementation of Governmental Accounting Standards Board Statement Number 65. These expenses accounted for 10.3% of the total expenses recognized for fiscal 2014. Interest expense is the cost the City incurs for borrowing money to make long-term improvements that are generally regarded as long-term assets of the City.

This fiscal year, the Governmental activities increased the City's net position by \$15.6 million. The increase in the City net position occurred because of capital contributions received by the City in the amount of \$11.9 million. The City's change in net position increased \$14.7 million before transfers in fiscal year 2014.

City's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES -						
Program Revenues:						
Charges for Services	\$14,294,018	\$11,549,839	\$39,056,610	\$38,802,151,	\$53,350,628	\$50,351,990
Operating grants and Contributions	347,709	187,403	273,119	505,123	620,828	692,526
Capital Grants and Contributions	11,962,132	244,787	1,701,114	531,674	13,663,246	776,461
General Revenues:						
Property taxes	33,243,790	31,389,240	-	473,203	33,243,790	31,862,443
Sales taxes	13,592,946	12,195,898	-	-	13,592,946	12,195,898
Other taxes	4,470,549	4,135,319	-	-	4,470,549	4,135,319
Other	763,150	1,070,447	22,418	(910,159)	785,568	160,288
Total Revenues	78,674,294	60,772,933	41,053,261	39,401,992	119,727,555	100,174,925
EXPENSES -						
General government	10,759,471	8,397,239	-	-	10,759,471	8,397,239
Public safety	26,457,942	24,725,424	-	-	26,457,942	24,725,424
Public works	13,681,970	14,851,816	-	-	13,681,970	14,851,816
Culture and recreation	8,529,149	8,281,150	-	-	8,529,149	8,281,150
Interest on debt	4,504,768	4,316,586	-	-	4,504,768	4,316,586
Water and Sewer	-	-	23,037,636	20,751,757	23,037,636	20,751,757
Law Enforcement	-	-	10,070,406	9,836,118	10,070,406	9,836,118
Drainage	-	-	1,371,462	1,102,557	1,371,462	1,102,557
Total Expenses	63,933,300	60,572,215	34,479,504	31,690,432	98,412,804	92,262,647
Subtotal	14,740,994	200,718	6,573,757	7,711,560	21,314,751	7,912,278
TRANSFERS, net	810,532	(226,157)	(810,532)	226,157	-	-
Subtotal	15,551,526	(25,439)	5,763,225	7,937,717	21,314,751	7,912,278
NET POSITION,						
Beginning	232,461,533	234,782,424	147,808,243	140,839,572	380,269,776	375,621,996
Ending	\$248,013,059	\$234,756,985	\$153,571,468	\$148,777,289	\$401,584,527	\$383,534,274

Governmental Activities – Expenses (in thousands)



Business-Type Activities

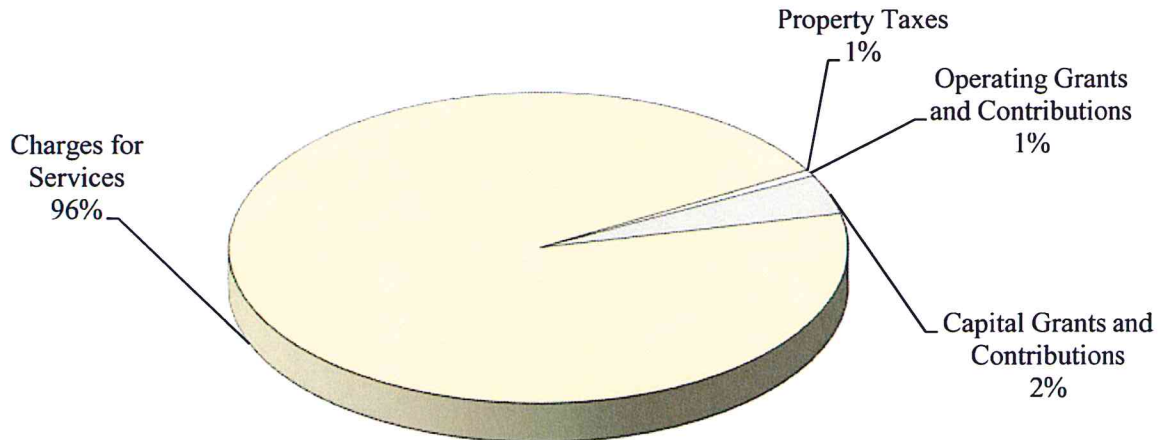
Revenues exceeded expenses for the City's business-type activities in fiscal year 2014. Total revenues were \$41.1 million and total expenses were \$34.5 million while equity transfers were \$(0.8) million that added \$5.8 million to the Business-Type's net financial position. This increased the net position of the business-type activities from \$147.8 million to \$153.6 million by the end of fiscal year 2014. Comparatively, Business-Type Revenues exceeded prior year Business-Type Revenues by 4.19% or \$1.7 million. Revenues for fiscal year 2014 were \$41.1 million and revenues for fiscal year 2013 were \$39.4 million. Expenses for fiscal year 2014 were \$34.4 million before equity transfers of \$(0.8) million and expenses for fiscal year 2013 were \$31.7 million before equity transfers of \$0.2 million. The increase in net position was primarily the result of the activity of the City's Water & Sewer Fund as the financial results of the City's other Business-Type Funds, Law Enforcement Center Fund, and Drainage Utility Fund, for fiscal year 2014 were less than one percent of the change in the net position of the City's Business-Type Activities.

Capital contributions have been a revenue source for the Business-Type Activities. These capital contributions are from the public improvements donated by developers. The City requires developers to pay for the cost of public improvements or infrastructure needed to support their developments, and in fiscal year 2014, developers contributed public improvements or assets of \$1,701,114. These assets are considered revenue in the year of acceptance or in the year of contribution. Generally, these capital contributions are non-cash contributions from developers and are in the form of water and sewer lines and are conveyed to the City as the developer finishes out the developments.

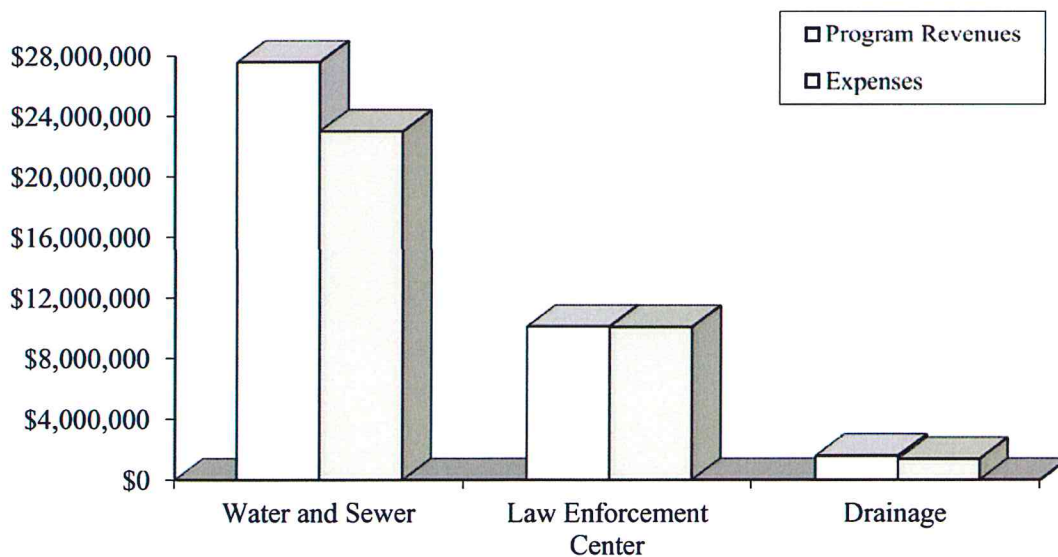
The City's Law Enforcement Center charges a fee for the Services rendered to support the contracts that the City has with other governmental agencies for the housing of inmates. These fees are recognized as Charges for Services in the Business-Type Activities and are used to pay for the cost of housing inmates in this Business-Type Activity.

The City's Drainage Utility charges a fee for the maintenance and continuance of the drainage improvement program of the City. The City has drainage basins that require extensive maintenance. The fee is used to service the improvement cost, debt service, and annual maintenance of the basins.

Business-Type Activities – Revenues by Source for fiscal year ending 2014



Business-Type Activities - Program Revenues and Expenses for fiscal year ending 2014



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$43,165,864, an increase of \$14,583,062 in comparison with the prior year. The increase is from bond proceeds that will be used to construct infrastructure and purchase equipment. Approximately 27.01% or is \$11,657,018 of the ending fund balance of \$43,165,864 constitutes unassigned fund balance and is available for spending at the government's discretion. The remainder of fund balance is dedicated for legally specific or defined purposes. To indicate that it is not available for new spending because it has already been committed, defined or legally restricted for specific purposes, the City has labeled the remaining fund balances as follows: 1) prepaid expenses and inventory items, \$61,228; 2) debt service or for future construction contracts, \$28,068,406; 3) for committed purposes, \$3,218,947, such as park improvement; and 4) for assigned purposes, \$160,265, such as capital improvements and land acquisition for the general fund.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the general fund was \$11,657,018. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance represent 25.51% of total general fund expenditures.

The City's unassigned fund balance increased \$1,062,905 in fiscal year 2014 while the fund balance of the City increased \$1,052,806 during the fiscal year 2014. The key reasons for the increases are as follows:

- Actual expenditures exceeded actual revenues by \$3,321,748. The City spent \$3,797,752 on land in fiscal year 2014. These costs are recognized as an expense and included in the actual expenditures of fiscal year 2014. The City acquired the land with the intent of using the land for purposes of public safety. Actual revenues exceeded actual expenditures without the land acquisition by \$476,004. The land purchase was offset by bond proceeds of \$3,536,555.
- Other Sources of revenue included the Water and Sewer Utility Fund's payment in-lieu of taxes to the City's General Fund for the use of the City's right of way. This amount was \$810,532 in fiscal year 2014.
- The City operating expenses increased because of the City's goal to maintain a quality workforce. Funds were spent to maintain the workforce and maintain the morale through the administration of compensation. The primary increases are in the City's Public Safety function as most of the employee group is in the City's Public Safety function. The City has maintained a conservative strategy in managing the human resources of the City. Overall, a few new personnel were added during fiscal year 2014 and personnel costs were managed and funded based on demand for services.

The debt service fund has a fund balance of \$855,768, which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$259,626. The City generally budgets to maintain a constant fund balance within the debt service fund during the fiscal year, and any excess collection in a year is generally spent or used in the following year. The City pays for tax-pledged debt through the Debt Service Fund.

The street construction fund balance increased by \$2,885,686 during fiscal year 2014. This fund's fund balance increased as a result of bonds issued and contributions received offset by construction payments of \$8,027,284 for the improvement of major streets and neighborhood streets in and throughout the City. Other activity within the street construction fund included additional revenues from development fees charged by the City for the impact or costs that new development has on primary streets within the City. This fee generated \$1,242,317 in fiscal year 2014.

Proprietary Funds

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

Unrestricted net position (deficit) of the Water and Sewer Fund at the end of the year amounted to \$21,004,754, those for the Law Enforcement Center amounted to \$(673,405), and those for the Drainage Utility Fund amounted to \$1,501,769. Factors affecting the performance of these activities are as follows:

- The City treats lake water and sells it to consumers for a fee. In fiscal year 2014, Water and Sewer revenue increased \$1,275,808 or 5%. The increase is attributable to new connects to the system in fiscal year 2014, and a water and sewer fee increase in fiscal year 2014. Weather influences the system's revenue. Fiscal year 2014 was a fairly normal year in the North Texas area as the temperatures were considered to be average. The result was a fairly consistent year in Water and Sewer revenue for the City. Weather extremes can test the City's ability to produce water for consumption and it can test the system's ability to finance the infrastructure to supply the water to meet the demand of the consumer. A wet year creates less demand for water, which creates less revenue to support the cost of financing the infrastructure, which is built to supply the demand for water in a dry year.
- During fiscal year 2014, the City distributed 3.9 billion gallons of water while billing customers for 3.3 billion gallons of water usage or 85% of the actual plant's production. In fiscal year 2013, the City billed for 3.3 billion gallons of water usage compared to actual plant production of 3.6 billion. Actual water and sewer revenue in fiscal year 2014 increased compared to fiscal year 2013. Actual water and sewer revenue in 2014 was \$25 million compared to \$23.7 million in fiscal 2013. Demand for water fiscal year 2014 was consistent with demand for water in fiscal year 2013 even though the total number of customers increased year over year by 286 new accounts. The water and sewer activity of the business-type activities produced operating income of \$7.2 million for fiscal year 2014 as compared to \$10.2 million in fiscal year 2013.
- Unrestricted net position decreased in the Water and Sewer Fund by \$2,055,708. Operating expenses increased \$2,456,301 over last year, excluding depreciation. Operating expenses are controlled through the direct administration of personnel costs and variable costs, which are directly caused by consumer's demand for the water. The City spent \$4,360,425 for raw water in fiscal year 2014 compared to \$3,544,949 in fiscal year 2013 and the City spent \$4,939,762 to treat the City wastewater in fiscal 2014 compared to \$4,112,368 in fiscal year 2013. The cost for raw water and the cost to treat used water increased year over year by \$1,642,870.
- The Law Enforcement Center Fund had operating income of \$129,588 this fiscal year. The operating income is attributable to the management of the costs of operating a municipal jail, which are offset by transfers from the General Fund, which pay for the City's portion of jail services. No transfers from the General Fund were made in fiscal year 2014 as the City transferred \$1,036,689 in fiscal year 2013.
- The Drainage Utility Fund revenue had operating income of \$392,832 this fiscal year. Drainage Fees approached \$1.3 million and expenses excluding depreciation and before debt service were \$1,084,682.

