

***OFFICIAL NOTICE OF SALE, BID FORM
and
PRELIMINARY OFFICIAL STATEMENT***

**CITY OF SULPHUR SPRINGS, TEXAS
(Hopkins County)**

**\$3,000,000*
Combination Tax and Revenue
Certificates of Obligation
Series 2020**

**To be Designated by the City as
“QUALIFIED TAX-EXEMPT OBLIGATIONS”**

***Bids Due Tuesday, March 3, 2020
at
10:00 A.M., Central Time***

*Preliminary; subject to change.

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This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Certificates described herein. The invitation for bids on such Certificates is being made by means of this Official Notice of Sale, the Official Bid Form and the Preliminary Official Statement.

The Issuer will designate the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions.

**OFFICIAL NOTICE OF SALE
\$3,000,000*
CITY OF SULPHUR SPRINGS, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020**

Dated: February 25, 2020

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BID: The City Council of the City of Sulphur Springs, Texas (the “City” or “Issuer”) is offering for sale at competitive bid \$3,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2020 (the “Certificates”).

Bidders must submit bids for the Certificates electronically by internet as described below in “BIDS BY INTERNET”.

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 10:00 A.M., Central Time (“CT”), on March 3, 2020. Bidders submitting a bid by internet **shall not be required to submit signed Official Bid Forms prior to the award**. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System (“PARITY”) and should, as a courtesy, register with PARITY by no later than 9:00 A.M., CDT, on March 3, 2020 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by email to mmcliney@samcocapital.com. If there is a malfunction of the electronic bidding process and a bidder submits a bid via an email, please call 210-832-9760 to notify the Financial Advisor of the incoming bid. Any bid received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY (or by the financial advisor if there is a problem with the electronic bidding system). All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone 212-849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Certificates on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Issuer. The Issuer shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being the sole risk of the prospective bidder.

PLACE AND TIME OF BID OPENING: The bids for the Certificates will be publicly opened and reviewed at the Dallas offices of SAMCO Capital Markets, Inc., 1700 Pacific Ave, Suite 2000, Dallas, Texas 75201, at 10:00 A.M., CDT, on Tuesday, March 3, 2020.

AWARD AND SALE OF THE CERTIFICATES: At a regular meeting to commence at 7:00 P.M., CDT, on Tuesday, March 3, 2020, the City Council will take action to reject all bids or award the sale of the Certificates pursuant to an ordinance (the “Ordinance”). The Issuer reserves the right to reject any or all bids and to waive any irregularities, except time of filing.

* Preliminary, subject to change. See “ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS” herein.

THE CERTIFICATES

DESCRIPTION OF CERTAIN TERMS OF THE CERTIFICATES: The Certificates will be dated March 1, 2020 (the "Dated Date") and interest on the Certificates shall accrue from the Dated Date and will be payable on September 1, 2020, and on each March 1 and September 1 thereafter until maturity or prior redemption. The Certificates will be issued as fully-registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof within a stated maturity. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by the Paying Agent/Registrar, initially BOKF, NA, Dallas, Texas, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.)

MATURITY SCHEDULE

The Certificates will be stated to mature on September 1 in each of the following years in the following amounts:

<u>Stated Maturity</u>	<u>Principal Amount*</u>		<u>Stated Maturity</u>	<u>Principal Amount*</u>
2020	\$ 155,000		2030	\$ 150,000
2021	115,000		2031	155,000
2022	115,000		2032	155,000
2023	120,000		2033	160,000
2024	125,000		2034	165,000
2025	130,000		2035	170,000
2026	130,000		2036	175,000
2027	135,000		2037	180,000
2028	140,000		2038	185,000
2029	145,000		2039	195,000

OPTIONAL REDEMPTION: The Issuer reserves the right to redeem the Certificates maturing on and after September 1, 2030, on September 1, 2029, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest as further described herein. (See "THE CERTIFICATES –Redemption Provisions" in the Preliminary Official Statement.)

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES: Bidders may provide that all of the Certificates be issued as serial maturities or may provide that any two or more consecutive annual principal amounts for maturities 2030 through 2039 be combined into one or more term Certificates ("Term Certificates").

MANDATORY SINKING FUND REDEMPTION: If the successful bidder designates principal amounts to be combined into one or more Term Certificates, each such Term Certificate will be subject to mandatory sinking fund redemption commencing on September 1 of the first year which has been combined to form such Term Certificate and continuing on September 1 in each year thereafter until the stated maturity date of that Term Certificate. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table under the caption "MATURITY SCHEDULE" on page ii of the Notice of Sale. Certificates to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Certificates then subject to such mandatory sinking fund redemption.

The principal amount of the Term Certificates of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Term Certificates of like stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

The Final Official Statement will incorporate the mandatory redemption provisions for the Certificates in the event the successful bidder elects to convert serial maturities into one or more Term Certificates.

AUTHORITY FOR ISSUANCE AND SECURITY FOR PAYMENT: The Certificates are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, an ordinance (the "Ordinance") to be adopted by the City Council, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" in the Preliminary Official Statement.)

* Preliminary, subject to change. See "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS" herein.

The Certificates constitute direct obligations of the Issuer payable as to principal and interest from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law, and are further secured by a pledge of the surplus net revenues derived from the operation of the Issuer's combined Waterworks and Sewer System (the "System"). (See "THE Certificates - Security for Payment" in the Preliminary Official Statement.)

PAYING AGENT/REGISTRAR: The initial Paying Agent/Registrar for the Certificates is BOKF, NA, Dallas, Texas. In the Ordinance, the City covenants to provide a Paying Agent/Registrar at all times while the Certificates are outstanding, and any Paying Agent/Registrar selected by the City shall be a commercial bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Certificates. In the Ordinance the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, such Paying Agent/Registrar, promptly upon the appointment of a successor, is required to deliver the Security Register to the successor Paying Agent/Registrar.

In the event there is a change in the Paying Agent/Registrar, the City has agreed to notify each registered owner of the Certificates then outstanding by United States mail, first-class postage prepaid, at the address in the Security Register, stating the effective date of the change and the mailing address of the successor Paying Agent/Registrar.

BOOK-ENTRY-ONLY SYSTEM: The City intends to utilize the Book-Entry-Only System of DTC, with respect to the issuance of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.)

PRELIMINARY OFFICIAL STATEMENT AND OTHER TERMS AND COVENANTS IN THE ORDINANCE: Further details regarding the Certificates and certain covenants of the City contained in the Ordinance are set forth in the Preliminary Official Statement to which reference is made for all purposes.

QUALIFIED TAX-EXEMPT OBLIGATIONS: The City will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see discussion under "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions" in the Preliminary Official Statement).

CONDITIONS OF SALE

TYPES OF BIDS AND INTEREST RATES: The Certificates will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Certificates from the Dated Date of the Certificates to the date of Initial Delivery (defined herein) of the Certificates. **No bid producing a cash premium on the Certificates that results in a dollar price of less than 102% nor greater than 107% will be considered; provided, however, that any bid is subject to adjustment as described under the caption "ADJUSTMENT OF INITIAL PRICIPAL AMOUNTS"**. Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest rate for the Certificates (calculated in the manner required by Texas Government Code, Chapter 1204, as amended) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Certificates of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS OF AWARD: The sale of the Certificates will be awarded to the bidder making a bid that conforms to the specifications herein and which produces the lowest **True Interest Cost** rate to the Issuer (the "Purchaser" or the "Initial Purchaser"). The True Interest Cost rate is that rate which, when used to compute the total present value as of the Dated Date of all debt service payments on the Certificates on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Certificates plus the premium (but not interest accrued from the Dated Date to the date of their delivery). In the event of a bidder's error in interest cost rate calculation, the interest rates, and premium, if any, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City and its consultants with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Initial Purchaser will be required to provide the City (on or before the 10th business day prior to the delivery of the Certificates) with a breakdown of its "underwriting spread" among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

ESTABLISHING THE ISSUE PRICE FOR THE CERTIFICATES

The Issuer intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal bonds), which require, among other things, that the Issuer receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the "Competitive Sale Requirement").

If the Competitive Sale Requirement is satisfied, the winning bidder must complete, execute, and deliver the Issue Price Certificate described below to the Issuer or SAMCO Capital Markets, Inc. (the "Issuer's Municipal Advisor") at least five (5) business days before the closing date. If the Competitive Sale Requirement is not satisfied, the winning bidder will be required to complete, execute, and deliver the Issue Price Certificate to the Issuer or the Issuer's Municipal Advisor within five (5) business days of the

date on which the 10% Test (as defined below) is satisfied with respect to each of the maturities of the Certificates, other than Hold-the-Price Maturities (as described below).

In the event that the bidding process does not satisfy the Competitive Sale Requirement, each bidder shall designate whether any maturity is a “Hold-the-Price Maturity” by checking the appropriate column in the attached Official Bid Form. Such designation shall be provided to the Issuer’s Municipal Advisor not later than 3 p.m. CDT on the date of the bid opening. Such designation shall in no way change the prices bid for the Certificates. With respect to each maturity so designated as a Hold-the-Price Maturity, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Certificates, that each Underwriter will neither offer nor sell any Hold-the-Price Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of (1) the close of the fifth (5th) business day after the Sale Date, or (2) the date on which the Underwriters have sold at least 10% of that maturity of the Certificates to the Public at a price that is no higher than the initial offering price to the Public. The winning bidder shall promptly advise the Issuer when the Underwriters have sold 10% of a Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

In the event that the bidding process does not satisfy the Competitive Sale Requirement, the winning bidder agrees to promptly report to the Issuer the prices at which at least 10% of each maturity of the Certificates other than a Hold-the-Price Maturity have been sold to the Public. That reporting obligation shall continue until 10% of each such maturity is sold to the Public, whether or not the Closing Date has occurred. By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, (A) to report the prices at which it sells to the Public the unsold Certificates of each maturity allotted to it until either all Certificates have been sold or it is notified by the winning bidder that the 10% Test has been satisfied as to the Certificates of that maturity, (B) to promptly notify the winning bidder of any sales of Certificates that, to its knowledge, are made to a purchaser who is a Related Party to an Underwriter, and (C) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder will assume that based on such agreement each order submitted by the underwriter, dealer or broker-dealer is a sale to the Public; and (ii) any agreement among underwriters relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Certificates to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Certificates of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wire.

In order to provide the Issuer with information that enables it to comply with certain requirements of the Internal Revenue Code of 1986, as amended relating to the exclusion of interest on the Certificates from the gross income of their owners, the winning bidder will be required to complete, execute, and deliver to the Issuer or to the Issuer’s Municipal Advisor, within the required period (provided below), a certification as to the Certificates’ “issue price” substantially in the form and to the effect as the applicable form attached hereto or accompanying this Notice of Sale (the “Issue Price Certificate”). In the event the winning bidder will not reoffer any maturity of the Certificates for sale to the Public (as defined herein) by the Closing Date, the Issue Price Certificate may be modified in a manner approved by the Issuer. Each bidder, by submitting its bid, agrees to complete, execute, and timely deliver the applicable Issue Price Certificate, if its bid is accepted by the Issuer. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale:

- (i) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter,
- (ii) “Underwriter” means (A) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public),
- (iii) “Related Party” means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) “Sale Date” means the date that the Certificates are awarded by the Issuer to the winning bidder.

All actions to be taken by the Issuer under this Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the Issuer by the Issuer's Municipal Advisor, and any notice or report to be provided to the Issuer may be provided to the Issuer's Municipal Advisor.

The Issuer will consider any bid submitted pursuant to this Notice of Sale to be a firm offer for the purchase of the Certificates, as specified in the bid and, if so stated, in the Official Bid Form.

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$3,000,000*. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per Certificate underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

GOOD FAITH DEPOSIT: A bank cashier's check payable to the order of "City of Sulphur Springs, Texas" in the amount of **\$60,000 which is 2% of the par value of the Certificates** (the "Good Faith Deposit") is required. The Good Faith Deposit of the Purchaser will be retained uncashed by the Issuer until the Certificates are delivered, and at that time it will be returned to the Purchaser of the Certificates. The above mentioned Good Faith Deposit shall be made available to the Issuer prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Certificates has been made.

ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM: Pursuant to Texas Government Code, Section 2252.908 (the "Interested Party Disclosure Act"), the City may not award the Certificates to a bidder unless the winning bidder either: (i) submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the City as prescribed by the Texas Ethics Commission ("TEC"), or (ii) certifies in the Official Bid Form that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity. In the event that the bidder's bid for the Certificates is the best bid received, the City, acting through its financial advisor, will promptly notify the winning bidder. That notification will serve as the City's conditional verbal acceptance of the bid, and, unless the bidder is exempt from filing a Disclosure Form, such notification will obligate the winning bidder to establish (unless the winning bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the City to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 – name of the governmental entity (City of Sulphur Springs, Texas) and (b) item 3 – the identification number assigned to this contract by the City (SS 2020 CO-BPA) and description of the goods or services (Purchase of the Sulphur Springs, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a business entity contracting with the City to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, notarize, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the City. The completed, signed and notarized Disclosure Form must be sent by email, to the City's financial advisor at MMcLiney@samcocapital.com and its bond counsel at jgulbas@mphlegal.com and lgrawunder@mphlegal.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award.

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the bidder **MUST BE ACKNOWLEDGED BY AND SUBMITTED UNDER A NOTARY STAMP**. No exceptions may be made to that requirement. To the extent that the bidder is not exempt from filing a Disclosure Form and therefor makes such filing with the City, the Interested Party Disclosure Act and the Disclosure Form provide that such acknowledgment is made "under oath and under penalty of perjury." Consequently, a bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. **Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed Disclosure Form is received. The City reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein.** Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and none of those parties has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

* Preliminary, subject to change.

IMPACT OF BIDDING SYNDICATE ON AWARD: For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

Verification Pursuant to Chapter 2271 of the Texas Government Code: Pursuant to Chapter 2271 of the Texas Government Code, as amended, the winning bidder will be required to verify in the Official Bid Form, for purposes of such chapter, that at the time of execution and delivery of its bid and, except to the extent otherwise required by applicable federal law, to the date of delivery of the Certificates, neither the winning bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the winning bidder, boycotts or will boycott Israel. The terms “boycotts Israel” and “boycott Israel” as used in this paragraph have the meanings assigned to the term “boycott Israel” in Section 808.001 of the Texas Government Code, as amended.

Verification Pursuant to Chapters 2252 and 2270 of the Texas Government Code: Pursuant to Chapter 2252 and Chapter 2270 (as enacted by Acts 2017, 85th Leg., ch. 96, Senate Bill 253) of the Texas Government Code, as amended, the winning bidder will be required to verify that at the time of the execution and delivery of its bid through the date of delivery of the Certificates, the winning bidder, including any wholly owned subsidiary, majority-owned subsidiary, parent company, or affiliate of the winning bidder, is not: (i) listed as a scrutinized company with business operations in Sudan or Iran, (ii) engaged in scrutinized business operations with a designated foreign terrorist organization and (iii) a company known to have contracted with or provided services to a foreign terrorist organization or designated foreign terrorist organization on the lists prepared and maintained pursuant to Sections 2252.152 and 2270.0201 of the Texas Government Code, as amended.

OFFICIAL STATEMENT

To assist the Initial Purchaser in complying with Rule 15c2-12 of the Securities and Exchange Commission ("SEC"), the Issuer and the Initial Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

COMPLIANCE WITH RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION: The Issuer has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Certificates, but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the Issuer deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of Rule 15c2-12 of the SEC (the "Rule"), except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Initial Purchaser shall be responsible for promptly informing the Issuer of the initial offering yields of the Certificates.

Thereafter, the Issuer will complete and authorize distribution of the Final Official Statement identifying the Initial Purchaser and containing such omitted information. The Issuer does not intend to amend or supplement the Preliminary Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the Final Official Statement or any amendment or supplement thereto in the requested quantity to the Initial Purchaser on or after the sale date, the Issuer intends the same to be final as of such date, within the meaning of the Rule. Notwithstanding the foregoing, the Issuer makes no representation concerning the absence of material misstatements or omissions from the Preliminary Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below. To the best knowledge and belief of the Issuer, the Preliminary Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates.

CONTINUING DISCLOSURE AGREEMENT: The City will agree in the Ordinance to provide certain periodic information and notices of material events in accordance with the Rule, as described in the Preliminary Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." The Initial Purchaser's obligation to accept and pay for the Certificates is conditioned upon delivery to the Initial Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS: During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule, with the following qualifications. Due to an administrative oversight, some of the City's financial information and operating data tables were not included in the City's Rule 15c2-12 filing for Fiscal Year ended September 30, 2014. All the missing information has since been filed, including a notice of late filing. The City's Rule 15c2-12 filing for Fiscal Year ended September 30, 2015 was made on time and included all the required tables. The Notice of Late Filing related to this event was filed on April 6, 2016.

FINAL OFFICIAL STATEMENT: The Issuer will furnish to the Purchaser, within seven (7) business days after the sale date, an aggregate maximum of fifty (50) copies of the Final Official Statement (and 50 copies of any addenda, supplement or amendment thereto), together with information regarding interest rates and other terms relating to the reoffering of the Certificates, in accordance with the Rule. The Issuer agrees to provide, or cause to be provided, to the Purchaser the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in such printed or electronic format may be

required for the Purchaser to comply with the Rule and the rules of the Municipal Securities Rulemaking Board (the "MSRB"). The Issuer consents to the distribution of such documents in electronic format. The Purchaser may arrange at its own expense to have the Final Official Statement reproduced and printed if it requires more than 50 copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Final Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Certificates. The Purchaser will be responsible for providing information concerning the Issuer and the Certificates to subsequent purchasers of the Certificates, and the Issuer will undertake no responsibility for providing such information other than to make the Final Official Statement available to the Purchaser as provided herein. The Issuer's obligation to supplement the Final Official Statement to correct representations determined to be materially misleading, after the date of the Final Official Statement, shall terminate upon the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from the MSRB, but in no case less than 25 days after the "end of the underwriting period" for the Certificates. The Purchaser by submitting a bid for the Certificates agrees to promptly file the Official Statement with the MSRB. Unless otherwise notified in writing by the Purchaser, the Issuer can assume that the "end of the underwriting period" for purposes of the Rule is the date of the initial delivery of the Certificates to the Purchaser.

CHANGES TO OFFICIAL STATEMENT: If, subsequent to the date of the Final Official Statement, the Issuer learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser of any adverse event which causes the Final Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Certificates, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS - CONDITIONS TO DELIVERY," the Issuer will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Final Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the Issuer to do so will terminate on the date specified under "FINAL OFFICIAL STATEMENT" above.

CERTIFICATION OF THE OFFICIAL STATEMENT: At the time of payment for and delivery of the Initial Certificates, the Initial Purchaser will be furnished a certificate, executed by proper officials of the Issuer, acting in their official capacity, in the form specified in the Official Statement under the heading "OTHER PERTINENT INFORMATION – Certification of the Official Statement." The Preliminary Official Statement and Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Certificates will be authorized, ratified and approved by the City Council on the date of sale, and the Initial Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Certificates, a certified copy of such approval, duly executed by the proper officials of the Issuer.

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL CERTIFICATE: Initial Delivery will be accomplished by the issuance of one fully registered Certificate, in the aggregate principal amount of \$3,000,000*, payable to the Purchaser (the "Initial Certificate"), signed by the Mayor and City Secretary, by their manual or facsimile signatures, approved by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts. Initial Delivery will be at the designated office of the Paying Agent/Registrar. Upon delivery of the Initial Certificate, it shall be immediately canceled and one definitive certificate for each maturity in the aggregate principal amount of \$3,000,000* payable to Cede & Co. will be delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Certificates must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days' notice of the time fixed for delivery of the Certificates. It is anticipated that the delivery of the Initial Certificate can be made on or about March 31, 2020, but if for any reason the City is unable to make delivery by April 3, 2020, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend his obligation to take up and pay for the Certificates an additional 30 days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided that such failure is due to circumstances beyond the City's reasonable control.

DTC DEFINITIVE CERTIFICATES: The Certificates will be issued in book-entry-only form. Cede & Co. is the nominee for DTC. All references herein and in the Official Statement to the holders or registered owners of the Certificates shall mean Cede & Co. and not the beneficial owners of the Certificates. Purchases of beneficial interests in the Certificates will be made in book-entry form in the denomination of \$5,000 principal amounts or any integral multiple thereof. Under certain limited circumstances, there may be a cessation of the immobilization of the Certificates at DTC, or another securities depository, in which case, such beneficial interests would become exchangeable for definitive printed obligations of like principal amount.

CUSIP NUMBERS: It is anticipated that CUSIP identification numbers will be printed on the Certificates, but neither the failure to print such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Certificates shall be paid by the Issuer; however, **the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Initial Purchaser.**

* Preliminary, subject to change.

CONDITIONS TO DELIVERY: The obligation to take up and pay for the Certificates is subject to the following conditions: the issuance of an approving opinion of the Attorney General of Texas, the Initial Purchaser's receipt of the legal opinion of Bond Counsel and the no-litigation certificate, and the non-occurrence of the events described below under the caption "NO MATERIAL ADVERSE CHANGE," all as described below. In addition, if the Issuer fails to comply with its obligations described under "OFFICIAL STATEMENT" above, the Initial Purchaser may terminate its contract to purchase the Certificates by delivering written notice to the Issuer within five (5) days thereafter.

NO MATERIAL ADVERSE CHANGE: The obligations of the Initial Purchaser to take up and pay for the Certificates, and of the Issuer to deliver the Certificates to the Initial Purchaser, are subject to the condition that, up to the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the affairs of the Issuer subsequent to the date of sale from that set forth in the Official Statement, as it may have been finalized, supplemented or amended through the date of delivery.

LEGAL OPINIONS: The Certificates are offered when, as and if issued, subject to the approval of certain legal matters by the Attorney General of the State of Texas and Bond Counsel (see discussion "OTHER PERTINENT INFORMATION - Legal Opinions and No-Litigation Certificate" in the Official Statement).

CHANGE IN TAX-EXEMPT STATUS: At any time before the Certificates are tendered for initial delivery to the Initial Purchaser, the Initial Purchaser may withdraw its bid if the interest on obligations such as the Certificates shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

GENERAL CONSIDERATIONS

MUNICIPAL BOND INSURANCE: In the event the Certificates are qualified for municipal bond insurance, and the Initial Purchaser desires to purchase such insurance, the cost therefor will be paid by the Initial Purchaser. Any fees to be paid to Fitch Ratings or Moody's Investors Service, Inc. as a result of said insurance will be paid by the Initial Purchaser. The fee of Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P") will be paid by the Issuer. It will be the duty of the Initial Purchaser to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Certificates and any other information or certifications which may be required to determine the effect of such insurance on the yield of the Certificates for federal income tax purposes. Any negative change in the rating of a bond insurance provider after the Bid Opening shall not relieve the Initial Purchaser of its obligation under the heading Initial Delivery of Initial Certificate.

RATING: S&P Global Ratings ("S&P") has assigned an unenhanced, underlying rating of "A+" to the Certificates. (See "OTHER PERTINENT INFORMATION – Ratings" in the Preliminary Official Statement). An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. If the Purchaser chooses to submit a bid utilizing bond insurance, the enhanced long-term rating on the Certificates will be dependent upon the rating of the provider of such policy. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" in the Preliminary Official Statement. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

SALE OF ADDITIONAL DEBT: The City does not anticipate issuing any additional debt within the next twelve months.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE: No registration statement relating to the Certificates has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act. The Certificates have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions contained therein, nor have the Certificates been registered or qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for registration or qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify sale of the Certificates under the securities laws of any jurisdiction which so requires. The Issuer agrees to cooperate, at the Purchaser's written request and expense and within reasonable limits, in registering or qualifying the Certificates, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but will in no instance execute a special or general consent to service of process in any state that the Certificates are offered for sale.