Budgetary Highlights

General Fund

The City opted to compare the final budget to the actual amounts for comparative purposes. The differences can be briefly summarized as follows:

Revenue results exceeded budgeted estimates by \$1,256,762 for fiscal year ended 2014:

- Property Taxes fell below budgeted estimates by \$525,436 because original assessed valuation estimates were lower than final valuations as the ad valorem roll was finalized by the appraisal district after the adoption of the City's budget.
- Sales Taxes exceeded budgeted projections by \$324,004 as the effects of the national economy loosened its hold on consumer spending in Mansfield, Texas, during fiscal 2014. New development occurred in 2014 that created new sales tax collections as well.
- Licenses and permits were above budgeted estimates by \$73,433. The City realized a slowdown in residential development resulting from the housing market recession that rippled through the U.S. economy during fiscal year 2009 and 2010. The City budgeted building permit revenue in anticipation of the residential building market recovery. Budgeted estimates exceeded actual result for fiscal year 2014.
- Intergovernmental revenue was unexpected grant revenue that was awarded to the City in fiscal year 2014. The grant revenue was received by the City in fiscal year 2014 and used for purpose of public safety.
- Charges for services exceeded budgeted estimates by \$521,801 as the majority of the better than expected revenue was derived from the collections of fees for trash services within the City. Fees did increase for this service in fiscal year 2014 as the fees were raised to keep pace with the cost of inflation.
- Expenditures were 110.45% of budgeted estimates for fiscal year ended 2014. The City spent \$3,797,752 for land that was not budgeted. The purpose of the acquisition of property is to acquire land for a future public training facility. The additional expenditures were attributable to the increase in the cost of public safety. The cost of hiring new police officers coupled with more compensation increased the cost of labor in the public safety program of the City in fiscal year 2014. Management has been very effective in maintaining morale and improving services within the City while keeping the City within its overall budget.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2014 amounts to \$495,089,510 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

City's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$98,635,855	\$94,605,319	\$2,066,739	\$2,026,739	\$100,702,594	\$96,632,058
Buildings and system	53,034,799	54,206,918	120,767,761	115,782,986	173,802,560	169,989,904
Improvements	7,779,287	5,474,788	2,483,842	2,528,639	10,263,129	8,003,427
Machinery and equipment	5,933,477	5,039,983	910,411	668,195	6,843,888	5,708,178
Infrastructure	139,573,629	143,267,847	35,257,940	34,503,178	174,831,569	177,771,025
Construction in progress	16,955,440	8,975,852	11,690,330	7,972,721	28,645,770	16,948,573
Total	\$321,912,487	\$311,570,707	\$173,177,023	\$163,482,458	\$495,089,510	\$475,053,165

Governmental Capital Assets

Roadway expansion and improvements remain a primary element of the City's public works program. In 2014, several major arterial thoroughfares in the City were widened to provide access to Mansfield's developing retail centers. Mansfield has leveraged future tax revenue with general obligation bonds and anticipated the collection of roadway impact fees to pay for an expected \$89 million in new street improvements over the next 10 years.

Street projects in fiscal year 2014:

- The City improved the intersection of Debbie Lane and Matlock which is the interchange between two major thoroughfares in the northeast quadrant of the City. Other road improvements include the completion of the eastern portion of Broad Street which is the entry point of the City from east.
- Several small arterial streets are under construction and design throughout neighborhoods.
- In total, the City spent \$8,027,284 in street improvements and related work during fiscal year 2014.

Most of the capital assets that were added to construction in progress or the asset base of the City during fiscal year 2014 were planned or budgeted expenditures during fiscal year 2014. The City plans its asset expansion with deliberate budgetary control and oversight as these costs are substantial and have a significant effect on the operational cost and ultimately performance of the City.

Business-Type Assets

The City's municipally owned and operated water and sewer system has maintained its superior rating by the Texas Commission on Environmental Quality. Approximately 13% of the City's more than \$71.7 million water/sewer improvement tab is expected to be paid by impact fees over the next ten years. These fees are designed to reduce the system's initial costs in building and running water and sewer lines to the user. These impact fees must be used for capital purposes and are restricted as to use by law.

The City's drainage program, which consists of \$18.5 million in improvements scheduled over the next 20 years, had some improvements this year, which were mostly related to soft costs coupled with improving and building detention basins. The City has spent over \$7.5 million on the drainage improvements as of September 30, 2014.

For additional information on the City's capital assets, see note III.C. of the basic financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total principal outstanding of \$177,460,000. Of this amount, \$102,165,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds). The City's Component Unit, Mansfield Economic Development Corporation, MEDC, has \$11,030,000 in outstanding debt backed by a voter passed sales tax.

City's Outstanding Debt - Tax Obligations and Revenue Bonds

	Governmental Activities	Business-Type Activities	Component Unit MEDC	Total 2014
Security Instrument:				
Tax obligation bonds	\$101,030,000	\$1,135,000	\$ -	\$ 102,165,000
Sales tax revenue bonds	10,645,000	-	11,030,000	21,675,000
Revenue bonds	-	53,620,000	-	53,620,000
Total	<u>\$ 111,675,000</u>	<u>\$ 54,755,000</u>	<u>\$11,030,000</u>	<u>\$177,460,000</u>

The City's total debt increased \$3,770,000 or 2.13% during the current fiscal year. Key factors for the increase are from the issuance of additional bonds and refunding bonds, which were offset by principal payments on existing outstanding debt. The City issued \$17,755,000 in new bonds proceeds and issued \$6,710,000 in refunding bonds. The City maintains bond ratings from three rating agencies:

<u>Company</u>	<u>General Fund Bonds</u>	<u>Water and Sewer Revenue Bonds</u>	<u>Sales Tax Revenue Bonds</u>	<u>Drainage Revenue Bonds</u>
Moody's	"Aa2"	"Aa2"	"Aa3"	"Aa2"
Standard & Poor's	"AA+"	"AA+"	"A+"	"AA-"
Fitch	"AA+"	"AA"	"AA-"	"AA"

For additional information on the City's debt obligations, see note IV.E. in the basic financial statements.

The City Charter of the City and the statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 populations, limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation. The City operates under a Home Rule Charter, which also imposes a limit of \$2.50. The FY 2013/2014 Property Tax Rate was \$0.71000 per \$100 valuation with a tax margin of \$1.79000 per \$100 valuation based upon the maximum ad valorem tax rate noted above. Additional revenues up to \$80,364,115 per year could be raised before reaching the maximum allowable tax base on the current year's appraised net taxable value of \$4,489,615,347.

Economic Factors: Next Year's Budgets and Rates

The City Economy

- New residential construction is expected to add 462 units with approximately 240 single-family units in 2015. The City has seen a decline in building activity over the past several years; however, development is still occurring within the City. During the budget process for the 2015 fiscal year, the City maintained the building services-related revenue with expectations similar to that of 2014. The City's tax year is one year in arrears thus the housing starts in calendar year 2013 are for budget year or fiscal year 2015.
- The City's annual growth in property valuation has increased 13% annually on average for the past ten years. For fiscal years 2015 and 2016, the City's valuations are expected to increase 6.3% and 6.8%, respectively. Generally, the City has experienced the effect of the residential marketplace, although property valuations are expected to improve in fiscal 2015 and into 2016. The improvements are expected because of limited residential inventory, and the fact that the City is a good place to live as crime is low, school ratings are fairly high; land is affordable and the City's proximity to Dallas and Fort Worth. The City is developing a discernable and identifiable character of being a place to enjoy a life and a good quality life. These intangible characteristics developed fairly recently - over the last decade. Also, the City is seeing the continued demand for commercial development because of the significant discretionary spend of the residents and the relatively stable economy within the City.
- In years past, sales tax revenue grew in excess of 10% annually; like property valuations, the City has adjusted its projections of anticipated sales tax receipts in 2015 and 2016. The expected budgeted sales tax receipts in 2015 are better than anticipated actual collections in 2014 by 1%. The City is expecting fiscal year 2016 to increase 4% above budgeted estimates for 2015. Management is monitoring the collections of sales tax revenue and may modify projections into 2016 depending upon the overall economy.

- Retail developments and improvements continue into 2015 and 2016. The challenge has been the effect of the national economy and the ability of companies and businesses to obtain capital financing. The City is taking an aggressive position in continuing development in the City because of the support for continued retail development and the community's expectation to support additional retail. The City is offering development incentives - that is partnering with developers to pay for public infrastructure to offset lending costs of developers because of the credit or lending industry. Development is expected to continue and new property valuations are expected from these developments.
- Median income continues to be an attractive asset for additional development and many in the development community are planning on capturing this income through commercial developments.
- The City has developed stringent building code standards that require sustainable developments to assist in extending the asset life of the tax base into the future.

These variables were considered in preparing the City's budget for the 2015 fiscal year.

The City's 2015 General Fund Operating Revenue Budget increased approximately 5% or \$2.2 million over the fiscal year 2014 budget. Most of this revenue growth was from new commercial development in the City that generated additional property tax and sales tax revenue of almost \$1.8 million coupled with the continued improvement in the residential permit activity into 2015. The tax rate was held constant in 2014 at \$0.71 per \$100 in assessed valuation of property within the City limits. Unassigned fund balance is expected to grow over fiscal year 2014. Any additional appropriations made during fiscal year 2015 will be offset through the management of the operating expenditures of the General Fund during the course of fiscal year 2015.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Business Services, City of Mansfield, 1200 E. Broad Street, Mansfield, Texas 76063.

City of Mansfield
Statement of Net Position
As of September 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	MEDC
ASSETS				
Cash and cash equivalents	\$ 47,676,164	\$ 15,356,250	\$ 63,032,414	\$ 5,855,087
Receivables (net of allowance for uncollectibles)	3,086,433	4,508,907	7,595,340	359,488
Lease receivable	1,066,111	-	1,066,111	-
Inventories	61,228	267,966	329,194	-
Restricted assets:				
Cash and cash equivalents	-	19,881,641	19,881,641	1,944,730
Capital assets (net of accumulated depreciation):				
Land	98,635,855	2,066,739	100,702,594	6,897,477
Buildings and systems	53,034,799	120,767,761	173,802,560	-
Improvements other than buildings	7,779,287	2,483,842	10,263,129	106,244
Machinery and equipment	5,933,477	910,411	6,843,888	-
Infrastructure	139,573,629	35,257,940	174,831,569	-
Construction in progress	16,955,440	11,690,330	28,645,770	9,009,357
Total assets	<u>373,802,423</u>	<u>213,191,787</u>	<u>586,994,210</u>	<u>24,172,383</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding	<u>1,147,989</u>	<u>543,902</u>	<u>1,691,891</u>	<u>-</u>
LIABILITIES				
Accounts payable and other current liabilities	7,465,487	1,719,949	9,185,436	1,397,199
Liabilities payable from restricted assets	-	2,348,195	2,348,195	-
Noncurrent liabilities:				
Due within one year	10,082,575	5,254,747	15,337,322	785,024
Due in more than one year	<u>109,389,291</u>	<u>50,841,330</u>	<u>160,230,621</u>	<u>10,203,310</u>
Total liabilities	<u>126,937,353</u>	<u>60,164,221</u>	<u>187,101,574</u>	<u>12,385,533</u>
NET POSITION				
Net investment in capital assets	210,129,999	119,190,128	329,320,127	6,969,474
Restricted for:				
Debt Service	464,102	3,862,255	4,326,357	-
Capital Projects	28,830,395	8,685,967	37,516,362	-
Unrestricted	<u>8,588,563</u>	<u>21,833,118</u>	<u>30,421,681</u>	<u>4,817,376</u>
Total net position	<u>\$ 248,013,059</u>	<u>\$ 153,571,468</u>	<u>\$ 401,584,527</u>	<u>\$ 11,786,850</u>

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

City of Mansfield
Statement of Activities
For the Year Ended September 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for		Capital Grants and Contributions	Primary Government		Total	Component Unit	
		Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities			
Primary government:									
Governmental activities:									
General government	\$ 10,759,471	\$ 4,711,844	\$ -	\$ 6,500,000	\$ 452,373	\$ -	\$ 452,373	\$ -	-
Public safety	26,457,942	3,277,989	318,359	742,648	(22,118,946)	-	(22,118,946)	-	-
Public Works	13,681,970	4,369,480	-	4,719,484	(4,593,006)	-	(4,593,006)	-	-
Culture and recreation	8,529,149	1,934,705	29,350	-	(6,565,094)	-	(6,565,094)	-	-
Interest on long-term debt	4,504,768	-	-	-	(4,504,768)	-	(4,504,768)	-	-
Total governmental activities	63,933,300	14,294,018	347,709	11,962,132	(37,329,441)	-	(37,329,441)	-	-
Business-type activities:									
Water	17,307,982	18,364,850	-	1,701,114	-	2,757,982	2,757,982	-	-
Sewer	5,729,654	9,267,629	-	-	-	3,537,975	3,537,975	-	-
Law enforcement center	10,070,406	10,114,438	-	-	-	44,032	44,032	-	-
Drainage	1,371,462	1,309,693	273,119	-	-	211,350	211,350	-	-
Total business-type activities	34,479,504	39,056,610	273,119	1,701,114	-	6,551,339	6,551,339	-	-
Total primary government	\$ 98,412,804	\$ 53,350,628	\$ 620,828	\$ 13,663,246	\$ (37,329,441)	\$ 6,551,339	\$ (30,778,102)	\$ -	-
Component units:									
MEDC	3,186,511	6,074	-	1,408,862	-	-	-	(1,771,575)	-
Total component units	\$ 3,186,511	\$ 6,074	\$ -	\$ 1,408,862	\$ -	\$ -	\$ -	\$ (1,771,575)	-
General revenues:									
Property taxes					33,243,790	-	33,243,790	-	-
Sales taxes					13,592,946	-	13,592,946	4,530,982	-
Franchise taxes					3,659,355	-	3,659,355	-	-
Mixed drink taxes					159,969	-	159,969	-	-
Hotel/Motel taxes					651,225	-	651,225	-	-
Unrestricted investment earnings					23,777	22,418	46,195	4,051	-
Gas royalty income					722,317	-	722,317	2,793	-
Gain on sale of capital assets					17,056	-	17,056	-	-
Transfers					810,532	(810,532)	-	-	-
Total general revenues					52,880,967	(788,114)	52,092,853	4,537,826	-
Change in net position					15,551,526	5,763,225	21,314,751	2,766,251	-
Net position beginning as adjusted (Note 12)					232,461,533	147,808,243	380,269,776	9,020,599	-
Net position ending					\$ 248,013,059	\$ 153,571,468	\$ 401,584,527	\$ 11,786,850	-