ADDITIONAL COPIES: Subject to the limitations described under "OFFICIAL STATEMENT" herein, additional copies of this Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement may be obtained from SAMCO Capital Markets, Inc., 1700 Pacific Ave., Suite 2000, Dallas, Texas 75201, Attention: Peggy Kilborn (214-765-1440, *pkilborn@samcocapital.com*).

On the date of the sale, the City Council will, in the Ordinance awarding the sale of the Certificates, approve the form and content of the Final Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Purchaser.

ATTEST:

/s/

City Secretary
City of Sulphur Springs, Texas

/s/

Mayor
City of Sulphur Springs, Texas

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CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

Complete Nos. 1 - 4 and 6 if there are interested parties.
Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

**OFFICE USE ONLY
CERTIFICATION OF FILING**

1 Name of business entity filing form, and the city, state and country of the business entity's place of business.

2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.

City of Sulphur Springs, Texas

3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.

Contract Number: SS 2020 - CO-BPA

Purchase of the: City of Sulphur Springs, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020

4	Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
			Controlling	Intermediary

DRAFT

5 Check only if there is NO Interested Party.

6 UNSWORN DECLARATION

My name is _____, and my date of birth is _____.

My address is _____, _____, _____, _____, _____.
(street) (city) (state) (zip code) (country)

I declare under penalty of perjury that the foregoing is true and correct.

Executed in _____ County, State of _____, on the ____ day of _____, 20____.
(month) (year)

Signature of authorized agent of contracting business entity
(Declarant)

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OFFICIAL BID FORM

Honorable Mayor and City Council
 City of Sulphur Springs
 201 North Davis Street
 Sulphur Springs, Texas 75482

March 3, 2020

Ladies and Gentlemen:

Reference is made to your Official Notice of Sale and Preliminary Official Statement dated February 25, 2020 of \$3,000,000* City of Sulphur Springs, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020, both of which constitute a part hereof.

For your legally issued Certificates, as described in said Official Notice of Sale and Preliminary Official Statement, we will pay you a price of \$_____ (being a price of no less than 102% nor more than 107% of the par value) plus accrued interest from their Dated Date to the date of delivery to us, for Certificates maturing September 1 and bearing interest as follows:

<u>Stated Maturity</u>	<u>Principal Amount</u>	<u>Amount Awarded</u>	<u>Interest Rate</u>	<u>Hold-The Price Maturity</u>	<u>Stated Maturity</u>	<u>Principal Amount</u>	<u>Amount Awarded</u>	<u>Interest Rate</u>	<u>Hold-The Price Maturity</u>
2020	\$ 155,000	\$ _____	% _____	_____	2030*	\$150,000	\$ _____	% _____	_____
2021	115,000	_____	% _____	_____	2031*	155,000	_____	% _____	_____
2022	115,000	_____	% _____	_____	2032*	155,000	_____	% _____	_____
2023	120,000	_____	% _____	_____	2033*	160,000	_____	% _____	_____
2024	125,000	_____	% _____	_____	2034*	165,000	_____	% _____	_____
2025	130,000	_____	% _____	_____	2035*	170,000	_____	% _____	_____
2026	130,000	_____	% _____	_____	2036*	175,000	_____	% _____	_____
2027	135,000	_____	% _____	_____	2037*	180,000	_____	% _____	_____
2028	140,000	_____	% _____	_____	2038*	185,000	_____	% _____	_____
2029	145,000	_____	% _____	_____	2039*	195,000	_____	% _____	_____

* Maturities available to be designated as term Certificates.

In the event that the Issuer's Municipal Advisor informs the winning bidder that less than three bids were received for the Certificates, the winning bidder shall promptly report which maturities, if any, will be Hold-the-Price maturities on or before 3 p.m. on the date of the bid opening. See "ESTABLISHING THE ISSUE PRICE FOR THE CERTIFICATES" in this Notice of Sale.

Of the principal maturities set forth in the table above, we have created term certificates as indicated in the following table (which may include multiple term certificates, one term certificate or no term certificates if none is indicated). For those years which have been combined into a term certificate, the principal amount shown in the table above will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term certificate maturity date will mature in such year. The term certificates created are as follows:

<u>Term Certificate Maturity Date September 1</u>	<u>Year of First Mandatory Redemption</u>	<u>Principal Amount of Term Certificate</u>	<u>Interest Rate</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Our calculation (which is not part of this bid) of the interest cost in accordance with the above bid is:

TRUE INTEREST COST _____%

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$3,000,000*. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per Certificate underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

*Preliminary, subject to change.

By its acceptance of this bid, we understand the City will provide the copies of the Final Official Statement and of any amendments or supplements thereto in accordance with the Official Notice of Sale, and will cooperate to permit the undersigned to comply with Rule 15c2-12 of the Securities and Exchange Commission. The Purchaser by submitting this bid for the Certificates agrees to promptly file the Official Statement when received from the City with the Municipal Securities Rulemaking Board.

The Initial Certificate shall be registered in the name of _____ (Syndicate Manager), which will upon payment for the Certificates, be canceled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the Book-Entry-Only System. We will advise DTC of registration instructions at least five business days prior to the date set for Initial Delivery.

Cashier's Check of the _____ Bank, _____, in the amount of \$60,000 which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms as set forth in the Official Notice of Sale. Upon delivery of the Certificates, said check shall be returned to the Initial Purchaser.

We agree to accept delivery of the Initial Certificate(s) through DTC and make payment for the Initial Certificate(s) in immediately available funds at BOKF, NA, Dallas, Texas, no later than 10:00 A.M., Central Daylight Time, on March 31, 2020, or thereafter on the date the Initial Certificate(s) are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

The undersigned agrees to complete, execute and deliver to the City at least five business days prior to the date of delivery of the Certificates, a certificate relating to the "issue price" of the Certificates in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the Bond Counsel for the Issuer. The undersigned also agrees to provide the City and its consultants, at least ten business days prior to the delivery of the Certificates, a breakdown of its "underwriting spread" among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

The Issuer will consider any bid submitted pursuant to the Notice of Sale relating to the Certificates to be a firm offer for the purchase of the Certificates.

For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

The undersigned (check applicable):

___ Upon notification of conditional verbal acceptance, the undersigned will complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed, notarized and sent by email to the City's financial advisor at MMcLiney@samcocapital.com and its bond counsel at jgulbas@mphlegal.com and lgrawunder@mphlegal.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the City from providing final written award of the enclosed bid.

___ Certifies that the Underwriter is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

The undersigned verifies, for purposes of Chapter 2271 of the Texas Government Code, as amended, that at the time of execution and delivery of this bid and, except to the extent otherwise required by applicable federal law, to the date of delivery of the Certificates, neither the undersigned, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the undersigned, boycotts or will boycott Israel. The terms "boycotts Israel" and "boycott Israel" as used in this paragraph have the meanings assigned to the term "boycott Israel" in Section 808.001 of the Texas Government Code, as amended.

The undersigned hereby represent that neither the Purchaser nor any of their respective parent companies, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Texas Government Code, and posted on any of the following pages of such officer's internet website:

<https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>;

<https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>; or

<https://comptroller.texas.gov/purchasing/docs/fto-list.pdf>.

The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, and to the extent such Section does not contravene applicable State or Federal law and excludes the Purchaser and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. The Purchaser understands "affiliate" to mean any entity that controls, is controlled by, or is under common control with the Underwriters and exists to make a profit.

Respectfully submitted,

By:

Underwriter's Authorized Representative

ACCEPTANCE CLAUSE

THE ABOVE AND FOREGOING BID IS IN ALL THINGS HEREBY ACCEPTED this 3rd day of March 2020, by the City Council of the City of Sulphur Springs, Texas.

Mayor, City of Sulphur Springs, Texas

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ISSUE PRICE CERTIFICATE

(Form of Certificate if at least 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Combination Tax and Revenue Certificates of Obligation, Series 2020 issued by the City of Sulphur Springs, Texas ("Issuer") in the principal amount of \$3,000,000* ("Certificates"), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Certificates by the Purchaser, the Purchaser's reasonably expected initial offering prices of each maturity of the Certificates with the same credit and payment terms (the "Expected Offering Prices") to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Certificates, as attached to this Certificate as Schedule A. The Expected Offering Prices are the prices for the Certificates used by the Purchaser in formulating its bid to purchase the Certificates.

(b) The Purchaser had an equal opportunity to bid to purchase the Certificates and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Certificates.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public) to participate in the initial sale of the Certificates to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Certificates. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this [ISSUE DATE].

[NAME OF PURCHASER], as Purchaser

By: _____

Name: _____

* Preliminary, subject to change. See "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS" herein.

ISSUE PRICE CERTIFICATE

(Form of Certificate if less than 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Combination Tax and Revenue Certificates of Obligation, Series 2020 issued by the City of Sulphur Springs, Texas ("Issuer") in the principal amount of \$3,000,000* ("Certificates"), hereby certifies and represents, based on its records and information, as follows:

(a) [Other than the Certificates maturing in ____ ("Hold-the-Price Maturities"), the][The first prices at which at least ten percent ("Substantial Amount") of the principal amount of each maturity of the Certificates having the same credit and payment terms ("Maturity") was sold to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter ("Public") are their respective initial offering prices, as listed in the pricing wire or equivalent communication for the Certificates that is attached to this Certificate as Schedule A.

(Add (b) and (c) only if winning bidder designates one or more maturities as Hold-the-Price Maturities)

(b) On or before the first day on which there is a binding contract in writing for the sale of the Certificates ("Sale Date"), the Purchaser offered to the Public each Maturity of the Hold-the-Price Maturities at their respective initial offering prices, as set forth in Schedule A hereto ("Initial Offering Price").

(c) As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Initial Offering Price for each such Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells at least ten percent of a Hold-the-Price-Maturity of the Certificates to the Public at no higher price than the Initial Offering Price for such Maturity.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public) to participate in the initial sale of the Certificates to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Certificates. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this [ISSUE DATE].

[NAME OF PURCHASER], as Purchaser

By: _____

Name: _____

* Preliminary, subject to change. See "ADJUSTMENT OF INITIAL PRINICIPAL AMOUNTS" herein.

SCHEDULE A
PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

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

NEW ISSUE BOOK-ENTRY-ONLY

Rating: S&P: "Applied For"
(See "OTHER PERTINENT INFORMATION - Rating", BOND INSURANCE" and "BOND INSURANCE GENERAL RISK" herein)

PRELIMINARY OFFICIAL STATEMENT
Dated: February 25, 2020

In the opinion of McCall, Parkhurst & Horton, L.L.P., Bond Counsel to the City, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date of the initial delivery of the Certificates, subject to the matters described under "TAX MATTERS" herein.

The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

\$3,000,000*
CITY OF SULPHUR SPRINGS, TEXAS
(Hopkins County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020

Dated Date: March 1, 2020

Due: September 1, as shown on page ii

The City of Sulphur Springs, Texas (the "City" or the "Issuer") \$3,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates") are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, an ordinance (the "Ordinance") to be adopted by the City Council, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct obligations of the Issuer payable from a combination of the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and a pledge of the surplus net revenues derived from the operation of the City's combined Waterworks and Sewer System (the "System"). (See "THE CERTIFICATES - Security for Payment" herein.)

Interest on the Certificates will accrue from March 1, 2020 (the "Dated Date") as shown above and will be payable on September 1, 2020, and on each March 1 and September 1 thereafter, until maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to DTC, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used to pay all or a portion of the City's contractual obligations incurred in connection with (1) acquiring, constructing and equipping improvements to Pacific Park consisting of: a new replacement building for the Gray's Building, a multipurpose sports pavilion, new and expanded playgrounds, new and expanded walking paths, landscaping, improvements to the water splashpad, improvements to the existing pavilion, new restrooms, seating and tables; (2) acquiring, constructing and equipping a new senior citizens center; and (3) for paying fees for legal, fiscal, engineering, architectural and other professional services in connection with these projects and said Certificates of Obligation. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

The Issuer reserves the right to redeem the Certificates maturing on and after September 1, 2030, on September 1, 2029, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest as further described herein. (See "THE CERTIFICATES - Redemption Provisions" herein.)