City of Mansfield
Balance Sheet
Governmental Funds
As of September 30, 2014

	General	Debt Service	Street Construction	Building Construction	TIRZ #1	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash, cash equivalents, and investments	\$ 12,734,643	\$ 855,768	\$ 10,575,583	\$ 3,708,588	\$ 7,999,289	\$ 11,802,292	\$ 47,676,164
Receivables (net of allowance for uncollectibles)	1,930,091	73,982	-	-	-	1,082,360	3,086,433
Inventory	-	-	-	-	-	61,228	61,228
Total assets	<u>\$ 14,664,734</u>	<u>\$ 929,750</u>	<u>\$ 10,575,583</u>	<u>\$ 3,708,588</u>	<u>\$ 7,999,289</u>	<u>\$ 12,945,880</u>	<u>\$ 50,823,825</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 873,313	\$ -	\$ 836,491	\$ 566,271	\$ -	551,246	2,827,322
Accrued liabilities	1,662,439	-	593,761	-	1,256,081	81,620	3,593,901
Retainage payable	-	-	264,091	107,145	-	-	371,236
Unearned revenue	471,964	73,982	-	-	-	319,556	865,502
Total liabilities	<u>3,007,716</u>	<u>73,982</u>	<u>1,694,343</u>	<u>673,416</u>	<u>1,256,081</u>	<u>952,422</u>	<u>7,657,961</u>
Fund balances:							
Nonspendable	-	-	-	-	-	61,228	61,228
Restricted	-	855,768	8,881,240	3,035,172	6,743,208	8,553,018	28,068,406
Committed	-	-	-	-	-	3,218,947	3,218,947
Assigned	-	-	-	-	-	160,265	160,265
Unassigned	11,657,018	-	-	-	-	-	11,657,018
Total fund balances	<u>11,657,018</u>	<u>855,768</u>	<u>8,881,240</u>	<u>3,035,172</u>	<u>6,743,208</u>	<u>11,993,458</u>	<u>43,165,864</u>
Total liabilities and fund balances	<u>\$ 14,664,734</u>	<u>\$ 929,750</u>	<u>\$ 10,575,583</u>	<u>\$ 3,708,588</u>	<u>\$ 7,999,289</u>	<u>\$ 12,945,880</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	321,912,487
Lease receivables in the governmental activities are not financial resources and, therefore, are not reported in the funds.	1,066,111
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	865,502
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(118,996,905)</u>
Net position of governmental activities	<u>\$ 248,013,059</u>

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

City of Mansfield, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2014

	General	Debt Service	Street Construction	Building Construction	TIRZ #1	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes:							
Property	\$ 21,212,879	\$ 11,582,773	\$ -	\$ -	\$ 499,144	\$ 13,788	\$ 33,308,584
Sales	9,061,964	-	-	-	-	4,530,982	13,592,946
Franchise	3,659,355	-	-	-	-	-	3,659,355
Mixed drink	159,969	-	-	-	-	-	159,969
Hotel/motel	-	-	-	-	-	651,225	651,225
Licenses and permits	1,306,622	-	-	-	-	681,764	1,988,386
Intergovernmental	301,676	-	-	-	-	-	301,676
Charges for services	3,900,711	-	-	-	-	868,690	4,769,401
Fines	2,051,831	-	-	-	-	253,416	2,305,247
Interest earnings	11,278	314	4,553	956	1,131	5,545	23,777
Contributions and donations	-	-	-	-	6,500,000	46,033	6,546,033
Impact fees	-	-	1,242,317	-	-	692,750	1,935,067
Miscellaneous	708,552	88,180	2,804,816	-	-	126,375	3,727,923
Total revenues	<u>42,374,837</u>	<u>11,671,267</u>	<u>4,051,686</u>	<u>956</u>	<u>7,000,275</u>	<u>7,870,568</u>	<u>72,969,589</u>
EXPENDITURES							
Current:		-					
General government	9,731,149	-	-	-	-	729,308	10,460,457
Public safety	25,208,963	-	-	37,505	-	170,907	25,417,375
Public works	3,387,934	-	-	-	-	-	3,387,934
Culture and recreation	3,490,299	-	-	-	-	3,169,583	6,659,882
Debt service:							
Principal	-	7,895,000	-	-	-	785,000	8,680,000
Interest	-	3,882,106	140	105	-	465,593	4,347,944
Fiscal charges	-	153,544	-	-	-	-	153,544
Bond issuance cost	29,328	111,802	56,390	42,376	-	16,405	256,301
Capital outlay:							
Land	3,797,752	-	-	-	-	7,364	3,805,116
Highways and streets	-	-	8,027,284	-	1,435,208	-	9,462,492
Buildings	-	-	-	2,465,975	-	-	2,465,975
Improvements other than buildings	-	-	-	-	-	1,185,847	1,185,847
Equipment	51,160	-	-	-	-	931,371	982,531
Parks	-	-	-	-	-	135,195	135,195
Total expenditures	<u>45,696,585</u>	<u>12,042,452</u>	<u>8,083,814</u>	<u>2,545,961</u>	<u>1,435,208</u>	<u>7,596,573</u>	<u>77,400,593</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,321,748)</u>	<u>(371,185)</u>	<u>(4,032,128)</u>	<u>(2,545,005)</u>	<u>5,565,067</u>	<u>273,995</u>	<u>(4,431,004)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	810,532	-	65,000	-	-	-	875,532
Transfers out	-	-	-	-	-	(65,000)	(65,000)
Sale of city property	-	-	-	-	-	54,224	54,224
Refunding bonds issued	-	6,710,000	-	-	-	-	6,710,000
Bonds issued	3,536,555	371,831	6,800,000	5,110,000	-	1,936,614	17,755,000
Premium on bonds issued	51,366	192,313	98,766	74,220	-	34,174	450,839
Discounts on bonds issued	(23,899)	(33,333)	(45,952)	(34,532)	-	(18,813)	(156,529)
Payment to refunded bond escrow agent	-	(6,610,000)	-	-	-	-	(6,610,000)
Total other financing sources and uses	<u>4,374,554</u>	<u>630,811</u>	<u>6,917,814</u>	<u>5,149,688</u>	<u>-</u>	<u>1,941,199</u>	<u>19,014,066</u>
Net change in fund balances	<u>1,052,806</u>	<u>259,626</u>	<u>2,885,686</u>	<u>2,604,683</u>	<u>5,565,067</u>	<u>2,215,194</u>	<u>14,583,062</u>
Fund balances - beginning	<u>10,604,212</u>	<u>596,142</u>	<u>5,995,554</u>	<u>430,489</u>	<u>1,178,141</u>	<u>9,778,264</u>	<u>28,582,802</u>
Fund balances - ending	<u>\$ 11,657,018</u>	<u>\$ 855,768</u>	<u>\$ 8,881,240</u>	<u>\$ 3,035,172</u>	<u>\$ 6,743,208</u>	<u>\$ 11,993,458</u>	<u>\$ 43,165,864</u>

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

City of Mansfield, Texas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2014

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

Net change in fund balances total governmental funds	\$ 14,833,369
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	4,916,814
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	5,424,964
Lease revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenue in the funds.	40,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	(64,814)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the treatment of long-term debt and related items.	<u>(9,598,807)</u>
Changes in net position of governmental activities	<u><u>\$ 15,551,526</u></u>

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

City of Mansfield, Texas
Statement of Net Position
Proprietary Funds
September 30, 2014

	Business-Type Activities Enterprise Funds			
	Water and Sewer	Law Enforcement Center	Drainage Utility	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 13,494,471	\$ 222,268	\$ 1,639,511	\$ 15,356,250
Accounts receivable (net of allowance for uncollectibles)	4,064,049	286,345	158,513	4,508,907
Inventories	243,093	24,873	-	267,966
Current assets	17,801,613	533,486	1,798,024	20,133,123
Current restricted assets:				
Cash and cash equivalents	18,965,999	598,620	317,022	19,881,641
Total current assets	36,767,612	1,132,106	2,115,046	40,014,764
Noncurrent assets:				
Capital assets:				
Land	138,191	234,528	1,694,020	2,066,739
Buildings and systems	189,430,954	7,363,784	5,808,544	202,603,282
Improvements other than buildings	62,818	2,651,815	-	2,714,633
Machinery and equipment	2,459,124	1,325,322	137,512	3,921,958
Construction in progress	11,690,330	-	-	11,690,330
Less accumulated depreciation	(44,391,687)	(4,660,308)	(767,924)	(49,819,919)
Total capital assets (net of accumulated depreciation)	159,389,730	6,915,141	6,872,152	173,177,023
Total noncurrent assets	159,389,730	6,915,141	6,872,152	173,177,023
Total assets	196,157,342	8,047,247	8,987,198	213,191,787
LIABILITIES				
Current liabilities:				
Accounts payable	1,112,407	83,649	39,718	1,235,774
Compensated absences	163,565	241,183	-	404,748
Accrued liabilities	164,911	308,174	11,090	484,175
Current liabilities	1,440,883	633,006	50,808	2,124,697
Current liabilities payable from restricted assets:				
Customer deposits payable	1,338,458	3,362	-	1,341,820
Revenue bonds payable	3,960,000	-	375,000	4,335,000
Certificates of obligation payable	-	515,000	-	515,000
Accrued interest payable	394,120	8,857	24,562	427,539
Retainage payable	522,206	-	6,763	528,969
Accrued liabilities	17,001	32,866	-	49,867
Current liabilities payable from restricted assets	6,231,785	560,085	406,325	7,198,195
Total current liabilities	7,672,668	1,193,091	457,133	9,322,892
Noncurrent liabilities:				
Compensated absences	384,191	537,658	-	921,849
General obligation bonds payable (net of unamortized discounts)	-	650,407	-	650,407
Revenue bonds payable (net of deferred amount on refunding)	44,583,624	-	4,141,547	48,725,171
Total noncurrent liabilities	44,967,815	1,188,065	4,141,547	50,297,427
Total liabilities	52,640,483	2,381,156	4,598,680	59,620,319
NET POSITION (DEFICIT)				
Net investment in capital assets	110,846,106	5,749,734	2,594,288	119,190,128
Restricted for debt service	3,710,531	97,946	53,778	3,862,255
Restricted for capital projects	7,955,468	491,816	238,683	8,685,967
Unrestricted	21,004,754	(673,405)	1,501,769	21,833,118
Total net position	\$ 143,516,859	\$ 5,666,091	\$ 4,388,518	\$ 153,571,468

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

City of Mansfield, Texas
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended September 30, 2014

	Business-type Activities			Enterprise Funds
	Law			
	Water and Sewer	Enforcement Center	Drainage Utility	Total
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 15,662,227	\$ -	\$ -	\$ 15,662,227
Sewer charges	9,267,629	-	-	9,267,629
Drainage fees	-	-	1,299,904	1,299,904
Housing services	-	9,735,416	-	9,735,416
Other services	2,702,623	379,022	282,908	3,364,553
Total operating revenues	<u>27,632,479</u>	<u>10,114,438</u>	<u>1,582,812</u>	<u>39,329,729</u>
Operating expenses:				
Costs of sales and services	14,005,266	9,469,737	828,248	24,303,251
Administration	2,739,322	259,990	256,434	3,255,746
Depreciation	3,712,396	255,123	105,298	4,072,817
Total operating expenses	<u>20,456,984</u>	<u>9,984,850</u>	<u>1,189,980</u>	<u>31,631,814</u>
Operating income (loss)	<u>7,175,495</u>	<u>129,588</u>	<u>392,832</u>	<u>7,697,915</u>
Nonoperating revenues (expenses):				
Interest earnings	22,178	-	240	22,418
Interest expense	(2,580,652)	(85,556)	(181,482)	(2,847,690)
Total nonoperating revenue (expenses)	<u>(2,558,474)</u>	<u>(85,556)</u>	<u>(181,242)</u>	<u>(2,825,272)</u>
Income before contributions and transfers	4,617,021	44,032	211,590	4,872,643
Capital contributions	1,701,114	-	-	1,701,114
Transfers in (out)	(810,532)	-	-	(810,532)
Change in net position	5,507,603	44,032	211,590	5,763,225
Total net position - beginning	138,009,256	5,622,059	4,176,928	147,808,243
Total net position- ending	<u>\$ 143,516,859</u>	<u>\$ 5,666,091</u>	<u>\$ 4,388,518</u>	<u>\$ 153,571,468</u>