The City is considering qualifying the Certificates for municipal bond insurance and has made application to municipal bond insurance companies in connection with such consideration. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)

STATED MATURITY SCHEDULE
(On Page ii)

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See Appendix C – Form of Legal Opinion of Bond Counsel.) (See "OTHER PERTINENT INFORMATION - Legal Opinions and No-Litigation Certificate" herein). It is expected that the Certificates will be available for delivery through DTC on or about March 31, 2020.

BIDS DUE ON MARCH 3, 2020 AT 10:00 A.M., CENTRAL TIME.

* Preliminary, subject to change.

STATED MATURITY SCHEDULE
(Due September 1)
Base CUSIP – 865525^(a)

Stated Maturity September 1	Principal Amount*	Interest Rate (%)	Initial Yield (%)	CUSIP Suffix ^(a)
2020	\$ 155,000			
2021	115,000			
2022	115,000			
2023	120,000			
2024	125,000			
2025	130,000			
2026	130,000			
2027	135,000			
2028	140,000			
2029	145,000			
2030	150,000			
2031	155,000			
2032	155,000			
2033	160,000			
2034	165,000			
2035	170,000			
2036	175,000			
2037	180,000			
2038	185,000			
2039	195,000			

(Interest to accrue from the Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on and after September 1, 2030, on September 1, 2029, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest as further described herein. (See “THE CERTIFICATES - Redemption Provisions” herein.)

^(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Financial Advisor is responsible for the selection or the correctness of the CUSIP numbers set forth herein.

* Preliminary, subject to change.

CITY OF SULPHUR SPRINGS, TEXAS
201 North Davis
Sulphur Springs, Texas 75482
(903) 885-7541

ELECTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>On Council</u>		<u>Occupation</u>
		<u>Since</u>	<u>Term Expires</u> <u>May</u>	
John Sellers	Mayor	2011	2020	Marketing-City National Bank
Freddie Taylor	Mayor Pro Tem	2004	2022	Business Manager – VF Outlet
Harold Nash	Council Member	2019	2020	Pastor-Morning Chapel Baptist Church
Doug Moore	Council Member	2018	2020	Retired
*Vacant	Council Member	_____	_____	_____
*Vacant	Council Member	_____	_____	_____
*Vacant	Council Member	_____	_____	_____

* To be filled at a May Election.

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Length of Service With the City</u>
Marc Maxwell	City Manager	23 Years
Lesla Smith	Finance Director	2 Year
Gale Roberts	City Secretary	13 Years
Jim McLeroy	City Attorney	26 Years
Tory Niewiadomski	Development Director	3 Years
Oscar Aguayo	Accounting Specialist	1 Year
Dave Reed	City Engineer	31 Years
David James	Fire Chief	7 Months
Jason Ricketson	Police Chief	7 Months
James Jordan	Director of Utilities	7 Months

CONSULTANTS AND ADVISORS

Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Certified Public Accountants	Evans & Knauth, PLLC Frisco, Texas
Financial Advisor	SAMCO Capital Markets, Inc. San Antonio, Texas

For Additional Information Please Contact:

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afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission (the "Rule"), this document constitutes a preliminary official statement of the Issuer with respect to the Certificates that has been deemed "final" by the Issuer 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 and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information must not be relied upon.

Certain information set forth herein has been provided by sources other than the City that the City believes to be reliable, but the City makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, 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 AND EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of Sulphur Springs, Texas (the "Issuer" or "City") is a political subdivision of the State of Texas and is located 80 miles east of Dallas in Hopkins County (the "County"). The Issuer is a Home Rule City which operates under a Council-Manager form of government, with the City Council comprised of seven members including the Mayor. All members are elected by place number and at-large for three-year staggered terms. The City's population according to the 2010 census was 15,449, an increase of 6.17% since 2000. (See "Appendix B - General Information Regarding the City of Sulphur Springs and Hopkins County, Texas" herein.)
The Certificates	The Certificates are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, an ordinance (the "Ordinance") to be adopted by the City Council, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Certificates is BOKF, NA, Dallas Texas.
Security	The Certificates constitute direct general obligations of the Issuer payable from a combination of the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and a limited pledge (not to exceed \$1,000) of the surplus Net Revenues derived from the operation of the City's combined Waterworks and Sewer System (the "System"). (See "THE CERTIFICATES - Security for Payment" herein.)
Redemption Provision	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on and after September 1, 2030, on September 1, 2029, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the price of par plus accrued interest to the date fixed for redemption. (See "THE CERTIFICATES - Redemption Provisions" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal tax purposes under statutes, regulations, published rulings and court decisions existing on the date of the initial delivery of the Certificates, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. (See "TAX MATTERS" for a discussion of the Opinion of Bond Counsel and "APPENDIX C - FORM OF LEGAL OPINION OF BOND COUNSEL" herein.)
Use of Certificate Proceeds	Proceeds from the sale of the Certificates will be used to pay all or a portion of the City's contractual obligations incurred in connection with (1) acquiring, constructing and equipping improvements to Pacific Park consisting of: a new replacement building for the Gray's Building, a multipurpose sports pavilion, new and expanded playgrounds, new and expanded walking paths, landscaping, improvements to the water splashpad, improvements to the existing pavilion, new restrooms, seating and tables; (2) acquiring, constructing and equipping a new senior citizens center; and (3) for paying fees for legal, fiscal, engineering, architectural and other professional services in connection with these projects and said Certificates of Obligation. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York described herein. No physical delivery of the Certificates will be made to the beneficial owners of the Certificates. Such Book-Entry-Only System may affect the method and timing of payments on the Certificates and the manner the Certificates may be transferred. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Bond Insurance	The City is considering qualifying the Certificates for municipal bond insurance and has made application to municipal bond insurance companies in connection with such consideration. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)
Rating	A municipal bond rating application has been made to S&P Global Ratings, a division of S&P Global, Inc. ("S&P"). An explanation of the significance of such rating may be obtained from S&P. (See "OTHER PERTINENT INFORMATION - Rating" herein.)
Qualified Tax Exempt Obligations	The City will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions" herein.)
Issuance of Additional Debt	The City does not anticipate issuing any additional debt within the next twelve months.
Payment Record	The City has not defaulted since 1921, when there was a slight delay due to an error in bookkeeping.
Delivery	When issued, anticipated on or about March 31, 2020.
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas.

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INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by City of Sulphur Springs, Texas (the "City" or the "Issuer") of its \$3,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates") identified on the cover page hereof.

The Issuer is a political subdivision of the State of Texas and operates as a home-rule municipality under the statutes and the constitution of the State of Texas (the "State"). The Certificates are being issued pursuant to the Constitution and general laws of the State, an ordinance (the "Ordinance") to be adopted by the City Council authorizing the issuance of the Certificates, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

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

THE CERTIFICATES

General

The Certificates will be dated March 1, 2020 (the "Dated Date"). The Certificates are stated to mature on September 1 in the years and in the principal amounts set forth on page ii hereof. The Certificates shall bear interest from their Dated Date on the unpaid principal amounts, and the amount of interest to be paid with respect to each payment period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Certificates will be payable on September 1, 2020, and on each March 1 or September 1 thereafter until maturity or prior redemption. Principal is payable at the designated offices of the "Paying Agent/Registrar" for the Certificates, initially BOKF, NA, Austin, Texas. Interest on the Certificates shall be paid to the registered owners whose names appear on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (as hereinafter defined) and shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk of, the registered owner. If the date for the payment of the principal or interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to be closed, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Initially, the Certificates will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described below. No physical delivery of the Certificates will be made to the Beneficial Owners. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts received to the appropriate DTC Participants, who shall in turn make payment to the Beneficial Owners of the Certificates. Such Book-Entry-Only System may change the method and timing of payment for the Certificates and the method of transfer. See "BOOK-ENTRY-ONLY SYSTEM" below for a more complete description of such System.

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State, including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, the Ordinance and the City's Home Rule Charter.

Security for Payment

The Certificates constitute direct obligations of the Issuer payable from a combination of the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and a pledge of the surplus revenues derived from the operation of the City's combined Waterworks and Sewer System (the "System") remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or a part of the revenues of the System. (See "CITY APPLICATION OF THE PROPERTY TAX CODE" herein.)

* Preliminary, subject to change.

Tax Rate Limitations

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

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used to pay all or a portion of the City's contractual obligations incurred in connection with (1) acquiring, constructing and equipping improvements to Pacific Park consisting of: a new replacement building for the Gray's Building, a multipurpose sports pavilion, new and expanded playgrounds, new and expanded walking paths, landscaping, improvements to the water splashpad, improvements to the existing pavilion, new restrooms, seating and tables; (2) acquiring, constructing and equipping a new senior citizens center; and (3) for paying fees for legal, fiscal, engineering, architectural and other professional services in connection with these projects and said Certificates of Obligation.

Redemption Provisions

Optional Redemption: The Issuer reserves the right, at its option, to redeem the Certificates maturing on and after September 1, 2030 on September 1, 2029, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption.

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

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption will, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Certificates and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Certificates or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC direct participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates the Issuer has called for redemption will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC direct participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Payment Record

The City has not defaulted since 1921, when there was a slight delay due to an error in bookkeeping.

Legality

The Certificates are offered when, as and if issued, subject to the approvals of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. A form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

Defeasance

The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with the Paying Agent/Registrar or authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City authorizes the defeasance of the Certificates, 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, on the date the City authorizes the defeasance of the Certificates, have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. 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 Certificates. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of Certificates have been made as described above, all rights of the City to initiate proceedings to call such Certificates for redemption or take any other action amending the terms of such Certificates are extinguished; provided, however, that the right to call such Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of such Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

In the Ordinance, the Issuer has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the registered owners of the Certificates, (ii) grant additional rights or security for the benefit of the registered owners of the Certificates, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the registered owners of the Certificates, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the registered owners of the Certificates.

The Ordinance further provides that the registered owners of the Certificates aggregating in principal amount a majority of the outstanding Certificates shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the registered owners of the Certificates in original principal amount of the then outstanding Certificates, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Certificates; (ii) reducing the rate of interest borne by any of the outstanding Certificates; (iii) reducing the amount of the principal payable on any outstanding Certificates; (iv) modifying the terms of payment of principal of or interest on outstanding Certificates, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

Default and Remedies

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due or the City defaults in the observance or performance of any of the covenants,

conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Certificates, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous language." Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. a proprietary function.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors, holders of the Certificates 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 Certificates are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

See "The Certificates - Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of the Certificates. Initially, the only registered owner of the Certificates will be Cede & Co., as DTC's nominee.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Certificates is BOKF, NA, Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid.

The Certificates will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (as defined below) by check or draft mailed on September 1, 2030, and on each March 1 and September 1 thereafter until maturity or prior redemption of the Certificates, by the Paying Agent/Registrar to the last known address of the registered owner as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal of a Certificate will be paid to the registered owner at its stated maturity or its prior redemption upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Certificates, payments of principal of and interest on the Certificates will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

Record Date

The record date ("Record Date") for interest payable to the registered owner of a Certificate on any Interest Payment Date means the fifteenth day of the month next preceding such Interest Payment Date.

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

Future Registration

The Certificates are initially to be issued utilizing the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"). In the event such Book-Entry-Only System should be discontinued, printed certificates will be issued to the owners of the Certificates and thereafter, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Certificate or Certificates surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be initially utilized in regard to ownership and transferability of the Certificates.)

Limitation on Transfer or Exchange of Certificates

The Paying Agent/Registrar shall not be required to transfer or exchange any Certificates or any portion thereof during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or with respect to any Certificate or portion called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate called for redemption.

Replacement Certificates

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

BOND INSURANCE

The Issuer has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Certificates insured by a municipal bond insurance policy. The decision to purchase a municipal bond insurance policy may be at the sole discretion of the Initial Purchaser in connection with the Initial Purchaser's winning bid for the purchase of the Certificates. If the Initial Purchaser elects to have the Certificates guaranteed by a municipal bond insurance policy, the Initial Purchaser shall be responsible for the payment of the premium for such policy. The final Official Statement shall disclose, to the extent necessary, any relevant information relating to any such municipal bond insurance policy.

BOND INSURANCE GENERAL RISKS

General

If a Policy is purchased as a result of the City accepting a bid for the Certificates that incorporate the acquisition of such a policy, the following are risk factors relating to the bond insurance.

In the event of default of the scheduled payment of principal of or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest

in connection with mandatory or optional prepayment of the Certificates by the City which is recovered from the Beneficial Owners as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date). Payment of principal of and interest on the Certificates is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES - Default and Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Beneficial Owners.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable from the ad valorem taxes further described under "THE CERTIFICATES – Security for Payment". In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates.

If a Policy is acquired, the enhanced long-term rating on the Certificates will be dependent on the financial strength of the Insurer and its claims paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the rating on the Certificates, whether or not subject to the Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Certificates. See the disclosure described in "OTHER PERTINENT INFORMATION – Ratings" herein.

The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the City, the Underwriter, or the City's Financial Advisor have made an independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody's Investor Services, Inc., S&P Global Ratings and Fitch Ratings, Inc. (collectively, the "Rating Agencies") have, in recent years, downgraded and/or placed on negative watch the claims-paying and financial strength of many providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible. In addition, events in the credit markets over the past ten years have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the investment.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee 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 and the Financial Advisor believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing

Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are jointly referred to as "Participants". DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

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

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

Redemption notices for the Certificates shall be sent to DTC. If less than all of the Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Direct Participant as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

THE SYSTEM

Water Supply

The City has ownership in two surface water sources in the Hopkins County area. The main source of water is Cooper Lake Reservoir. The City has contracted with the U.S. Army Corps of Engineers for 13.3 million gallons of raw water per day from that reservoir.

The City can also obtain raw water from Lake Sulphur Springs, with a firm yield of 8.75 million gallons per day (mgd), pursuant to a water purchase contract (the "Contract") entered into on April 10, 1970 with the Sulphur Springs Water District (the "District"). Under the terms of the Contract, the District issued Water Revenue Bonds for the sole purpose of construction of a reservoir and all other facilities necessary to supply water to the City of Sulphur Springs. Payments by the City to the District began on August 1, 1972 and were equal to the District's ensuing semiannual debt service payments. No debt remains outstanding. The City operates the District's facilities and pays all of the District's operating and maintenance expenses. All payments made by the City under the Contract are operating expenses of the City's System within the meaning of Texas., Government Code, Chapter 1502, as amended.

Raw water is treated at the City's water treatment plant with an estimated treatment capacity of 10 million gallons per day. The plant is a conventional classification plant utilizing rapid mixing, flocculation, sedimentation, filtration, and disinfection. The City has ground storage capacity for treated water in the amount of three million gallons at the water plant site. Elevated storage capacity is provided by three elevated storage tanks located throughout the City with a total capacity of 2.25 million gallons.

Sewer System

The City owns and operates its wastewater treatment facilities under NPDES permit number TX 0058955. The System consists of two trunk lines of 27-inch diameter entering the plant. High flows are equalized in a 3.5 million gallon influent storage basin. Treatment consists of screening, grit collection, primary clarification, activated sludge treatment, final clarification, tertiary filtration, chlorination, and de-chlorination. The average rated plant capacity is 5.4 million gallons per day and average daily flow is 2.99 million gallons.

The City currently has an \$18,200,000 loan with the Texas Water Development Board to upgrade the wastewater treatment plant to be able to properly treat the current organic loading of the plant with additional capacity for an estimated twenty years of residential growth. The flow capacity will remain at 5.4 million gallons per day, which is adequate for the estimated growth. Construction is underway at this time.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE ISSUER

The City invests funds in instruments authorized by Texas law, specifically the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "PFIA"), in accordance with and investment policies approved by the City Council. The City Council appoints the Finance Director as the "Investment officer" of the City. Both State law and the City's investment policies are subject to change.

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 are 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 and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and

approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas, (9) 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, (10) 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, (11) no-load money market mutual funds registered with and regulated by the SEC 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 (12) no-load mutual funds registered with the SEC 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 and (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or AAAM or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations 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.

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

Governmental bodies in the State such as the City are authorized to implement 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) of the second paragraph under this caption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the second paragraph under this caption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body 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.

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

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

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose

the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the City's designated Investment Officer; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Authorized Investments

The City maintains portfolios which utilize specific investment strategy consideration, designed to address the unique characteristics of the following fund groups represented in the investment portfolios:

- Operating Funds and Commingled Pools Containing Operating Funds
- Debt Service Funds
- Debt Service Reserve Funds
- Capital Projects and Special Purpose Funds

All investment instruments must be approved by resolution of the City Council. Assets of funds of the City may be invested in the following instruments:

- US Treasury obligations with stated maturities not to exceed three (3) years and not to exceed 100% of the overall portfolio;
- Obligations of US Government agencies and instrumentalities with stated maturities not to exceed three (3) years and not to exceed 60% of the overall portfolio;
- Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas of the United States or its agencies and instrumentalities with stated maturity not to exceed three years;
- Repurchase agreements and reverse repurchase agreements as defined by Public Funds Investment Act and collateralized by US Government Obligations and obligations of US Government Agencies and Instrumentalities, undertaken under an executed Master Repurchase Agreement with primary dealer and not to exceed six (6) months. The portfolio may not contain more than 40% repurchase agreements;
- Certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or secured by obligation that are described in investment vehicles above and not to exceed 40% of the overall portfolio;
- Constant dollar investment pools as defined by the Public Funds Investment Act rated no lower than AAA or AAA-m or its equivalent by at least one national rating agency and with a weighted average maturity not to exceed sixty (60) days. All investment pools must be approved by resolution from the City Council; and
- No-load money market mutual funds as permitted by the Public Funds Investment Act.

Current Investments

As of December 30, 2019 (unaudited), the following percentages of the City's investable funds were invested in the following categories of investments.

<u>Fund and Investment Type</u>	<u>Amount</u>	<u>Percentage of Portfolio</u>
Checking Account	\$ 1,371,401	10.08%
Certificate of Deposit (Consolidated Cash)	500,000	3.68%
TexPool	11,729,047	86.24%
Total Investments	<u>\$13,600,448</u>	<u>100.00%</u>

As of such date, the market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

The Texas State Comptroller of Public Accounts exercises oversight responsibility over the Texas Local Government Investment Pool ("TexPool"). Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool

and of the other persons who do not have a business relationship with TexPool. The advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAA by S&P. TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Sulphur Springs participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas.

TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that 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 at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Member 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:

	<u>Plan Year 2018</u>	<u>Plan Year 2017</u>
Employee deposit rate	6%	6%
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% Transfers	100% Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	112
Inactive employees entitled to but not yet receiving benefits	65
Active employees	<u>143</u>
	320

Contributions

Under the state law governing TMRS, the contribution rate for each government 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 projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that government. 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 government contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the government make contributions monthly. Since the government 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 rate goes into effect.

Employees for the City of Sulphur Springs were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.40% and 7.19% in calendar year 2018 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$576,057 and were equal to required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan net position (b)	Net Pension liability (a) – (b)
Balance at 12/31/2016	\$ 39,045,311	\$ 35,274,906	\$ 3,770,405
Changes for the year:			
Service Cost	1,067,537	-	1,067,537
Interest	2,605,150	-	2,605,150
Change of Benefit Terms	-	-	-
Diff. Between Expected/Actual Experience	(235,957)	-	(235,957)
Changes of Assumptions	-	-	-
Contributions - Employer	-	574,089	574,089
Contributions - Employee	-	479,074	479,074
Net investment income	-	4,888,366	4,888,366
Benefit payments, including refunds of employee contributions	(1,968,528)	(1,968,528)	-
Administrative Expense	-	(25,337)	25,337
Other Changes	-	(1,284)	1,284
Net Changes	<u>1,468,202</u>	<u>3,946,380</u>	<u>(2,478,178)</u>
Balance at 12/31/2017	\$ 40,513,513	\$ 39,221,286	\$ 1,292,227

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would have been if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate.

	1% Decrease in (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
City's Net Pension Liability	\$ 6,260,848	\$ 1,292,227	\$ (2,866,593)

Pension Expense and Deferred Outflows and Deferred Inflows of Resources

For the year ended September 30, 2018, the City recognized pension expense in the amount of \$932,919. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected & Actual Economic Experience (net of current year amortization)	\$ 22,882	\$ 318,966
Changes in Actuarial Assumptions	234,270	-
Differences Between Projected & Actual Investment Earnings (net of current year amortization)	-	990,832
Contributions Subsequent to the Measurement Date	432,834	-
Total	<u>\$ 689,986</u>	<u>\$ 1,309,798</u>

\$432,834 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	
2019	\$ 95,523
2020	(38,157)
2021	(569,982)
2022	(537,030)
2023	-

AD VALOREM TAX PROCEDURES

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board ("Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the Issuer is the responsibility of the Hopkins County Appraisal District (the "Appraisal District"). Except as described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised. See Table 1 for the reduction in taxable valuation attributable to the 10% Homestead Cap.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land. See Table 1 for the reduction in taxable valuation attributable to valuation by Productivity Value.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the Issuer, in establishing their tax rolls and tax rates.

Issuer and Taxpayer Remedies

Under certain circumstances, the City and its taxpayers may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value of at least \$50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases. See "– Public Hearing and Maintenance and Operations Tax Rate Limitations." The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

State Mandated Homestead Exemptions

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See Table 1 for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the appraised value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See Table 1 for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

Local Option Freeze for the Elderly and Disabled

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. See Table 1 for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport Exemptions

Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See Table 1 for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

Tax Increment Financing Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones ("TIRZ") within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, general located within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM TAX PROCEDURES – City Application of Tax Code" herein.

Public Hearing and Maintenance and Operations Tax Rate Limitations

The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

“no-new-revenue tax rate” means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year’s total tax levy (adjusted) from the current year’s total taxable values (adjusted).

“special taxing unit” means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

“unused increment rate” means the cumulative difference between a city’s voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city’s tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

“voter-approval tax rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the “unused increment rate.”

The City’s tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the “maintenance and operations tax rate”), and (2) a rate for funding debt service in the current year (the “debt service tax rate”). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

A city must annually calculate its “voter-approval tax rate” and “no-new-revenue tax rate” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its “de minimis rate”, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city’s adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city’s voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its “voter-approval tax rate” using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city’s total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City’s ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City’s tax-supported debt obligations, including the Certificates.

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

Penalties and Interest

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

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

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

The City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF THE PROPERTY TAX CODE

The City grants an exemption of \$10,000 to the market value of the residence homestead of persons 65 years of age or older.

The City does not grant the additional up to 20% of the market value of residence homesteads.

The City taxes only business personal property.

The City collects its own property taxes and does not allow discounts.

The City took action in December 1989 to tax Article VIII, Section 1-j property ("freeport property"), but may elect to exempt freeport property anytime in the future.

The City does not grant an exemption for "goods-in-transit".

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004, as described above under "Homestead Tax Limitation" herein.

The City created a Tax Increment Reinvestment Zone ("TIRZ") in December 2007. The 2007 property values were used as the "base values" for the TIRZ and the first year for property value to be captured by the TIRZ was the 2008 tax year. The TIRZ expires December 31, 2032.

The City has entered into tax abatement agreements with Saputo, CMH, backstory Beverages, and BEF and has adopted criteria therefore, which are prerequisites to the execution of abatement agreements. For the 2019 Tax Year, the total aggregate amount of the City's assessed valuation loss due to abatement agreements equals \$34,574,304 and the latest expiration date for any of the agreements is 2027.

ADDITIONAL TAX COLLECTIONS

Municipal Sales Tax Collections

The City has adopted the provisions of Chapter 321 of the Tax Code, as amended, which provides for the maximum levy of a one percent sales tax which may be used by the City for any lawful purpose except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of obligations or other indebtedness.

Optional Sales Tax

The Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the amount of the estimated sales tax revenues to be generated in the current year. Further the Tax Code provides certain cities the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for economic development purposes, if approved by a majority of the voters in a local option election.