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

City of Mansfield, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2014

	Business-type Activities - Enterprise Funds			
	Water and Sewer Fund	Law Enforcement Center	Drainage Utility Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customer and users	\$ 27,485,014	\$ 10,111,582	\$ 1,907,988	\$ 39,504,584
Payments to suppliers	(12,806,685)	(1,495,834)	(902,408)	(15,204,927)
Payments to employees	(4,142,989)	(8,157,299)	(189,139)	(12,489,427)
Net cash provided by operating activities	10,535,340	458,449	816,441	11,810,230
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer to/from other funds	(810,532)	-	-	(810,532)
Net cash provided by (used in) capital and related financing activities	(810,532)	-	-	(810,532)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(11,785,651)	(209,213)	(91,599)	(12,086,463)
Principal paid on capital debt	(3,820,000)	(490,000)	(370,000)	(4,680,000)
Interest paid on capital debt	(2,493,316)	(78,606)	(156,670)	(2,728,592)
Net cash used in capital and related financing activities	(18,098,967)	(777,819)	(618,269)	(19,495,055)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	22,178	-	240	22,418
Net cash provided by investing activities	22,178	-	240	22,418
Net (decrease) increase in cash and cash equivalents	(8,351,981)	(319,370)	198,412	(8,472,939)
Cash and cash equivalents, October 1	39,775,251	1,142,276	1,761,609	42,679,136
Cash and cash equivalents, September 30 (including \$18,965,999; \$598,620; and \$317,022 for the Water and Sewer fund, Law Enforcement Center fund, and Drainage Utility fund, respectively, reported in restricted accounts)	\$ 32,460,470	\$ 820,888	\$ 1,956,533	\$ 35,237,891
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 7,175,495	\$ 129,588	\$ 392,832	\$ 7,697,915
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	3,712,396	255,123	105,298	4,072,817
(Increase) decrease in accounts receivable	(147,465)	(2,856)	325,176	174,855
(Increase) decrease in inventories	(17,622)	(6,741)	-	(24,363)
Increase (decrease) in accounts payable	(187,464)	83,335	(6,865)	(110,994)
Total adjustments	3,359,845	328,861	423,609	4,112,315
Net cash provided by operating activities	\$ 10,535,340	\$ 458,449	\$ 816,441	\$ 11,810,230
Noncash capital activities:				
Contributions of capital assets from developers	\$ 1,701,114	\$ -	\$ -	\$ 1,701,114

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

City of Mansfield, Texas
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2014

	<u>Agency</u>
ASSET	
Cash and cash equivalent	\$ 1,536,286
Total assets	<u>\$ 1,536,286</u>
 LIABILITIES	
Insurance payable	\$ 1,536,286
Total liabilities	<u>\$ 1,536,286</u>

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

CITY OF MANSFIELD, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. Summary of Significant Accounting Policies

The financial statements of the City of Mansfield, Texas (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described herein.

New Pronouncements

For fiscal year 2014, the City implemented the following statements issued by GASB.

GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflow of resources, certain items previously reported as assets and liabilities. The effect of the new pronouncement recognizes Deferred Outflows on the Statement Net Position as a single item that is reclassified from the noncurrent liabilities to deferred loss on refunding and the other impact recognizes deferred issuance cost related to the issuance of long term debt as an expense in this fiscal year.

GASB issued Statement No. 66, Technical Corrections 2012. The objective of this Statement is to improve accounting and financial reporting for government reporting by resolving conflicting guidance that resulted from the issuance of GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, and GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The effective date for this Statement is for financial statements whose fiscal year begins after December 15, 2012. The implementation of this statement did not result in any changes to the financial statements.

A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member Council. As required by GAAP, these financial statements present the City and its component units, for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the City's operations, and data from these units are combined with data from the primary government. A discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended Component Units

Mansfield Park Facilities Development Corporation (MPFDC) - The MPFDC board of directors is appointed by the City Council, and the City management maintains significant continuing management responsibility with respect to MPFDC policies. Additionally, the City is ultimately responsible for MPFDC fiscal matters. The MPFDC provides services exclusively to the City (i.e., the MPFDC constructs capital assets on behalf of the City). The MPFDC does not issue separate financial statements and the MPFDC is included in the other governmental funds.

Mansfield Tax Increment Financing Reinvestment Zone Number One (TIRZ) - The City and the City's management maintain significant influence and management responsibility in the approval of programs, expenditures, and obligations of the TIRZ. The TIRZ board of directors is a seven-member board; four members of the board of directors are members of the City's Council with the remaining three board members appointed by the participating entities of the TIRZ unless the participating entity waives its right to board membership, which at such time the City may appoint a member in its stead. Two Counties, Tarrant, and Ellis County, participate in the City's TIRZ as it is a 3,100-acre tract of land that is in three Counties. The TIRZ does not issue separate financial statements, as the TIRZ is included as a major fund of the City. The TIRZ was established in December 2006 and is for the primary benefit of the City. The benefits include financing of the City's infrastructure within the TIRZ, which are owned and maintained by the City.

Mansfield Tax Increment Financing Reinvestment Zone Number Two (TIRZ) – The City and the City's management maintain significant influence and responsibility in the approval of programs, expenditures, and obligations of the TIRZ. The TIRZ board of directors is a five-member board; four members of the board of directors are members of the City's Council with the remaining board member appointed by Tarrant County the other participating entity. This TIRZ was established to revitalize the City's Historic Downtown area, which includes 317 developed acres. The TIRZ does not issue separate financial statements, as the TIRZ is included as a non-major fund of the City. The TIRZ was established in December 2012 and is for the primary benefit of the City. The benefits include financing of the City's infrastructure within the TIRZ, which will be owned and maintained by the City.

Discretely Presented Component Unit

Mansfield Economic Development Corporation (MEDC) – In 1997, the voters passed an additional 1/2 cent sales tax to fund an aggressive economic development program and provide financial incentives, infrastructure needs, and tax relief in the recruitment and retention of industry. Although the City Council appoints all board members, none of the board members are currently City Council members or City employees. In addition, City management maintains significant continuing management responsibility with respect to MEDC financial matters. Although the MEDC financial matters are ratified or denied by the City, the City is not legally entitled to the MEDC resources or is it legally obligated for the indebtedness of the MEDC. The MEDC provides financial incentives to business and industry as permitted by statute and does not provide services entirely or almost entirely to the City and does not issue separate financial statements.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where amounts reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The previous reporting model emphasized fund types (the total of all funds of a particular type); in the reporting model as defined by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis –

for State and Local Governments, the focus is either the City as a whole or major individual fund (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Police, Fire, Public Works, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with 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, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, interest income, etc.).

Separate fund-based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, debt service fund, street construction fund, building construction fund, and TIRZ fund #1. The major enterprise funds are the water and sewer fund, the law enforcement center fund, and the drainage utility fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues, or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds along with other qualitative factors. The non-major funds are combined in a separate column in the fund financial statements. The non-major funds are detailed in the combining section of the statements.

The City's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary fund (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are presented using the accrual basis of accounting, as are the proprietary fund and fiduciary fund 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 have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual, as soon as they are both 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. For this purpose, the government considers ad valorem tax, sales tax, hotel/motel tax, mixed drink tax, and investment earnings to be available if they are collected within 60 days of the end of

the current fiscal period. Franchise tax revenues are considered to be available if collected within 30 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the obligation has matured and will be paid shortly after year-end (not to exceed one month).

Licenses and permits, charges for services, fines, contributions and donations, impact fees, and miscellaneous revenues are recorded as revenues when received in cash, as the amounts are typically not known until received. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, as soon as all eligibility requirements have been met, moneys must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if all eligibility requirements are met.

A portion of the City's revenues are derived from developer contributions. The effect of these transactions, recorded as revenue, in the City's water and sewer funds was significant. Developer's contributions of \$1,701,114 are recorded as nonoperating revenue in the water and sewer fund financial statements. These amounts represent revenues from nonexchange transactions during the fiscal year. For reporting non-exchange transactions for the governmental activities, in the government-wide financial statements on the accrual basis of accounting, the revenues are recorded as capital contributions program revenue, which totaled \$11,962,132.

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water and Sewer Fund, Law Enforcement Center Fund, and Drainage Utility Fund are charges to customers for sales and services. Operating expenses for the proprietary 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 non-operating revenues and expenses.

The government reports the following major governmental funds:

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

The General Obligation Debt Service Fund (Debt Service) is used to account for the accumulation of resources for and the payment of, principal and interest on general long-term obligation debt. The primary source of revenue is ad valorem taxes, which are levied by the City.

The Street Construction Fund accounts for the financial resources to be used in the construction of roadways and bridges. The Fund is financed from general obligation bond proceeds, certificates of obligation proceeds, impact fees, developer contributions, or other sources.

The Building Construction Fund accounts for the financial resources to be used in the construction of general governmental buildings and facilities. The Fund is financed from general obligation bond proceeds, certificates of obligation proceeds, or other sources.

The TIRZ One Fund accounts for the financial resources to be used in the development, construction, improvements, and acquisition of land within a boundary that encompasses 3,100 acres of mixed-use property. The Fund is financed from the increased property values above a preexisting property tax base on January 1, 2006. The year-over-year increase in property values will be contributed by the City and the participating Counties. The City's contribution of property tax from the increased property values is 65% of the increased property within the TIF boundary, and the County's contribution of property tax from the increased property values is 30% of the increased property within Counties limits within the TIF boundary.

The other governmental funds column is a summarization of all the non-major governmental fund types.

The government reports the following major proprietary funds:

The Water and Sewer Fund accounts for the operation of the City's water and sewer system. Activities of the Fund include administration, operation, and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for general obligation, and revenue bonds. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the Fund.

The Law Enforcement Center Fund accounts for the operation of the City's jail facility.

The Drainage Utility Fund accounts for the operation of the City's drainage system. Activities of the Fund include administration, operation, and maintenance of the drainage system. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

Additionally, the government reports the following fund type:

Agency Funds are used to account for assets held by the City in a trustee capacity for others or for other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables. The Payroll Fund and the Employee Group Health Insurance Fund are the Agency Funds currently administered by the City.

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 investments with original maturities of three months or less from the end of the fiscal year.

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is reflected on the balance sheet or statement of net position as "Cash, Cash Equivalents, and Investments" under each fund's caption. Except for bond-related and other restricted transactions, the City conducted all its banking and investment transactions with the depository bank, JPMorgan Chase Bank, Mansfield.

For fiscal year 2014, the City invested in direct obligations of the U.S. government, or its agencies and mutual funds as authorized by the City's investment policy. The City records interest revenue earned from investment activities in each respective fund and recognizes its investments on a fair value basis, which is based on quoted market prices.

2. Inventory:

Inventory consists primarily of supplies, valued at cost. Cost is determined using the weighted average method. Inventory is charged to the user departments and recorded as expenses/expenditures when consumed rather than when purchased.

3. Prepaid Items:

Payments made to vendors for services that will benefit periods beyond are recorded as prepaid items. The non-spendable portion of the fund balance is provided equal to the amount of inventory, as the amount is not available for expenditure. These payments are recognized under the consumption method.

4. Capital Assets:

Capital assets, property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, while improvements and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Building and Improvements	50 years
Water and Sewer Lines	50 years
Vehicles, Machinery, and Equipment	4-10 years
Infrastructure	25 years

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with the interest earned on invested proceeds over the same period. The City capitalized \$0 of interest during fiscal year 2014.

5. Deferred Inflows and Outflows:

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 that applies to a future periods and will not be recognized as an outflow of resources (expense/expenditure) until the appropriate future period. The City has one item that qualifies in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt

and its reacquisition price. This amount is deferred and amortized over the shorter of the life and the refunding or the refunded debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available

Deferred outflows of resources are used to report consumptions of net position by the City that are applicable to a future reporting period. Deferred inflows of resources are used to report acquisitions of net assets by the City that are applicable to future reporting periods. The deferred inflow is reclassified to revenue on the government-wide financial statements

6. Compensated Absences:

Vested or accumulated vacation leave is accrued in the government-wide and proprietary fund financial statements when incurred. No liability is recorded for non-vesting, accumulating rights to receive sick pay benefits. Vacation is earned in varying amounts up to a maximum of fifteen (15) days for employees with ten (10) or more years of service. Unused vacation leave is carried forward from one year to the next without limit with regards to years of service. As of September 30, 2014, the liability for accrued vacation was \$7,911,926. The amount applicable to the Proprietary Funds \$1,326,597 and the MEDC \$43,941 have been recorded in these funds, and the amount applicable to other funds \$6,541,389 has been recorded in the government-wide financial statements.

7. Interfund Charges:

The City allocates to the Water and Sewer Fund, a percentage of the salaries and wages and related costs of personnel who perform administrative services for the fund but are paid through the General Fund. During the year ended September 30, 2014, the City allocated \$147,980 to the Water and Sewer Fund for these services.

8. Property Tax:

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent on February 1 of the following year. The City contracts with Tarrant County to bill and collect its property taxes. Property tax revenues are recognized when they are both measurable and available. Revenues are considered both measurable and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period.

9. 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 statement 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 and deferred loss on refunding.

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Restricted Assets:

Certain proceeds of Proprietary Fund Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. Additionally, amounts held by the City for inmates of the Law Enforcement Center are also classified as restricted assets on the statement of net position.

11. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Final settlement amounts could differ from those estimates.

12. Change in Accounting Principle:

In March 2013, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement established accounting and financial reporting standards that reclassify, as deferred outflows or resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflow of resources, certain items previously reported as assets and liabilities. As a result, costs related to the issuance of bonds which were previously deferred have been reclassified as if they had been reported as an outflow of resources when incurred.

	Governmental Activities	Business-Type Activities	Component Unit
Net Position - beginning of period, as previously reported	\$ 234,756,985	\$ 148,777,289	\$ 9,281,114
GASB 65 - unamortized bond issuance costs	(2,295,452)	(969,046)	(260,515)
Net Position - beginning of period, as adjusted	<u>\$ 232,461,533</u>	<u>\$ 147,808,243</u>	<u>\$ 9,020,599</u>

13. Fund Balance Classification:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to classify the fund balances.

Committed fund balances are amounts that can only be used for specific purposes with constraints imposed by formal action of the City Council and do not lapse at year-end. This formal action consists of a written ordinance voted and approved by a majority of the City Council. For assigned fund balance classification, the City Manager with concurrence of the Finance Director is authorized to assign amounts for a specific purpose as permitted by Section 9.12 of the City Charter. The restricted fund balance classification includes amounts that have constraints that are externally imposed (creditors, grantors, etc.) or imposed by enabling legislation. The nonspendable classification includes amounts that are not in

spendable form or required to be maintained intact. The unassigned fund balance classification represents fund balance that has not been classified to another category.