At a special election held on January 19, 1991 the City's registered voters approved an additional one-half percent (½%) sales tax to be collected for economic development purposes in accordance with Section 4A, Article 5190.6 of Vernon's Annotated Texas Civil Statutes. Collections of the 4A sales tax began July 1, 1991.

The City has not held an election regarding an additional sales tax for the purpose of 4B economic development or reduction of its ad valorem taxes.

TAX MATTERS

Opinion

On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See Appendix C -- Form of Legal Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel to the City will rely upon (a) the City's federal tax certificate, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Certificates and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel to the City is conditioned on compliance by the City with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Certificates.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the facilities financed or refinanced with the proceeds of the Certificates. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to

whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Certificates may be less than the principal amount thereof or one or more periods for the payment of interest on the Certificates may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Certificates"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Certificates less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

Under Existing Law, the original issue discount on each Original Issue Discount Certificate is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) 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 (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Certificate.

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Certificates. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

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

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

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Certificates under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Certificates will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Certificates under Federal or state law and could affect the market price or marketability of the Certificates. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Certificates should consult their own tax advisors regarding the foregoing matters.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The Issuer expects that the Certificates will be designated as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Certificates as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Certificates would not be "qualified tax-exempt obligations."

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

The City will provide annually to the MSRB, in the electronic format prescribed by the MSRB, financial information and operating data (the "Annual Operating Report") with respect to the City of the general type included in this Official Statement. The information to be updated includes the information in Tables 1, 2, 3, 11, 12, 13, and 14 of Appendix A. The City will additionally provide financial statements of the City (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in the City's annual audited financial statements or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D to this Official Statement and (ii) audited, if the City commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The City will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in 2020. The City may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

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 Website or filed with the SEC, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements for the Issuer, if the Issuer commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information of the type described in the preceding paragraph by the required time and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Issuer's annual financial statements, or such other accounting principles as the Issuer may be required to employ from time to time pursuant to state law or regulation.

The Issuer's current fiscal year end is September 30. Accordingly, it must provide its Annual Operating Report by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are yet available) must be provided by the last day in September in each year by the last day in March in each year, unless the Issuer changes its fiscal year. If the Issuer changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide annual financial information or operating data in accordance with their agreement described above under "Annual Reports".

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

authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

For the purposes of the above described event notices (15) and (16), the term “financial obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

Availability of Information from MSRB

The Issuer has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

The Issuer has agreed to update information and to provide notices of specified events only as described above. The Issuer 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 Issuer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The Issuer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Certificates may seek a writ of mandamus to compel the Issuer to comply with its agreement.

The Issuer may amend its agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Issuer, if the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates 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 either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or any person unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Certificates. The Issuer may also repeal or amend its agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Issuer amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule, with the following qualifications. Due to an administrative oversight, some of the City’s financial information and operating data tables were not included in the City’s Rule 15c2-12 filing for Fiscal Year ended September 30, 2014. All the missing information has since been filed, including a notice of late filing. The City’s Rule 15c2-12 filing for Fiscal Year ended September 30, 2015 was made on time and included all the required tables. The Notice of Late Filing related to this event was filed on April 6, 2016.

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

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

Litigation

In the opinion of the City Staff, the Issuer is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the Issuer, would have a material adverse effect on the financial condition of the City.

Future Debt Issuance

The City does not anticipate issuing any additional debt within the next twelve months.

Legal Investments and Eligibility to Secure Public Funds in Texas

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

No representation is made that the Certificates will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Certificates for such purposes. Additionally, with respect to the Certificates, Section 271.051 of the Texas Local Government Code expressly provides that certificates of obligation approved by the Attorney General of Texas are legal authorized investments for banks, savings banks, trust companies, and savings and loan associations, insurance companies, fiduciaries, trustees, and guardians, and sinking funds of municipalities, counties, school districts, or other political corporations or subdivisions of the State.

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Certificates are valid and legally binding obligations of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Certificates is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions existing on the date of the initial delivery of the Certificates, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Notice of Sale, the Official Bid Form and 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 Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the Issuer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates. Though it represents the Financial Advisor and certain entities that may bid on the Certificates from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates.

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

Rating

A municipal bond rating application has been made to S&P Global Ratings ("S&P"). Currently the Issuer has an underlying rating of "A+" on its general obligation debt from S&P. An explanation of the significance of such rating may be obtained from the rating agency. An explanation of the significance of such rating may be obtained from the rating agency. A rating by a rating agency

reflects only the view of such company at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. If the Purchaser chooses to submit a bid utilizing bond insurance, the enhanced long-term rating on the Certificates will be dependent upon the rating of the provider of such policy. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" in the Preliminary Official Statement. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Financial Advisor

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

Winning Bidder

On March 3, 2020, it is expected that the Certificates will be awarded to an underwriter or group of underwriters managed by _____ (the "Purchaser") through a competitive bid process, or the City will reject all bids in accordance with the provisions of the Official Notice of Sale. The initial reoffering yields will be supplied to the City by the Purchaser. The initial reoffering yields shown on page ii of the Official Statement will produce compensation to the Purchaser of approximately \$_____.

Certification of the Official Statement

At the time of payment for and delivery of the Certificates, the Purchaser will be furnished a certificate executed by the proper officials of the City acting in their official capacity, to the effect that: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement relating to the Certificates, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of the sale of said Certificates, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statement therein, in the light of the circumstances under which they were made, not misleading; (c) to the best of their knowledge, insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City and its activities, contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since September 30, 2018, the date of the last audited financial statements of the Issuer, portions of which appear in the Official Statement.

The Official Statement will be approved as to form and content and the use thereof in the offering of the Certificates will be authorized, ratified and approved by the City Council on the date of sale, and the Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Certificates, a certified copy of such approval, duly executed by the proper officials of the Issuer.

Links to Websites

The City has provided links to websites in this Official Statement to allow investors independent access to information or expertise that may be of value. INFORMATION ON SUCH WEBSITES IS NOT INCORPORATED INTO THIS OFFICIAL STATEMENT BY REFERENCE OR OTHERWISE. The inclusion of any links does not imply a recommendation or endorsement of the information or views expressed within a website. The City has not participated in the preparation, compilation or selection of information or views in any website referenced in this Official Statement, and assumes no responsibility or liability for the information or views, or accuracy or completeness thereof, in any website referenced herein.

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' 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.

Concluding Statement

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

This Official Statement will be approved by the City Council of the Issuer for distribution in accordance with the provisions of the Rule.

CITY OF SULPHUR SPRINGS, TEXAS

ATTEST:

Mayor
City of Sulphur Springs, Texas

City Secretary
City of Sulphur Springs, Texas

APPENDIX A

FINANCIAL INFORMATION OF THE ISSUER

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

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2019 Actual Market Value of Taxable Property (100% of Actual) ^(a)		\$ 1,219,290,605
Less Exemptions:		
Local, Optional Over-65 or Disabled Homestead Exemptions	17,439,430	
Disabled and Deceased Veterans' Exemptions	833,370	
Pollution Control	2,370,841	
Productivity Loss/Agricultural Use	20,439,780	
Abatement Loss	34,574,294	
Homestead Cap Adjustment	10,863,710	
\$500 Minimum Value Loss	11,157	
Totally Exempt Property	156,292,240	
Certified Value Captured by the Tax Increment Reinvestment Zone 4 ("TIRZ")	9,006,095	<u>251,830,917</u>
2019 Net Taxable Assessed Valuation Excluding Value Captured by the TIRZ		<u>\$ 967,459,688</u>

^(a) See "AD VALOREM TAX PROCEDURES" and "CITY APPLICATION OF THE TEXAS TAX CODE" in the Official Statement for a description of the Issuer's taxation procedures.
Source: Hopkins County Appraisal District and the Issuer.

GENERAL OBLIGATION BONDED DEBT

TABLE 2

General Obligation Debt Principal Outstanding: (As of January 31, 2020)		
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2011		\$ 3,235,000
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2012		5,270,000
General Obligation Refunding Bonds, Series 2012		555,000
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2014		3,760,000
General Obligation Refunding Bonds, Series 2015		235,000
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2016		16,945,000
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2017		4,520,000
General Obligation Refunding Bonds, Series 2017		1,265,000
Limited Tax Note, Series 2019		445,000
General Obligation Refunding Bonds, Series 2019		<u>4,135,000</u>
Total Gross General Obligation Debt Principal Outstanding:		\$ 40,365,000
Current Issue General Obligation Debt Principal:		
Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates")		\$ 3,000,000 *
		<u>\$ 3,000,000</u>
Total Gross General Obligation Debt Principal Outstanding Following the Issuance of the Certificates		\$ 43,365,000 *
Less: Self-Supporting General Obligation Debt Principal ^(a)		
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2011 (100% W&S)		\$ 3,235,000
General Obligation Refunding Bonds, Series 2012 (100% W&S)		555,000
General Obligation Refunding Bonds, Series 2015 (100% W&S)		235,000
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2016 (100% W&S)		16,945,000
Combination Tax and Revenue Certificates of Obligation, Series 2017 (approx. 82% W&S)		3,719,348
Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates") (100% EDC)		3,000,000 *
Total Self-Supporting General Obligation Debt Principal		<u>\$ 27,689,348</u>
Total Net General Obligation Debt Outstanding (Following the issuance of the Bonds):		\$ 15,675,652 *
General Obligation Interest and Sinking Fund Balance as of December 31, 2019. (Unaudited)		\$ 4,035,017
Ratio of Gross General Obligation Debt Principal to 2018 TIRZ Adjusted Net Taxable Assessed Valuation		4.48% *
Ratio of Net General Obligation Debt Principal to 2019 TIRZ Adjusted Net Taxable Assessed Valuation		1.62%
2019 TIRZ Adjusted Net Taxable Assessed Valuation ^(b)		\$ 967,459,688
Population: 1980 - 12,804; 1990 - 14,007; 2000 - 14,551; 2010 - 15,449; Current Estimate		16,162
Per Capita 2019 TIRZ Adjusted Net Taxable Assessed Valuation -		\$ 59,860
Per Capita Gross General Obligation Debt Principal -		\$ 2,683 *
Per Capita Net General Obligation Debt Principal -		\$ 970 *

^(a) Self-supporting percentages are based on the original portion of the bond issue dedicated to water and sewer purposes. Although the City intends to pay such self-supporting debt from water and sewer revenues, in the event such revenues are not sufficient or the City determines not to appropriate or otherwise provide for payment of such obligations from water and sewer revenues or other sources, the City will be required to levy an ad valorem tax to pay such debt.

^(b) See "AD VALOREM TAX PROCEDURES" and "CITY APPLICATION OF THE TEXAS PROPERTY TAX CODE" in the Official Statement for a description of the Issuer's taxation procedures.

* Preliminary, subject to change.

Notes Payable:

During the year ended September 30, 2018, the following changes occurred in liabilities reported for the EDC:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$ 4,025,277	\$ 5,576,886	\$ (190,706)	\$ 9,411,457	\$ 5,771,719
	\$ 4,025,277	\$ 5,576,886	\$ (190,706)	\$ 9,411,457	\$ 5,771,719

On October 31, 2005, the Corporation purchased four tracts of land totaling approximately 286 acres from the Hopkins County Industrial Fund, Inc. The land was fully financed by the Fund through a note that bears no interest and is payable upon sale of the land by the Corporation. On August 23, 2006, the Corporation purchased another 248 acres of land that was also financed by the Hopkins County Industrial Fund, Inc. under the same terms as the previous note.

On May 18, 2017, the Corporation borrowed \$2,236,847 from Southside Bank. The loan is being repaid in 113 monthly payments of \$21,051 (beginning June 1, 2017 and 24 monthly payments of \$8,611 (beginning November 1, 2026), including interest computed at 3.05 percent. The note will be paid in full after the final payment on January 1, 2029.

On February 20, 2018, the Corporation obtained a non-revolving construction line of credit (LOC) from Guaranty Bank. The LOC has maximum allowable funds of \$7,800,000. The principal amount will be advanced upon draw requests, until February 20, 2019 at which point, the balance is due in full. During construction, monthly interest only payments will be made (effective March 20, 2018) at an interest rate of 4.75%.