The City considers an amount spent when the expenditure is incurred when restricted or unrestricted fund balances are available. In addition, the City considers an amount spent when expenditure is incurred for purposes for which an amount in the committed, assigned, or unassigned amounts could be used. The City considers expenditure to be made from the most restrictive resources/funds when more than one classification is available.

The City has a minimum General Fund balance policy requirement. This policy established by resolution of the Council requires General Fund unassigned fund balance to be 25% of the ensuing fiscal year's General Fund operating budget. The detailed fund balance classifications are as follows:

	General	Debt Service	Street Construction	Building Construction	TIRZ	Other Governmental Funds	Total Governmental Funds
Fund balances:							
Nonspendable:							
Inventory	-	-	-	-	-	61,228	61,228
Restricted:							
Debt service reserve	-	855,768	-	-	-	-	855,768
Parks debt service reserve	-	-	-	-	-	207,380	207,380
Street construction/improvements	-	-	8,881,240	-	-	-	8,881,240
Municipal building improvements	-	-	-	3,035,172	-	-	3,035,172
Parks and recreation	-	-	-	-	-	7,072,999	7,072,999
Parks capital improvements	-	-	-	-	-	16,212	16,212
Other capital projects	-	-	-	-	6,743,208	3,538	6,746,746
Equipment /other purposes	-	-	-	-	-	1,222,776	1,222,776
Court seizure fund	-	-	-	-	-	30,113	30,113
Committed:							
Tree mitigation	-	-	-	-	-	521,173	521,173
Parks capital improvements	-	-	-	-	-	1,604,943	1,604,943
Tourism promotion	-	-	-	-	-	817,845	817,845
Court security and technology	-	-	-	-	-	267,544	267,544
Animal control	-	-	-	-	-	7,442	7,442
Assigned:							
COPS Grant	-	-	-	-	-	101,872	101,872
Library	-	-	-	-	-	58,393	58,393
Unassigned:	11,657,018	-	-	-	-	-	11,657,018
Total fund balances	11,657,018	855,768	8,881,240	3,035,172	6,743,208	11,993,458	43,165,864

14. Net Position:

Net position is classified and displayed in three components: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is excluded from the calculation of net investment in capital assets.

Restricted – Consists of assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which there

are both restricted and unrestricted assets available, it is the City's policy to apply those expenses to restricted assets, to the extent such are available, and then to unrestricted assets.

Unrestricted – All other assets that constitute the components of net position that do not meet the definition of “restricted” or “investment in capital assets.”

II. Reconciliation of Government-Wide and Fund Financial Statements

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

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains, “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.”

The details of this \$118,996,905 difference are as follows:

Bonds payable	\$111,675,000
Premium on issuance of bonds	2,162,749
Discounts on issuance of bonds	(907,273)
Fiscal charges	(1,147,989)
Accrued interest payable	673,028
Compensated absences	6,541,389
Net adjustment to reduce fund balance – total governmental funds to arrive at net position– governmental activities	<u>\$118,996,905</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$4,916,814 difference are as follows:

Capital outlay	\$18,037,156
Depreciation expense	<u>(13,120,342)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 4,916,814</u>

Another element of that reconciliation states “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The statement of activities reports contributions of capital assets. Conversely, the governmental funds do not report any contributions of capital assets. The \$5,424,964 difference is as follows:

Net adjustment to increase changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$5,424,964</u>
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Another element of that reconciliation states that “revenues recognizing future lease payments on a straight-line basis in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the funds.” The \$40,000 difference is as follows:

The statement of activities reports lease revenues to recognize future lease payments on a straight-line basis. However, governmental funds do not report lease revenues until they are available. \$40,000

Another element of that reconciliation states that “other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds”. The \$(64,814) difference is as follows:

The governmental funds defer revenue related to uncollected receivables. However, in the statement of activities, this amount is recognized in the current period. \$(64,814)

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$(9,598,809) difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$(24,465,000)
Premium on issuance of bonds	(450,839)
Discounts on issuance of bonds	156,529
Accrued interest payable	(30,607)
Amortization of premiums/discounts	130,107
Compensated absences	(382,543)
Principal payments or payments to escrow agent	<u>15,443,544</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (9,598,809)</u>

III. Detailed Notes on All Funds

A. Deposits and Investments

As of September 30, 2014, the primary government had cash and cash equivalents of \$13,423,532 and the following investments, which are recorded as cash equivalents (maturities of investments are measured in weighted average maturities or WAM):

Primary Government - Governmental Activities and Business-type Activities	Fair Value	WAM (Years)
Investment Type - Money Market Mutual Funds		
Total Fair Value and Weighted Average Maturity	<u>\$69,490,523</u>	<u>0.13</u>

As of September 30, 2014, the Mansfield Economic Development Corporation had cash and cash equivalents of \$1,061,640 and the following investments, which are recorded as cash equivalents (maturities of investments are measured in weighted average maturities or WAM)

Component Unit - Mansfield Economic Development Corporation	Fair Value	WAM (Years)
Investment Type - Money Market Mutual Funds		
Total Fair Value and Weighted Average Maturity	<u>6,738,177</u>	<u>0.13</u>

Interest Rate Risk –

In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

Credit Risk –

The City is authorized to invest in U.S. government obligations and its agencies or instrumentalities, obligations of Texas and its agencies, fully insured or collateralized certificates of deposit, fully collateralized direct repurchase agreements, government pools and money market funds consisting of any of these securities listed, and obligations of states, cities, and other political subdivisions with a rating of “A” or its equivalent. As of September 30, 2014, the City’s investment in the money market mutual funds was rated “AAA” by Standard and Poor’s and “Aaa” by Moody’s Investment Service.

Custodial Credit Risk Deposits –

In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City has a deposit policy, which requires a collateralization level of 105% of market value less an amount insured by the FDIC.

Custodial Credit Risk Investments –

For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has an investment policy, which requires a collateralization level of 105% of market value of principal and accrued interest on investments other than direct purchases of U.S. Treasuries or Agencies. The policy requires all investments held by outside parties for safekeeping in the name of the City or on behalf of the City.

Concentration of Credit Risk Investments –

The City’s investment policy does not place a limit on the amount the City may invest in a single issuer because the City’s investment policy limits the City’s authorized investments. These authorized investments include any security backed by the federal government, the State of Texas, or political subdivision with an investment grade rating of “A” or better. The City’s investment policy authorizes mutual funds, “AAA” rated only registered with the Securities and Exchange Commission available alternatives to previously listed authorized securities. At September 30, 2014, the City’s investments are held in Texas Class Money Market Mutual Fund; Bank of America Merrill Lynch Money Market Mutual Fund; and TexStar Participant Services. These investments are 33.37%; 31.73%; and 34.31% of the City’s total investments. These money market mutual funds are invested in U.S. Treasury obligations, which are backed by the full faith and credit of the U.S. government.

B. Receivables

Receivables at September 30, 2014 consisted of the following:

Governmental Funds				
	General	Debt Service	Non-major	Total
Receivables:				
Property Taxes	\$ 726,635	\$ 388,872	\$ -	\$1,115,507
Accounts	5,529,510	-	1,082,360	6,611,870
Gross Receivables	6,256,145	388,872	1,082,360	7,727,377
Less: Allowance for				
Uncollectible	4,326,054	314,890	-	4,640,944
Net Total Receivables	<u>\$1,930,091</u>	<u>\$ 73,982</u>	<u>\$ 1,082,360</u>	<u>\$ 3,086,433</u>

Proprietary Funds				
	Water & Sewer	Law Enforcement	Drainage Utility	Total
Receivables:				
Accounts	\$4,874,495	\$286,345	\$207,814	\$5,368,654
Other	43,506	-	-	43,506
Gross Receivables	4,918,001	286,345	207,814	5,412,160
Less: Allowance for				
uncollectibles	853,952	-	49,301	903,253
Net Total Receivables	<u>\$ 4,064,049</u>	<u>\$ 286,345</u>	<u>\$ 158,513</u>	<u>\$ 4,508,907</u>

The MEDC has a sales tax receivable in the amount of \$359,488 as of September 30, 2014.

C. Capital Assets

Capital asset activity for the year ended September 30, 2014 is as follows:

Governmental activities:	Sept 30, 2013	Increases	Decreases	Sept 30, 2014
Capital assets, not being depreciated:				
Land	\$ 94,605,319	\$ 4,030,536	\$ -	\$ 98,635,855
Construction in progress	8,975,852	14,006,620	(6,027,032)	16,955,440
Total capital assets, not being depreciated	103,581,171	18,037,156	(6,027,032)	115,591,295
Buildings	62,065,246	-	-	62,065,246
Other improvements	15,359,926	3,287,942	-	18,647,868
Machinery and equipment	20,678,082	1,714,258	(576,343)	21,815,997
Infrastructure	283,173,992	6,486,966	-	289,660,958
Total capital assets being depreciated	381,277,246	11,489,166	(576,343)	392,190,069
Less accumulated depreciation for:				
Buildings	(7,858,328)	(1,172,119)	-	(9,030,447)
Other improvements	(9,885,138)	(983,443)	-	(10,868,581)
Machinery and equipment	(15,638,099)	(783,596)	539,175	(15,882,520)
Infrastructure	(139,906,145)	(10,181,184)	-	(150,087,329)
Total accumulated depreciation	<u>(173,287,710)</u>	<u>(13,120,342)</u>	<u>539,175</u>	<u>(185,868,877)</u>

Total capital assets being depreciated, net	<u>207,989,536</u>	<u>(1,631,176)</u>	<u>(37,168)</u>	<u>206,321,192</u>
Governmental activities capital assets, net	<u>\$311,570,707</u>	<u>\$16,405,980</u>	<u>\$(6,064,200)</u>	<u>\$321,912,487</u>
Business-type activities:	Sept 30, 2013	Increases	Decreases	Sept 30, 2014
Capital assets, not being depreciated:				
Land	\$ 2,026,739	\$ 40,000	\$ -	\$ 2,066,739
Construction in progress	<u>7,972,721</u>	<u>11,817,054</u>	<u>(8,099,445)</u>	<u>11,690,330</u>
Total capital assets, not being depreciated	9,999,460	11,857,054	(8,099,445)	13,757,069
Capital assets, being depreciated:				
Buildings and systems	145,414,629	7,898,747	-	153,313,376
Improvements other than buildings	2,714,633	-	-	2,714,633
Machinery and equipment	3,491,852	409,911	20,195	3,921,958
Infrastructure	<u>47,588,791</u>	<u>1,701,115</u>	<u>-</u>	<u>49,289,906</u>
Total capital assets, being depreciated	199,209,905	10,009,773	20,195	209,239,873
Less accumulated depreciation for:				
Buildings and systems	(29,631,642)	(2,916,254)	-	(32,547,896)
Improvements other than buildings	(185,994)	(44,796)	-	(230,790)
Machinery and equipment	(2,823,657)	(165,415)	(20,195)	(3,009,267)
Infrastructure	<u>(13,085,614)</u>	<u>(946,352)</u>	<u>-</u>	<u>(14,031,966)</u>
Total accumulated depreciation	<u>(45,726,907)</u>	<u>(4,072,817)</u>	<u>(20,195)</u>	<u>(49,819,919)</u>
Total capital assets being depreciated, net	<u>153,482,998</u>	<u>5,936,956</u>	<u>-</u>	<u>159,419,954</u>
Business-type activities capital assets, net	<u>\$163,482,458</u>	<u>\$17,794,010</u>	<u>\$(8,099,445)</u>	<u>\$173,177,023</u>

D. Capital assets continued

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

Governmental Activities:	
General Government	\$ 285,139
Public Safety	761,415
Public Works	10,241,478
Culture and Recreation	<u>1,832,310</u>
Total Depreciation Expense – Governmental Activities	<u>\$13,120,342</u>

Business-Type Activities:	
Water and Sewer	\$ 3,712,396
Law Enforcement Center	255,123
Drainage Utility Fund	<u>105,298</u>
Total Depreciation Expense – Business-Type Activities	<u>\$ 4,072,817</u>

Construction Commitments

The general government had outstanding commitments at September 30, 2014, under authorized construction contracts of approximately \$6,717,000. These outstanding commitments will be financed by proceeds from prior bond issuances and other funding sources. These outstanding commitments relate to the major funds.

The MPFDC had outstanding commitments at September 30, 2014, under authorized construction contracts of approximately \$1,372,000. These outstanding commitments will be financed by proceeds from prior bond issuances and other funding sources. These outstanding commitments relate to the non-major funds.

The Water and Sewer Fund had outstanding commitments at September 30, 2014, under authorized construction contracts of approximately \$9,450,000. These outstanding commitments will be financed by proceeds from prior bond issuances and other funding sources.

Discretely Presented Component Unit

Activity for the MEDC for the year ended September 30, 2014 was as follows:

Mansfield Economic Development Corporation:	Sept 30, 2013	Increases	Decreases	Sept 30, 2014
Capital assets, not being depreciated:				
Land	\$6,865,506	\$ 31,971	\$ -	\$6,897,477
Construction in Progress	1,885,895	8,973,841	(1,850,379)	9,009,357
Total capital assets, not being depreciated	8,751,401	9,005,812	(1,850,379)	15,906,834
Capital assets, being depreciated:				
Other improvements	167,248	-	-	167,248
Machinery and equipment	72,312	-	-	72,312
Total capital assets, being depreciated	239,560	-	-	239,560
Less accumulated depreciation for:				
Other improvements	(57,952)	(3,052)	-	(61,004)
Machinery and equipment	(79,208)	-	6,896	(72,312)
Total accumulated depreciation	(137,160)	(3,052)	6,896	(133,316)
Total capital assets being depreciated, net	102,400	(3,052)	6,896	106,244
MEDC capital assets, net	\$ 8,853,801	\$9,002,760	\$(1,843,483)	\$ 16,013,078

The MEDC had outstanding commitments at September 30, 2014 under authorized construction contracts of approximately \$2,799,000.

E. Interfund Transfers

The composition of interfund balances as of September 30, 2014 is as follows:

Fund	Transfers In	Transfers Out
General Fund	\$810,532	\$ -
Street Construction Fund	65,000	-
Mansfield Parks FDC	-	65,000
Water and Sewer Fund	-	810,532
TOTAL	\$875,532	\$875,532

The General Fund received a transfer from the Water and Sewer Fund for a payment-in-lieu of taxes, \$810,532, for services provided as part of the City's ordinary government.

Interfund activity from the General Fund, Building Construction Fund, and the non-major funds is for the purpose of purchase, construction, and improvements of fixed assets for government-wide purposes. These transfers are budgeted annually. The unexpended funds within the non-major funds generally are reappropriated upon the adoption of the next fiscal year's budget. These interfund transfers within the Governmental Fund Types are eliminated upon the reporting of government-wide financial statements.

F. Long-Term Debt

Governmental Activities -

General Obligation Bonds, Loans, and Certificates of Obligation

The general obligation bonds, loans, and certificates of obligation are serial and term debt collateralized by the full faith and credit of the City and are payable from property taxes. The debt matures annually in varying amounts through 2034, and interest is payable semiannually. Proceeds of general obligation bonds are recorded in the Capital Projects Funds and are restricted to the use for which they were approved in the bond elections. Certificates of obligation bonds and loan proceeds are recorded in the appropriate fund for which the debt was issued and approved by the City. The City Charter expressly prohibits the use of bond proceeds to fund operating expenditures.

In 2013, the City issued \$4,200,000 in General Obligation Refunding Bonds, Series 2013, for the purpose of refunding \$4,505,000 of the City's outstanding debt. The bonds of \$4,200,000 plus premiums of \$418,231, less discounts of \$26,939 and less issuance costs of \$86,000 were used to refund a portion of the City's outstanding debt.

The City refunded debt at which time the reacquisition price exceeded the net carrying amount of the old debt by \$99,624 and resulted in an economic gain of \$712,222. This deferred amount on refunding is being netted against the new debt and amortized over the refunded debt's life using the straight-line method, since the refunded debt's life was shorter than the life of the new debt. The deferred amount on refunding was \$85,294 at September 30, 2014.

In 2013, the City issued \$2,880,000 in General Obligation Refunding Bonds, Series 2013, for the purpose of refunding \$2,915,000 of the City's outstanding debt. The bonds of \$2,880,000 plus premiums of \$120,815, less discounts of \$20,667 and less issuance costs of \$68,262 were used to refund a portion of the City's outstanding debt.

The City refunded debt at which time the reacquisition price exceeded the net carrying amount of the old debt by \$76,966 and resulted in an economic gain of \$464,895. This deferred amount on refunding is being netted against the new debt and amortized over the refunded debt's life using the straight-line method, since the refunded debt's life was shorter than the life of the new debt. The deferred amount on refunding was \$83,718 at September 30, 2014.

In 2014, the City issued \$16,500,000 in Combination Tax and Revenue Certificates of Obligation Bonds, Series 2014, for the purpose of construction of street improvements and building improvements. The bonds of \$16,500,000 plus premiums of \$234,249, less discounts of \$109,661 and less issuance costs of \$125,247 will be used to construct and design street improvements and building improvements.

In 2014, the City issued \$1,255,000 in Combination Tax and Revenue Certificates of Obligation Bonds, Series 2014A, for the purpose of purchasing equipment and building improvements. The bonds of \$1,255,000 plus premiums of \$24,276, less discounts of \$13,534 and less issuance costs of \$10,742 will be used to purchase equipment and building improvements.

In 2014, the City issued \$6,710,000 in General Obligation Refunding Bonds, Series 2014, for the purpose of refunding \$6,610,000 of the City's outstanding debt. The bonds of \$6,710,000 plus premiums of \$192,313, less discounts of \$33,333 and less issuance costs of \$103,837 were used to refund a portion of the City's outstanding debt.

The City refunded debt at which time the reacquisition price exceeded the net carrying amount of the old debt by \$153,534 and resulted in an economic gain of \$450,680. This deferred amount on refunding is being netted against the new debt and amortized over the refunded debt's life using the straight-line method, since the refunded debt's life was shorter than the life of the new debt. The deferred amount on refunding was \$134,351 at September 30, 2014

General obligation debt outstanding at September 30, 2014 comprises the following issues:

Series	Interest Rates	Date Series Matures	Amount of Original Issue	Bonds Outstanding
2005 Refunding	3.00% to 5.00%	2020	9,050,000	3,865,000
2006	4.00% to 4.35%	2026	6,905,000	4,890,000
2007 CO	4.00% to 5.00%	2027	3,320,000	2,505,000
2007	4.00% to 5.00%	2027	5,215,000	3,935,000
2007A CO	5.90% to 6.51%	2028	1,255,000	980,000
2007A GO	5.50% to 4.63%	2028	5,300,000	4,160,000
2007B GO	5.50% to 4.63%	2028	5,300,000	4,190,000
2008 CO	5.00% to 6.25%	2029	12,330,000	10,105,000
2008 GO	5.00% to 6.25%	2029	3,105,000	2,660,000
2009 GO Refunding	3.00% to 4.00%	2022	10,400,000	6,965,000
2011 GO Refunding	2.00% to 4.00%	2022	9,730,000	6,400,000
2011 CO	2.00% to 5.00%	2031	3,090,000	2,755,000
2012 GO Refunding	2.00% to 3.13%	2025	5,855,000	5,640,000
2012 CO	2.00% to 4.00%	2032	3,415,000	3,160,000
2012A CO	3.49% to 4.65%	2032	3,075,000	2,865,000
2013 CO	2.00% to 4.00%	2033	5,335,000	5,135,000
2013 GO Refunding	2.00% to 4.00%	2025	4,200,000	3,910,000
2013A GO Refunding	2.00% to 3.00%	2023	2,880,000	2,670,000
2014 GO Refunding	2.00% to 2.50%	2019	6,710,000	6,485,000
2014 CO	2.50% to 4.38%	2034	16,500,000	16,500,000
2014A CO	2.00% to 4.13%	2034	1,255,000	1,255,000
TOTAL				<u>\$101,030,000</u>

Annual debt service requirements to maturity for general obligation debt, including interest of \$32,650,110, are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$7,450,000	\$3,917,750	\$11,367,750
2016	7,925,000	3,672,499	11,597,499
2017	7,765,000	3,418,171	11,183,171
2018	7,550,000	3,158,696	10,708,696
2019	7,160,000	2,893,754	10,053,754

2020-2024	32,450,000	10,443,079	42,893,079
2025-2029	21,595,000	4,280,846	25,875,846
2030-2034	9,135,000	865,315	10,000,315
TOTAL	<u>\$101,030,000</u>	<u>\$32,650,110</u>	<u>\$133,680,110</u>

Authorized but unissued general obligation bonds as of September 30, 2014 are as follows:

Purpose	Date Authorized	Amount Authorized	Unissued Balance
Library	2/7/2004	<u>\$1,535,000</u>	<u>\$1,535,000</u>

General Operating Leases as of September 30, 2014 are as follows:

The City has entered into two operating purchase agreements for Public Safety equipment. These lease agreements were entered into August 15, 2011 and June 27, 2012. The amount of the equipment purchased was \$372,856 and is to be repaid over a five-year period at an interest rate of 2.44% per year and \$2,073,235 to be repaid over a ten-year period at an interest rate of 3.53%. Annual payments subject to annual appropriation are to occur over the next ten years as follows:

Fiscal Year	Annual Payment	Interest	Principal	Remaining Principal
2014	\$321,271	\$5,590	\$315,681	\$1,986,637
2015	321,271	68,443	252,828	1,733,809
2016	321,271	60,353	260,918	1,472,891
2017	241,153	51,993	189,160	1,283,731
2018	241,153	45,316	195,837	1,087,894
2019-2023	<u>1,205,765</u>	<u>117,871</u>	<u>1,087,894</u>	-
TOTAL	<u>\$2,651,884</u>	<u>\$349,566</u>	<u>\$2,302,318</u>	

Special Sales Tax Revenue Bonds

The Special Sales Tax Revenue Bonds are special limited obligations of the MPFDC payable from proceeds of an additional ½ of 1% sales and use tax levied by the City. The bonds are serial obligations payable annually in varying amounts with interest payable semiannually. The proceeds of these bonds are to be used for their legal purposes as prescribed in the statutes of the State of Texas.

Special Sales Tax Revenue and Revenue Refunding Bonds outstanding at September 30, 2014 are as follows:

Series	Interest Rates	Date Series Matures	Amount of Original Issue	Bonds Outstanding
2006	4.00% to 4.40%	2026	3,940,000	\$2,825,000
2007	4.00% to 4.30%	2027	2,200,000	1,620,000
2007A	5.90% to 6.51%	2028	2,990,000	2,435,000
2012	2.00% to 3.25%	2024	4,995,000	3,765,000
TOTAL				<u>\$10,645,000</u>

Debt service requirements to maturity for Special Sales Tax Revenue Bonds, including interest of \$3,224,881, are as follows:

Fiscal Year	Principal	Interest	Total
2015	805,000	433,283	1,238,283

2016	835,000	407,104	1,242,104
2017	860,000	379,830	1,239,830
2018	890,000	351,166	1,241,166
2019	925,000	321,393	1,246,393
2020-2023	3,430,000	952,857	4,382,857
2024-2028	2,900,000	379,248	3,279,248
TOTAL	<u>\$10,645,000</u>	<u>\$3,224,881</u>	<u>\$13,869,881</u>

Changes in long-term liabilities

Long-term debt activity for the year ended September 30, 2014 was as follows:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
General Obligation Bonds	91,070,000	24,465,000	(14,505,000)	101,030,000	7,450,000
Sales Tax Revenue Bonds	11,430,000		(785,000)	10,645,000	805,000
Deferred Amounts:				-	
Premiums	2,267,598	450,836	(555,685)	2,162,749	-
Discounts	(890,664)	(156,529)	139,920	(907,273)	-
Total bonds & notes payable	103,876,934	24,759,307	(15,705,765)	112,930,476	8,255,000
Deferred charge on refunding	(1,280,106)	(153,544)	285,661	(1,147,989)	-
Compensated absences	6,158,846	1,974,368	(1,591,825)	6,541,389	1,827,575
	<u>108,755,674</u>	<u>26,580,131</u>	<u>(17,011,929)</u>	<u>118,323,876</u>	<u>10,082,575</u>

For the governmental activities, compensated absences are generally liquidated by the general fund or the respective special sales tax fund.

Business-Type Activities -

Water and Sewer Fund

The water and sewer fund revenue bonds are payable from the gross revenues of the water and sewer system. Gross revenues are to be used first-to-pay operating and maintenance expenses of the system, and second, to maintain revenue bond funds in accordance with the bond covenants. Remaining revenues may then be used for any lawful purpose. The debt matures annually in varying amounts through 2030, and interest is payable semiannually.

Waterworks and Sewer System Refunding and Revenue Bonds

In 2004, the City refunded debt at which time the reacquisition price exceeded the net carrying amount of the old debt by \$462,612. This deferred amount on refunding is being netted against the new debt and amortized over the refunded debt's life using the straight-line method, since the refunded debt's

life was shorter than the life of the new debt. The deferred amount on refunding was \$42,556 at September 30, 2014.

In 2005, the City refunded debt at which time the reacquisition price exceeded the net carrying amount of the old debt by \$327,090. This deferred amount on refunding is being netted against the new debt and amortized over the refunded debt's life using the straight-line method, since the refunded debt's life was shorter than the life of the new debt. The deferred amount on refunding was \$27,258 at September 30, 2014.

In 2011, the City refunded debt at which time the reacquisition price exceeded the net carrying amount of the old debt by \$104,513 and resulted in an economic gain of \$53,332. This deferred amount on refunding is being netted against the new debt and amortized over the refunded debt's life using the straight-line method, since the refunded debt's life was shorter than the life of the new debt. The deferred amount on refunding was \$85,261 at September 30, 2014.

In 2012, the City refunded debt at which time the reacquisition price exceeded the net carrying amount of the old debt by \$195,970 and resulted in an economic gain of \$192,727. This deferred amount on refunding is being netted against the new debt and amortized over the refunded debt's life using the straight-line method, since the refunded debt's life was shorter than the life of the new debt. The deferred amount on refunding was \$151,061 at September 30, 2014.