Note: 2019 Audit unavailable at time of printing.

TAXABLE ASSESSED VALUATION HISTORY FOR TAX YEARS 2010-2019

TABLE 4

<u>Year</u>	<u>Net Taxable Assessed Valuation</u>	<u>Change From Preceding Year</u>	
		<u>Amount (\$)</u>	<u>Percent</u>
2010-11	811,616,884	-	-
2011-12	813,778,975	2,162,091	0.27%
2012-13	822,588,145	8,809,170	1.08%
2013-14	839,678,857	17,090,712	2.08%
2014-15	850,758,123	11,079,266	1.32%
2015-16	878,179,613	27,421,490	3.22%
2016-17	887,649,352	9,469,739	1.08%
2017-18	912,204,964	24,555,612	2.77%
2018-19	919,433,113	7,228,149	0.79%
2019-20	967,459,688	48,026,575	5.22%

Sources: Texas Municipal Report published by the Municipal Advisory Council of Texas and Hopkins County Appraisal District.

TABLE 5

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year 30-Sep	Currently Outstanding Debt Service ^(a)		The Certificates* Interest		Total	Combined Debt Service ^{(b)*}	Less: Debt Paid from Utility Fund ^(b)	Debt Supported From other Funds ^(c)	Net General Obligation Debt Service ^{(b)*}
	Principal	Interest	Principal	Interest					
2020	4,061,552	45,000	155,000	200,000	4,261,552	2,284,296	1,336,194	641,062	
2021	3,820,297	85,350	115,000	200,350	4,020,647	2,048,270	1,335,711	636,666	
2022	3,831,371	81,900	115,000	196,900	4,028,271	2,056,409	1,333,516	638,346	
2023	2,867,635	78,450	120,000	198,450	3,066,085	1,536,826	1,219,713	309,547	
2024	2,878,291	74,850	125,000	199,850	3,078,141	1,544,437	1,220,145	313,560	
2025	2,596,250	71,100	130,000	201,100	2,797,350	1,443,888	1,038,914	314,548	
2026	2,472,122	67,200	130,000	197,200	2,669,322	1,443,760	907,082	318,481	
2027	2,480,945	63,300	135,000	198,300	2,679,245	1,447,582	914,404	317,259	
2028	1,987,583	59,250	140,000	199,250	2,186,833	1,280,120	591,164	315,548	
2029	1,991,646	55,050	145,000	200,050	2,191,696	1,281,259	593,762	316,675	
2030	1,759,066	50,700	150,000	200,700	1,959,766	1,281,403	595,599	82,764	
2031	1,751,056	46,200	155,000	201,200	1,952,256	1,280,393	591,417	80,445	
2032	1,761,686	41,550	155,000	196,550	1,958,236	1,288,198	587,189	82,848	
2033	1,460,524	36,900	160,000	196,900	1,657,424	989,911	586,786	80,726	
2034	1,463,471	32,100	165,000	197,100	1,660,571	991,108	590,612	78,851	
2035	1,459,746	27,150	170,000	197,150	1,656,896	986,183	588,490	82,222	
2036	1,404,968	22,050	175,000	197,050	1,602,018	990,780	548,097	63,141	
2037	1,396,003	16,800	180,000	196,800	1,592,803	984,665	545,644	62,493	
2038	1,155,981	11,400	185,000	196,400	1,352,381	743,256	547,261	61,864	
2039	1,147,807	5,850	195,000	200,850	1,348,657	744,282	545,776	58,599	
2040	929,230	-	-	-	929,230	745,105	75,491	108,634	
2041	928,660	-	-	-	928,660	745,723	75,004	107,933	
2042	927,695	-	-	-	927,695	746,133	74,441	107,122	
2043	746,332	-	-	-	746,332	746,333	-	-	
2044	746,322	-	-	-	746,322	746,322	-	-	
2045	746,098	-	-	-	746,098	746,098	-	-	
2046	745,658	-	-	-	745,658	745,658	-	-	
	\$ 49,517,992	\$ 972,150	\$ 3,000,000	\$ 3,972,150	\$ 53,490,142	\$ 31,868,395	\$ 16,442,412	\$ 5,179,334	

^(a) Includes general obligation self-supporting debt.

^(b) Includes debt being paid from water and sewer system revenues. See Table 2, page A-1 for more detailed information.

^(c) Includes transfers from Capital Projects fund, TIRZ funds, General Fund and others in order to maintain a near constant I&S Tax Rate.

* Future amounts will be determined by future debt issuances and Budget Requirements.

* Preliminary, subject to change. Interest calculated at an assumed rate for illustration purposes only.

TAX ADEQUACY (Includes Self-Supporting Debt)

2019 Certified Net Taxable Assessed Valuation	\$ 967,459,688
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2020*)	\$ 4,261,552
Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections	\$ 0.44948

* Preliminary, subject to change.

Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

TAX ADEQUACY (Excludes Self-Supporting Debt)

2019 Certified Net Taxable Assessed Valuation	\$ 967,459,688
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2020*)	\$ 641,062
Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections	\$ 0.06761

* Preliminary, subject to change.

Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

INTEREST AND SINKING FUND MANAGEMENT INDEX**TABLE 8**

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2019 (unaudited)	\$ 24,349
2019 Interest and Sinking (I&S) Fund Tax Levy of \$0.568 at 100% Collections Produces	660,091
2019-20 Budgeted for Late Taxes, Penalties and Interest Income	26,600
2019-20 Budgeted General Fund Transfers for General Obligation Debt Service	1,094,089 ^(a)
2019-20 Budgeted Transfers from the Utility Fund	2,284,296 ^(b)
2019-2020 Budgeted Transfer from the EDC	200,000 ^(c)
Total Available for Debt Service	<u>\$ 4,289,425</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9-30-20	<u>4,261,552</u>
Estimated Surplus at Fiscal Year Ending 9-30-20	<u>\$ 27,873</u>

^(a) A portion of general fund debt is being paid from a budgeted transfer of \$1,094,089 from the Capital Projects Fund, General Fund and surplus revenues of the Waterworks and Sewer System to cover a portion of City Hall expenses.

^(b) Self-supporting general obligation debt being paid from revenues of the Waterworks and Sewer System. Based on the City's 2019-20 Budget

^(c) Self-supporting general obligation debt being paid from revenues from the EDC. In November 2019, Voters approved a \$200,000/year transfer for 20 years from the EDC to cover the debt service on the Certificates.

Based upon the City's 2019-20 Budget

COMPUTATION OF WATERWORKS AND SEWER SYSTEM SELF-SUPPORTING DEBT**TABLE 9**

Net System Revenues Available, Fiscal Year End September 30, 2019	\$ 3,244,396
Less: 2020 Annual Debt Service Requirement on Outstanding Revenue Bonds	\$ -
Less: 2020 Annual Debt Service Requirement on Self Supporting Debt	\$ 2,284,296 ^(a)
Balance Available for Other Purposes	<u>\$ 960,100</u>

^(a) Self-supporting general obligation debt being paid from revenues of the Waterworks and Sewer System. Based upon the City's 2019-20 Budget

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**TABLE 10**

Fiscal Year Ending 9-30	Principal Repayment Schedule			Bonds Unpaid at End of Year*	Percent of Principal Retired (%)*
	Outstanding Principal	The Certificates*	Total *		
2020	\$ 3,130,000	\$ 155,000	\$ 3,285,000	\$ 40,965,000	13.70%
2021	2,990,000	115,000	3,105,000	37,860,000	12.69%
2022	3,065,000	115,000	3,180,000	34,680,000	20.03%
2023	2,170,000	120,000	2,290,000	32,390,000	25.31%
2024	2,230,000	125,000	2,355,000	30,035,000	30.74%
2025	2,000,000	130,000	2,130,000	27,905,000	35.65%
2026	1,920,000	130,000	2,050,000	25,855,000	40.38%
2027	1,975,000	135,000	2,110,000	23,745,000	45.24%
2028	1,530,000	140,000	1,670,000	22,075,000	49.09%
2029	1,570,000	145,000	1,715,000	20,360,000	53.05%
2030	1,375,000	150,000	1,525,000	18,835,000	56.57%
2031	1,400,000	155,000	1,555,000	17,280,000	60.15%
2032	1,445,000	155,000	1,600,000	15,680,000	63.84%
2033	1,180,000	160,000	1,340,000	14,340,000	66.93%
2034	1,210,000	165,000	1,375,000	12,965,000	70.10%
2035	1,235,000	170,000	1,405,000	11,560,000	73.34%
2036	1,210,000	175,000	1,385,000	10,175,000	76.54%
2037	1,230,000	180,000	1,410,000	8,765,000	79.79%
2038	1,020,000	185,000	1,205,000	7,560,000	82.57%
2039	1,035,000	195,000	1,230,000	6,330,000	85.40%
2040	840,000	-	840,000	5,490,000	87.34%
2041	855,000	-	855,000	4,635,000	89.31%
2042	870,000	-	870,000	3,765,000	91.32%
2043	705,000	-	705,000	3,060,000	92.94%
2044	715,000	-	715,000	2,345,000	94.59%
2045	725,000	-	725,000	1,620,000	96.26%
2046	735,000	-	735,000	885,000	97.96%
	<u>\$ 40,365,000</u>	<u>\$ 3,000,000</u>	<u>\$ 43,365,000</u>		

* Preliminary, subject to change.

TABLE 11

CLASSIFICATION OF ASSESSED VALUATION

Category	2019-2020	% of Total	2018-2019	% of Total	2017-2018	% of Total	2016-2017	% of Total	2015-2016	% of Total
Real, Residential, Single-Family	\$ 425,302,870	34.88%	\$ 390,365,990	33.18%	\$ 384,341,350	33.36%	\$ 377,227,550	33.38%	\$ 370,410,140	33.43%
Real, Residential, Multi-Family	34,063,350	2.79%	33,481,310	2.85%	33,513,430	2.91%	31,799,090	2.81%	28,400,900	2.56%
Real, Vacant Lots/Tracts	10,285,700	0.84%	11,047,060	0.94%	10,623,650	0.92%	10,746,860	0.95%	11,022,370	0.99%
Real, Acreage (Land Only)	21,339,960	1.75%	20,679,730	1.76%	20,752,490	1.80%	20,700,060	1.83%	20,330,130	1.83%
Farm & Ranch Improvements	15,039,090	1.23%	15,336,230	1.30%	15,017,700	1.30%	14,805,340	1.31%	14,964,920	1.35%
Real, Commercial	216,860,627	17.79%	212,254,711	18.04%	200,697,890	17.42%	192,854,550	17.06%	189,356,500	17.09%
Real, Industrial	40,623,823	3.33%	38,171,910	3.29%	38,617,810	3.35%	38,510,720	3.41%	35,835,430	3.23%
Real & Tangible, Personal Utilities	22,793,248	1.87%	22,297,067	1.90%	21,407,490	1.86%	21,107,392	1.87%	21,312,394	1.92%
Tangible Personal, Business	109,045,212	8.94%	103,061,195	8.76%	104,515,720	9.07%	98,132,960	8.68%	106,864,540	9.64%
Tangible Personal, Industrial	164,198,244	13.47%	170,127,918	14.46%	171,690,609	14.90%	170,515,782	15.09%	163,797,945	14.78%
Mobile Homes	1,303,470	0.11%	2,187,441	0.19%	1,297,590	0.11%	1,247,530	0.11%	1,252,700	0.11%
Real / Special Inventory	10,691,861	0.88%	9,100,369	0.77%	8,864,810	0.77%	8,684,450	0.77%	7,139,210	0.64%
Totally Exempt Property	147,743,150	12.12%	147,726,020	12.56%	140,871,780	12.23%	143,922,730	12.73%	137,370,210	12.40%
Total Appraised Value	\$ 1,219,290,605	100.00%	\$ 1,176,382,951	100.00%	\$ 1,152,212,319	100.00%	\$ 1,130,255,014	100.00%	\$ 1,108,057,389	100.00%
Less Exemptions:										
Over -65 or Disabled Homestead	\$ 17,439,430		\$ 16,357,180		\$ 12,824,320		\$ 12,677,260		\$ 12,243,130	
Disabled and Deceased Veterans	833,370		870,370		852,370		3,692,270		3,368,330	
Pollution Control	2,370,841		2,345,425		2,432,537		2,258,853		2,907,072	
Productivity Value Loss/Ag Use	20,439,780		19,760,300		19,934,180		19,906,470		19,580,560	
Abatement Loss	34,574,294		54,271,707		48,368,177		46,762,659		43,806,052	
Homestead Cap Adjustment	10,863,710		149,310		319,220		884,070		299,260	
\$500 Minimum Value Loss	11,157		11,188		10,400		9,220		9,570	
Exempt Property	156,292,240		155,472,523		148,524,481		151,205,140		144,332,732	
Total Exemptions	\$ 242,824,822		\$ 249,238,003		\$ 233,265,685		\$ 237,395,942		\$ 226,546,706	
Net Taxable Valuation	\$ 976,465,783		\$ 927,144,948		\$ 918,946,634		\$ 892,859,072		\$ 881,510,683	
Value Captured by Tax Increment Reinvestment Zone (TIRZ)	\$ (9,006,095)		\$ (7,711,835)		\$ (6,741,670)		\$ (5,209,720)		\$ (3,331,070)	
Net Taxable Assessed Valuation After TIRZ Adjustment	\$ 967,459,688		\$ 919,433,113		\$ 912,204,964		\$ 887,649,352		\$ 878,179,613	