Water and sewer fund debt outstanding at September 30, 2014 comprises the following issues:

Date Issued	Interest Rates	Date Series Matures	Amount of Original Issue	Bonds Outstanding
2004	3.38% to 4.00%	2019	11,975,000	\$4,155,000
2004A	4.00% to 4.75%	2024	3,135,000	1,845,000
2005Ref	3.60% to 4.10%	2019	9,105,000	1,620,000
2007	4.00% to 4.30%	2027	6,000,000	4,415,000
2008	4.38% to 6.75%	2029	26,185,000	21,525,000
2009	3.00% to 4.50%	2030	2,585,000	2,195,000
2011	2.00% to 5.00%	2030	13,995,000	11,240,000
2012	2.00% to 3.00%	2023	2,320,000	1,890,000
TOTAL				<u>\$48,885,000</u>

Debt service requirements to maturity for water and sewer fund debt, including interest of \$19,843,085, are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$3,960,000	\$2,364,720	\$6,324,720
2016	3,695,000	2,217,470	5,912,470
2017	3,825,000	2,073,826	5,898,826
2018	3,795,000	1,920,695	5,715,695
2019	3,660,000	1,767,128	5,427,128
2020-2023	12,150,000	5,615,289	17,765,289
2024-2028	14,060,000	3,622,619	17,682,619
2029-2030	3,740,000	261,338	4,001,338
TOTAL	<u>\$48,885,000</u>	<u>\$19,843,085</u>	<u>\$68,728,085</u>

Law Enforcement Center

The Authority issued mortgage revenue bonds in 1989 to construct a 48-bed detention facility and administrative offices, for City use, and a 96-bed detention facility for surrounding agencies use (the Law Enforcement Complex). In 1991, the Authority purchased a 3.2-acre tract of land adjacent to the Law Enforcement Complex with proceeds from a property acquisition note, for future expansion. In 1993, additional mortgage revenue bonds were issued for a 96-bed expansion of the Law Enforcement Center, which was completed in January 1995.

Refunding Bonds

In 2005, the City refunded debt at which time the reacquisition price exceeded the net carrying amount of the old debt by \$294,336. This deferred amount on refunding was being netted against the new debt and amortized over the refunded debt's life using the straight-line method, since the refunded debt's life was shorter than the life of the new debt. There were no deferred or defeased amounts as of September 30, 2014.

Law Enforcement Center Fund debt outstanding at September 30, 2014 comprises the following issues:

Date Issued	Interest Rates	Date Series Matures	Amount of Original Issue	Bonds Outstanding
2005 Refund	5.00%	2015	\$2,355,000	\$485,000
2007B CO	6.45% to 6.45%	2028	790,000	650,000
TOTAL				<u>\$1,135,000</u>

Debt service requirements to maturity for Law Enforcement Center debt, including interest of \$349,139, are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$515,000	\$53,083	\$568,083
2016	30,000	39,023	69,023
2017	35,000	36,926	71,926
2018	35,000	34,669	69,669
2019	40,000	32,250	72,250
2020-2024	230,000	119,325	349,325
2025-2028	250,000	33,863	283,863
TOTAL	<u>\$1,135,000</u>	<u>\$349,139</u>	<u>\$1,484,139</u>

Drainage Utility Fund

The Drainage Utility Fund revenue bonds are payable from the gross revenues of the drainage utility system. Gross revenues are to be used first to pay operating and maintenance expenses of the system, and second, to maintain revenue bond funds in accordance with the bond covenants. Remaining revenues may then be used for any lawful purpose. The debt matures annually in varying amounts through 2027, and interest is payable semiannually.

In 2012, the City refunded debt at which time the reacquisition price exceeded the net carrying amount of the old debt by \$285,920 and resulted in an economic gain of \$333,855. This deferred amount on refunding is being netted against the new debt and amortized over the refunded debt's life using the straight-line method, since the refunded debt's life was shorter than the life of the new debt. The deferred amount on refunding was \$238,267 at September 30, 2014.

Drainage Utility Fund debt outstanding at September 30, 2014 comprises the following issues:

Date Issued	Interest Rates	Date Series Matures	Amount of Original Issue	Bonds Outstanding
2007	4.00% to 4.30%	2027	\$2,200,000	\$1,620,000
2012	2.00% to 3.13%	2024	3,740,000	3,115,000
TOTAL				<u>\$4,735,000</u>

Debt service requirements to maturity for Drainage Utility debt, including interest of \$1,010,423, are as follows:

Fiscal Year	Principal	Interest	Total
2015	375,000	147,370	522,370
2016	390,000	137,970	527,970
2017	400,000	128,170	528,170
2018	405,000	118,070	523,070
2019	420,000	107,770	527,770
2020-2024	2,295,000	331,943	2,626,943
2025-2027	450,000	39,130	489,130
TOTAL	<u>\$4,735,000</u>	<u>\$1,010,423</u>	<u>\$5,745,423</u>

Changes in business-type activity debt

A summary of business-type activity debt transactions, including activity for the year ended September 30, 2014, is as follows:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Water/Sewer Revenue Bonds	52,705,000	-	(3,820,000)	48,885,000	3,960,000
LEC Certificates of Obligation	1,625,000	-	(490,000)	1,135,000	515,000
Drainage Utility Revenue Bonds	5,105,000	-	(370,000)	4,735,000	375,000
Deferred Amounts:					
Premiums	439,729	-	(54,768)	384,961	
Discounts	(415,043)	-	44,564	(370,479)	
Total bonds & notes payable	59,459,686	-	(4,690,204)	54,769,482	4,850,000
Deferred charge on refunding	(685,665)	-	141,763	(543,902)	
Compensated absences	1,191,530	487,602	(352,536)	1,326,596	404,747
	<u>59,965,551</u>	<u>487,602</u>	<u>(4,900,977)</u>	<u>55,552,176</u>	<u>5,254,747</u>

For financial reporting purposes, the unamortized premiums and discounts have been netted against total bonds outstanding.

The Business-Type Activity long-term debt will be repaid, plus interest, from the operating revenues derived primarily from water sales, sewer service charges, and drainage service charges and from revenues derived from housing other agencies' prisoners or operating transfers from the general fund.

Discretely Presented Component Unit

Mansfield Economic Development Corporation

The Sales Tax Revenue Refunding Bonds are special limited obligations of the MEDC payable from proceeds of an additional ½ of 1% sales and use tax levied by the City. The bonds are serial obligations payable annually in varying amounts with interest payable semiannually.

MEDC debt outstanding at September 30, 2014 comprises the following issues:

Series	Interest Rates	Date Series Matures	Amount of Original Issue	Bonds Outstanding
2004	5.81% to 6.33%	2024	\$8,300,000	\$5,305,000
2004A	4.36% to 5.13%	2024	4,715,000	2,880,000
2012	2.00% to 4.00%	2032	3,090,000	2,845,000
TOTAL				<u>\$11,030,000</u>

Debt service requirements to maturity for MEDC debt, including interest of \$3,857,033, are as follows:

Fiscal Year	Principal	Interest	Total
2015	760,000	556,318	1,316,318
2016	800,000	519,938	1,319,938
2017	835,000	481,314	1,316,314
2018	880,000	440,055	1,320,055
2019	920,000	396,112	1,316,112
2020-2024	5,380,000	1,196,459	6,576,459
2025-2029	860,000	218,637	1,078,637
2030-2032	595,000	48,200	643,200
TOTAL	<u>\$11,030,000</u>	<u>\$3,857,033</u>	<u>\$14,887,033</u>

Changes in MEDC Debt

A summary of MEDC debt transactions, including activity for the year ended September 30, 2014, is as follows:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
MEDC Revenue Bonds	11,755,000	-	(725,000)	11,030,000	760,000
Deferred Amounts:					
Premiums	20,568	-	(1,491)	19,077	
Discounts	(113,564)	-	8,880	(104,684)	
Total bonds & notes payable	11,662,004	-	(717,611)	10,944,393	760,000
Deferred charge on refunding	-	-	-	-	
Compensated absences	42,504	23,233	(21,796)	43,941	25,024
	<u>11,704,508</u>	<u>23,233</u>	<u>(739,407)</u>	<u>10,988,334</u>	<u>785,024</u>

G. Restricted Assets

The restricted assets of the Business-type Activities as of September 30, 2014 included the following legal use restrictions.

Enterprise Fund	Revenue Bond Sinking and Reserve Fund	Bond Construction Fund	Inmate Trust Fund	Total
Water and Sewer Fund	\$4,104,652	\$14,861,347	\$ -	\$18,965,999
Law Enforcement Complex	483,568	10,482	104,750	598,620
Drainage Utility	78,339	238,683	-	317,022
TOTAL	<u>\$4,666,559</u>	<u>\$15,110,512</u>	<u>\$104,750</u>	<u>\$19,881,641</u>

The ordinance authorizing the issuance of Water and Sewer System revenue bonds requires that the City establish a sinking fund (Revenue Bond Sinking and Reserve Fund) in an amount not less than the average annual requirement for the payment of principal and interest on all the revenue bonds. At September 30, 2014, the sinking fund balance is sufficient to satisfy such bond ordinance requirements. The bond ordinance also contains provisions, which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and the pledged revenues are equal to or greater than 1.25 times the average annual debt service requirements after giving effect to the proposed additional bonds and any proposed rate increases. In addition, the bond ordinance requires that the annual gross revenues of the Water and Sewer System, less annual operation and maintenance expenses (excluding depreciation and amortization expense), be at least 1.10 times the annual principal and interest requirements of all the outstanding revenue bonds.

The ordinance further requires that the proceeds from the sale of revenue bonds be expended for certain capital improvements to the Water and Sewer System. The unspent proceeds are maintained as restricted assets until such time as needed to fund the Water and Sewer System construction program.

The ordinance authorizing the issuance of the Certificates of Obligation requires that the City establish an interest and sinking fund to provide for principal and interest requirements as they become due.

H. Retirement Plan

Plan Description:

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' Website at www.TMRS.com.

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

	Plan Year 2013	Plan Year 2014
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's project benefit allocated annually; the prior service contribution rate amortizes the underfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rates go into effect. The annual pension cost for 2013, 2012, and 2011 was \$4,173,052, \$3,944,031, and \$3,869,129, respectively, which was equal to the City's required and actual contributions. The required contributions were determined as part of the December 31, 2013 and 2012 actuarial valuations using the projected unit credit actuarial cost method.

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2013 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation date, December 31, 2013, is as follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent	Level Percent
Remaining			
Amortization Period	26.1 years; closed period	25.1 years; closed period	26.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation			
Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at Cost-of-Living Adjustments	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%

Funded Status and Funding Progress:

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013 (unaudited), the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2013	\$92,677,623	\$111,899,202	82.8%	\$19,221,579	\$28,526,524	67.4%
12/31/2012	82,380,703	96,569,889	85.3%	14,189,186	26,472,599	53.6%
12/31/2011	73,360,968	89,180,462	82.3%	15,819,494	25,790,850	61.3%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

I. Supplemental Death Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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 (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions:

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

The City's contributions to the TMRS SDBF for the years ended 2013, 2012, and 2011 were \$36,303, \$31,710, and \$42,684, respectively, which equaled the required contributions each year.

J. Other Post-Employment Benefits - OPEB

Plan Description

City employees retiring on TMRS will be provided the opportunity to receive health insurance benefits from the City from the City's existing healthcare plan. The City established by ordinance participation in a multi-employer defined benefit postemployment healthcare plan that covers retired employees of the City. The City established an irrevocable trust and contracted with an administrator as well as a custodial bank to manage the plan's assets or the retiree's medical benefits.

The plan does not issue a stand-alone financial report. For inquiries relating to the plan, please contact: The City of Mansfield, Business Services Division, 1200 East Broad Street, Mansfield, Texas 76063.

Measurement Focus and Basis of Accounting

The City of Mansfield, Texas Retiree Health Insurance Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the determination of the employer.

Benefits

City employees will be provided the opportunity to elect employer-subsidized health programs until the age of 65. After the age of 65, the City will pay the following percentage of employer-subsidized premium as a lifetime-only benefit. At the time of the actuarial valuation, the City paid retired employee premiums of \$891.82 for medical coverage and \$38.89 for dental coverage. The City does not subsidize family health coverage. The years of service must be worked for the City, and other creditable years of service are excluded when determining the percentage:

Years of Service with the City	Percentage of Employer- Subsidized Premium
20 and more	100%
19	95%
18	90%
17	85%
16	80%

15	75%
14	70%
13	65%
12	60%
11	55%
10	50%

At the time of the actuarial valuation, the City had 479 active plan members and only 51 retired plan members receiving benefits.

Participants included in the actuarial valuation include retirees and survivors, and active employees who may be eligible to participate in the plan upon retirement. Expenditures for postretirement healthcare and other benefits are recognized monthly and funded into the irrevocable trust. The City funds 100% of the ARC, which approximates the annual OPEB cost, and totaled \$1,212,510 for the fiscal year ended September 30, 2014. The City also funded 100% of the ARC, which approximates the annual OPEB cost, and totaled \$1,000,959 and \$703,567 for each of the fiscal years ended September 30, 2013 and 2012 respectively. The retirees are responsible for funding approximately 2% of the healthcare and other benefit premiums.

Eligible retired employees participating in the City's Retiree Health Insurance Plan pay their premiums directly to the City. The City paid the ARC, including the employee portions of healthcare premiums directly to the Trust in the amount of \$1,212,510 for fiscal year 2014.

Funding

The City makes an annual contribution to the plan approximately equal to the ARC. The City commissioned an updated actuarial valuation of the plan for October 1, 2013 for fiscal year 2014.

The funded status as of October 1, 2013 (unaudited), the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/01/2013	\$4,025,043	\$13,155,090	31%	\$9,130,047	\$28,061,984	32.54%
10/01/2012	3,233,404	10,608,407	30%	7,375,003	27,925,254	26.41%
10/01/2011	2,284,937	7,646,266	30%	5,361,329	25,173,254	21.3%

Note: ARC of \$1,212,510 for fiscal year 2014 as of September 30, 2014 is based on the current practice of funding the plan in a segregated GASB-qualified trust.

Actuarial Methods and Assumptions

Actuarial Cost Method - Projected Unit Credit

Actuarial Valuation Date - October 1, 2013

Discount Rate - 7%

Amortization method - 30 years, level dollar open amortization

Open amortization means a fresh start each year for the cumulative unrecognized amount.

Healthcare Cost Trends Rates – 8% initially graded downward 0.05% per year to 5.0% in year 7 and later.

Mortality - IRS 2008 Combined Static Mortality Table

Retirement Rate –

Attained Age	Rates per 100 Participants
50	3.0
51	1.5
55	7.5
58	10.0
60	25.0
61	10.0
65	100

Withdrawal Rate –

Attained Age	Rates per 100 Participants
25	19.50
30	18.80
35	17.68
40	15.90
45	13.42
50	9.74

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarial calculations reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Immediately following the notes, the schedule of funding progress is presented for the Texas Municipal Retirement System plan along with Retiree Health Insurance Other Postemployment Benefits plan.

K. Commitments and Contingencies

Various claims and lawsuits are pending against the City. In the opinion of the City's management, the potential loss on all claims, if any, will not be material to the City's financial statements.

Audits of Grant Activities

The City receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal and state grantor agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, will not be material to the City's financial statements.

L. Contracts with Other Governmental Entities and Other Contracts

Water Supply

Raw water is supplied to the City through a contract between the City and the Tarrant Regional Water District (TRWD). The basic contract, which was renegotiated and approved by the TRWD and the City Council on September 10, 1979, provides for a contract period to run for the life of the bonds, which were issued by the TRWD to provide water to the City and thereafter for the life of the TRWD facilities serving the City. Water is provided to the City from the TRWD Cedar Creek Lake and Richland-Tehuacanna Reservoir. Under the contract, the City has a take-or-pay gallon requirement based on the greater of 1.3 million gallons or the average daily consumption for the previous five-year period. The rate to be charged to the City for raw water is based upon the TRWD cost of debt service, operation and maintenance expenses, and any other miscellaneous expenses in connection with its water supply facilities. These costs will be allocated on a proportionate share based upon actual water consumption of the City in relation to the actual use by the City of Fort Worth and the Trinity River Authority (TRA) after crediting the amount received by the TRWD from water sales to the City of Arlington and other customers. The current rate charged for raw water has been calculated to be \$0.97659 per 1,000 gallons, with a total cost of \$4,360,414 during fiscal year 2014. It is estimated that the raw water supply available to the City under the contract is adequate for the ultimate development of the City.

In addition, the City has a contract with the City of Arlington to purchase treated water up to 1.0 M.G.D. on a demand basis. The City has the option to renegotiate the Arlington water purchase contract on an as-needed basis.

Sewer Treatment

On August 23, 1974, the City Council approved a contract with the TRA to become a contracting party in the TRA's Central Regional Wastewater System, along with 19 other area cities and the Dallas/Fort Worth International Airport.

The contracting parties have agreed to pay the TRA its net cost of operation and maintenance, including debt service requirements, on the Central System. Payments made by the respective cities are pursuant to authority granted by Article 1109i, Vernon's Annotated Texas Civil Statutes, as amended, and Chapter 30, Texas Water Code, as amended, and constitute operating expenses of their waterworks and sewer systems.

The expense of operating TRA's Central System, including administrative overhead and amounts necessary to pay debt service, is paid monthly by the contracting parties based on a formula of dividing each contracting party's estimated contributing flow to the Central System for such year by the total estimated contributing flow by all contracting parties being served at the beginning of each such year, with a year-end adjustment based on actual metered contributing flow to the Central System by all contracting parties. For fiscal year 2014, the City's cost for sewer treatment under the contract was \$4,939,762.

Law Enforcement Complex Housing Commitments

On June 25, 1990, the City entered into an Intergovernmental Agreement Contract (IGA) with the United States Marshal's Service (USMS) to provide for the housing, safekeeping, and subsistence of adult male and female federal prisoners.

The City began housing prisoners from the Immigration and Naturalization Service pursuant to the terms and conditions of the USMS contract or IGA. On December 11, 1998, the City and the USMS agreed for the City to house federal prisoners and other related governmental agencies' prisoners at a cost of \$46.60 per day, effective June 1, 1999.

On November 1, 2001, the City and the City of Fort Worth, Texas, entered into an agreement under the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, for the purpose of housing the City of Fort Worth's prisoners. This contract was renegotiated during fiscal year 2006, and a new agreement was reached between the City and the City of Fort Worth, Texas, commencing on October 1, 2006. The new agreement is an annual agreement that automatically renews for subsequent one-year terms, commencing on October 1 of each year and ending on September 30 of each year for nine (9) years after the Initial Term until September 30, 2016. There are various provisions in the contract defining both the purpose and nature of the duties of the City, and the City of Fort Worth, Texas, in housing the City of Fort Worth, Texas, prisoners. The general terms of the contract agree that the City will collect a monthly fee of \$388,969 or \$4,667,626 in the first year of the contract. Each subsequent term of the contract, the annual amount will increase 4% per year. There are various provisions in the contract that define additional payments for housing prisoners over a specified cap and a reduction in payments if the population of the prisoners drops below a certain number. These provisions give notice to each party that a material change has occurred in the purpose and management of housing the City of Fort Worth, Texas, prisoners and that adjustments to the terms of the contract should be mutually agreed upon by both parties.

The Contract is subject to termination by either party upon written notice provided 90 days before any annual renewal date. Upon such notice of intent, neither party is obligated to any further performance or consideration that has not already been rendered. If the City of Fort Worth, Texas, fails to appropriate funds sufficient to fulfill its obligations under this agreement, Fort Worth may terminate this agreement to be effective by whichever effective date is sooner: (1) thirty (30) days following delivery by Fort Worth to the City of written notice of Fort Worth's intent to terminate or (2) the last date for which funding has been appropriated by Fort Worth's City Council for Fort Worth to fulfill its obligations under this Agreement.

If any net losses or capital requirements should arise in the future, the City will be required to make cash advances and/or operating transfers from the general fund to fund these operating and capital requirements. The City cannot reasonably estimate the amounts, if any, of the advances or operating transfers that may be required.

Mansfield National Golf Club

In June 1999, the City entered into an agreement with MPFDC and Evergreen Alliance Golf Limited, L.P., a Delaware limited partnership, to construct an 18-hole golf course. The agreement named the property on which the course was constructed: Mansfield National Golf Club. Mansfield National Golf Club was constructed by Evergreen Alliance Golf Limited, L.P. (Alliance) during FY99 and FY00 on property owned by MPFDC in the City. The Mansfield National Golf Club opened in November 2000. During the course of the construction, Alliance assumed the financial obligation and risk of constructing the course on the MPFDC property. Upon completion of the construction of Mansfield National Golf Club, a long-term lease agreement was entered into by the MPFDC and Alliance to manage and operate the course for a period of 50 years. In the agreement, Alliance agreed to pay the MPFDC a Base Rent for occupying the property during the term of the Lease. The following summarizes the terms of the base rent:

Lease years 01 through and including 10:	\$ 0.00 per lease year
Lease years 11 through and including 20:	\$ 50,000 per lease year
Lease years 21 through and including 30:	\$100,000 per lease year
Lease years 31 through and including 40:	\$125,000 per lease year
Lease years 41 through and including 50:	\$175,000 per lease year

The value of the improvements made to the property, subject to and reserving the leasehold rights of Alliance as defined by the agreement, became the vested rights of MPFDC and subsequently the vested rights of the City. The rights of the value of improvements have been used as collateral for financing the cost of constructing the improvements. The improvements or rights of the value of the improvement are

not carried or recognized as an asset by the MPFDC. However, upon the dissolution of the lease agreement, the rights of the value of the improvements are to be recognized as an asset by the MPFDC. The MPFDC has the right of first refusal and the authority to approve or disapprove future assignments of the rights made by Alliance. In the event Alliance becomes insolvent, certain remedies are permitted by the agreement and in no circumstance is the MPFDC obligated to or committed to Alliance's creditors.

The City is accruing a lease receivable of \$90,000 per year to recognize future rental income over the term of the lease on a straight-line basis.

Sports Park – Big League Dreams

During fiscal year 2008, the City completed the construction of a multipurpose recreational sports park known as "Big League Dreams Mansfield Sports Park," BLDMSP. The City spent \$26.4 million on the facility, which includes eight lighted theme baseball/softball fields, one multipurpose facility, open park areas, and administrative offices on 40 acres tract of land.

The City contracted with a Texas Limited Partnership, Big League Dreams Mansfield, L.P., or BLD, to manage, operate, and maintain the park for 40 years effective upon the completion of the construction of BLDMSP. This agreement is referred to as a maintenance and operation agreement. BLD is an affiliate of Big League Dreams USA, LLC, or BLD USA, a California company, which has affiliates in several states including Texas, Arizona, and California. BLD USA also owns the intellectual rights and has a proprietary interest in the Total Image, Name and Marks, and Logo, BLD USA. The City has contracted with BLD USA to use their intellectual rights for BLDMSP through a license agreement. The term of this license agreement is concurrent to the term of the maintenance and operation agreement.

The terms of the agreement give BLD the right to operate and maintain the BLDMSP for an initial term of 30 years with the two separate options of extending the contract for 5 years in periods following the original term of 30 years. BLD is to maintain and operate the park from the use of the facility by the public. BLD is able to charge fees and is to pay for the cost of maintaining, insuring, and operating the park. For the right to maintain, insure, and operate the BLDMSP, BLD is to pay the City a minimum operating fee of \$100,000 per year with escalation provisions based upon annual gross revenues achievements. The payments are to commence after a waiver period of at least 12 months.

There are provisions for the termination of this agreement in the event of well-defined circumstances of default by either the City or BLD USA. In the event of an agreed-upon default, the City or BLD has exhaustive rights to remedy or cure the default. There is no right of assignment outside the assignment to an affiliate of either entity.

Water Park – Hawaiian Falls

In fiscal year 2008, the City completed the construction and capitalized the costs of a water park. The cost of the park capitalized was \$8.9 million.

To construct, operate, and maintain the water park, the City contracted with Mansfield Family Entertainment, LLC, MFE, commonly referred to as Hawaiian Falls. The term of the agreement is for a period of 40 years with two 5-year renewal options succeeding the term of 40 years. The agreement allows MFE to operate and maintain the park by leasing the water park from City. MFE has the right to charge fees to operate and maintain the park. The City granted a rent holiday or reprieve from annual lease payments for a period of 7 years. However, if the gross receipts generated from the operation of the water park exceed \$2,500,000 in any year within the 7-year rent holiday, MFE is to begin paying an annual lease payment of at least 5% of gross revenues thereafter.

By agreement, MFE acknowledges the title of City in and to land constituting the premises and the real property improvements including appurtenances constructed by either party and agrees never to contest such title.

M. Conduit Debt Obligations

In prior years, the City has issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

There are no series of Industrial Revenue Bonds outstanding as of the fiscal year-end.

N. 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's general liability and workers' compensation program is managed through the purchase of a policy through a municipal pool that is separately administered. The City's health insurance is administered through an outside provider. The City makes specified contributions for employees and their dependents under this plan. Additionally, the City also offers dental, life insurance, and accidental death and dismemberment plans through an independent provider in which the City makes specified contributions for employees only under these plans. There have been no significant reductions in insurance coverage for any of these programs since last year, and settlements have not exceeded insurance coverage for any of the past three years.

O. Subsequent Events

Bond Issuances

On December 8, 2014, the City issued \$11,700,000 in General Obligation Refunding Bonds, Series 2015; and \$15,870,000 in Combination Tax and Revenue Certificates of Obligation, Series 2015. The City issued \$9,540,000 in Waterworks and Sewer System Revenue Refunding Bonds, Series 2015. Also, the City issued \$2,880,000 in Sales Tax Revenue Refunding Bonds, New Series 2015 and \$5,630,000 in Sales Tax Revenue Refunding Bonds, Taxable New Series 2015. The purpose of the Combination Tax and Revenue Certificates of Obligations, Series 2015 are for the design, development, and construction of street improvements, public safety improvements and equipment.

P. New Accounting Pronouncements

For fiscal year 2014, the City has implemented Statements No. 65 and 66 of financial accounting standards issued by the GASB.

In June 2012, the GASB issued Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25. This Statement improves financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The City is in the process of evaluating the impact of this pronouncement on its financial statements.

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement will be effective for the City in fiscal year 2015. The City is in the process of evaluating the impact of this pronouncement on its financial statements.

In January 2013, the GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

In April of 2013, the GASB issued Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend non-exchange financial guarantees and by those governments that receive non-exchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending non-exchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013.

In November of 2013, the GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[CLOSING DATE]

\$ _____
CITY OF MANSFIELD, TEXAS
WATERWORKS AND SEWER SYSTEM
REVENUE REFUNDING AND IMPROVEMENT BONDS
SERIES 2016

WE HAVE represented the City of Mansfield, Texas (the “Issuer”), as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

CITY OF MANSFIELD, TEXAS WATERWORKS AND SEWER SYSTEM
REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2016,
dated December 1, 2015 in the principal amount of \$ _____.

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

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

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; an escrow agreement (the "Escrow Agreement") between the City and Bank of Texas, N.A., as escrow agent (the "Escrow Agent"); the report (the "Report") of Grant Thornton LLP, Certified Public Accountants (the "Verification Agent"), verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded and the mathematical accuracy of certain computations of the yield on the Bonds and obligations acquired with the proceeds of the Bonds; customary certificates of officers, agents and representatives of the Issuer and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. 1 of this issue. Capitalized terms used herein, unless, otherwise defined, have the meanings set forth in the Ordinance.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding special obligations of the Issuer;
- (B) The Bonds are payable from and secured by a lien on and pledge of the Pledged Revenues of the Issuer's waterworks and sewer system, as defined and described in the Ordinance; and
- (C) Firm banking and financial arrangements have been made for the discharge and final payment of the obligations being refunded pursuant to an Escrow Agreement entered into between the Issuer and the Escrow Agent on the date of delivery of the Bonds, and, therefore, such obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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

BASED ON SUCH EXAMINATION, IT IS OUR FURTHER OPINION THAT, under existing law:

- (1) Interest on the Bonds is excludable from gross income for federal income tax purposes; and
- (2) The Bonds are not “private activity bonds” within the meaning of the Code, and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the “adjusted current earnings” of a corporation (other than an S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax liability.

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

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

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

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

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