Source: Hopkins County Appraisal District. Figures represent Certified Appraisal Rolls and do not include property values under review or arbitration.
 Note: Assessed Valuations shown are Certified Values and may change during the year due to various supplements and protests. Valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

PRINCIPAL TAXPAYERS 2019-2020

TABLE 12

<u>Name</u>	<u>Type of Business</u>	<u>2019</u>		<u>% of Total 2019 Assessed Valuation</u>
		<u>Assessed Valuation</u>		
Saputo Dairy Foods USA LLC	Manufacturing	\$ 19,874,878		2.05%
BEF Foods Inc.	Retail Sales	17,289,503		1.79%
Saputo Dairy Foods USA LLC	Manufacturing	15,349,603		1.59%
Wal-Mart Stores Inc.	Retail Sales	12,465,800		1.29%
Flowsolve US Inc.	Food Processing	11,534,872		1.19%
Ocean Spray Cranberries	Food Service / Processing	10,813,570		1.12%
Oncor Electric Delivery	Utility	9,333,324		0.96%
Grocery Supply Company	Grocery supply	7,445,240		0.77%
Wesley Partners LTD	Food Processing	6,434,620		0.67%
Flowsolve US Inc.	Food Processing	6,068,904		0.63%
	Total	\$ 116,610,314		12.05%

Based on a 2019 Certified Net Taxable Assessed Valuation of \$967,459,688

Source: Hopkins County Appraisal District.

PROPERTY TAX RATES AND COLLECTIONS ^(a)

TABLE 13

<u>Tax Year</u>	<u>Net Taxable Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>% Collections</u>		<u>Year Ended</u>
				<u>Current</u>	<u>Total</u>	
2009-10	\$ 846,416,805	\$ 0.440000	\$ 3,722,293	99.00%	101.30%	9/30/2010
2010-11	811,616,884	0.440000	3,571,114	97.40%	99.90%	9/30/2011
2011-12	813,778,975	0.439200	3,558,832	97.70%	99.70%	9/30/2012
2012-13	824,633,437	0.440000	3,671,928	97.90%	99.50%	9/30/2013
2013-14	842,233,437	0.440000	3,756,497	98.24%	100.16%	9/30/2014
2014-15	853,749,433	0.440000	3,878,647	97.43%	98.88%	9/30/2015
2015-16	881,510,683	0.440000	3,921,008	98.21%	101.15%	9/30/2016
2016-17	892,859,072	0.440000	3,928,580	98.37%	100.34%	9/30/2017
2017-18	918,946,634	0.440000	4,043,365	98.50%	100.15%	9/30/2018
2018-19	927,144,948	0.440000	4,079,438	98.43%	100.94%	9/30/2019
2019-20	976,465,783	0.440000	4,296,449	51.07% *	*	9/30/2020

*As of December 31, 2019.

^(a) See "AD VALOREM TAX PROCEDURES" and "CITY APPLICATION OF THE TEXAS TAX CODE" in the Official Statement for a description of the Issuer's taxation procedures.

Source: The Issuer.

TAX RATE DISTRIBUTION

TABLE 14

	<u>2019-2020</u>	<u>2018-2019</u>	<u>2017-2018</u>	<u>2016-2017</u>	<u>2015-2016</u>
General Fund	\$0.372400	\$0.383200	\$0.379400	\$0.379400	\$0.377694
I & S Fund	0.067600	0.056800	0.060600	0.060600	0.062306
TOTAL	<u>\$0.440000</u>	<u>\$0.440000</u>	<u>\$0.440000</u>	<u>\$0.440000</u>	<u>\$0.440000</u>

Source: The Issuer.

MUNICIPAL SALES TAX

TABLE 15

The Issuer has adopted the provision of Chapter 321, as amended, Texas Tax Code. The voters of the City of Sulphur Springs approved a ½% sales tax for the benefit of the Sulphur Springs-Hopkins County Economic Development Corporation on January 19, 1991. Collection began on July 1, 1991. Net collections on a calendar year basis are as follows:

Calendar Year	Total Collected	City Collections			
		1.00% City	as % of Ad Valorem Tax Levy	(\$ Equivalent of Ad Valorem Tax Rate	0.50% EDC
2009	4,286,558.00	2,857,705.33	81.60%	0.34	1,428,852.67
2010	4,174,100.00	2,782,733.33	75.82%	0.33	1,391,366.67
2011	4,208,885.00	2,805,923.33	75.38%	0.33	1,402,961.67
2012	4,414,565.00	2,943,043.33	82.41%	0.36	1,471,521.67
2013	4,928,977.00	3,285,984.67	92.33%	0.41	1,642,992.33
2014	5,160,969.66	3,440,646.44	93.70%	0.41	1,720,323.22
2015	5,286,182.99	3,524,121.99	93.81%	0.41	1,762,061.00
2016	5,670,544.28	3,780,362.85	96.41%	0.42	1,890,181.43
2017	5,601,068.14	3,734,045.43	95.05%	0.42	1,867,022.71
2018	6,217,781.90	4,145,187.93	102.52%	0.45	2,072,593.97
2019	6,676,970.48	4,451,313.65	109.12%	0.48	2,225,656.83

Source: Texas Comptroller of Public Accounts, the City's 2018 CAFR and the Issuer.

Note: The Comptroller's website figures list sales tax revenues in the month they are delivered to the City, which is two months after they are generated/collected. The City accrues sales tax revenues to the month in which they are earned.

OVERLAPPING DEBT DATA AND INFORMATION

TABLE 16

(As of December 31, 2019)

Taxing Body	Gross Debt Principal Outstanding	% Overlapping	Amount Overlapping
Hopkins County	\$ 15,825,000	49.19%	\$ 7,784,318
Sulphur Springs ISD	51,270,000	71.63%	36,724,701
Total Gross Overlapping Debt			\$ 44,509,019
City of Sulphur Springs	43,365,000 ^(a)	100.00%	43,365,000 ^(a)
Total Gross Direct and Overlapping Debt			\$ 87,874,019 ^(a)
Ratio of Gross Direct and Overlapping Debt to 2019 TIRZ Adjusted Net Taxable Assessed Valuation			9.08% ^(a)
Ratio of Direct and Overlapping Debt to 2019 Actual Value			7.21% ^(a)
Per Capita Direct and Overlapping Debt			\$ 5,437 ^(a)
Note: The above figures show Gross General Obligation Debt Principal for the City of Sulphur Springs, Texas			
The Issuer's Net General Obligation Debt Principal is			\$ 15,675,652
Calculations on the basis of Net General Obligation Debt Principal would change the above figures as follows:			
Total Net Direct and Overlapping Debt Principal			\$ 60,184,671
Ratio of Gross Direct and Overlapping Debt to 2019 TIRZ Adjusted Net Taxable Assessed Valuation			6.22% ^(a)
Ratio of Direct and Overlapping Debt to 2019 Actual Value			4.94% ^(a)
Per Capita Direct and Overlapping Debt			\$ 3,724 ^(a)

^(a) Includes the Certificates.

Source: The most recent Texas Municipal Report published by the Municipal Advisory Council of Texas and the Issuer.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES

TABLE 17

Governmental Entity	2019 Assessed Valuation	% of Actual	2019 Tax Rate
Hopkins County	\$ 2,005,181,331	100%	\$ 0.625000
Sulphur Springs ISD	1,359,806,168	100%	1.281000

Source: The most recent Texas Municipal Report published by the Municipal Advisory Council of Texas

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS
OF DIRECT AND OVERLAPPING GOVERNMENTAL ENTITIES**

TABLE 18

<u>Taxing Body</u>	<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued To Date</u>	<u>Unissued</u>
Hopkins County	N/A		\$ -	\$ -	\$ -
City of Sulphur Springs	N/A		-	-	-
Sulphur Springs ISD	N/A		-	-	-
		Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Source: Texas Municipals Reports published by the Municipal Advisory Council of Texas

FUND BALANCES

TABLE 19

	<u>Unaudited Balance As of 9/30/2019</u>	<u>Unaudited Balance As of 12/31/2019</u>
General Operating Fund	\$ 2,985,761.00	\$ 4,035,017.00
General Obligation Interest and Sinking Fund (Debt Service)	22,936	568,771
Special Revenue Fund	497,472	581,427
Water and Sewer Interest and Sinking Fund	435,333	682,422
Waterworks and Sewer System Operating Fund	5,597,441	5,119,204
Meter Deposit Fund	528,953	530,886
Internal Service Fund	756,219	293,843
Capital Projects Fund (General Fund Projects)	298,362	391,169
Capital Projects Fund (Wastewater Plant)	1,428,942	1,022,340
Tourism Fund	237,633	255,279
Total	<u>\$ 12,789,052.00</u>	<u>\$ 13,480,358.00</u>

Source: The Issuer.

**GENERAL FUND COMBINED STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES**

TABLE 20

	Fiscal Year Ended September 30				
	<u>2019</u> <u>Unaudited</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:					
Taxes:					
Property	\$ 3,588,870	\$ 3,536,514	\$ 3,437,869	\$ 3,405,007	\$ 3,316,460
Sales	4,424,059	4,102,033	3,703,431	3,722,191	3,557,109
Franchise	1,138,774	1,115,734	1,148,633	1,131,471	1,396,380
Alcoholic Beverage	46,960	42,226	36,892	30,522	30,123
Licenses and Permits	139,496	196,412	133,202	92,351	151,489
Intergovernmental	179,500	179,500	179,500	179,500	179,500
Charges for Services	4,302	9,838	1,995	2,889	9,281
Fines & Forfeitures	870,306	896,479	926,805	869,004	983,681
Interest	118,474	76,281	17,305	10,098	2,667
Contributions	-	-	-	-	-
Miscellaneous	343,983	450,051	301,495	152,630	195,956
Total Revenues	<u>\$ 10,854,724</u>	<u>\$ 10,605,068</u>	<u>\$ 9,887,127</u>	<u>\$ 9,595,663</u>	<u>\$ 9,822,646</u>
Expenditures:					
Current:					
General Government	\$ 2,482,918	\$ 2,462,792	\$ 2,432,065	\$ 2,489,486	\$ 2,499,358
Public Safety	5,329,810	5,193,186	5,203,985	4,955,109	4,795,844
Transportation	698,776	590,145	696,006	701,051	711,417
Culture & Recreation	1,317,332	1,260,434	1,309,559	1,268,557	1,222,817
Capital Outlay	451,861	649,331	643,560	208,013	466,019
Debt Service:					
Principal	-	-	-	-	-
Interest & Fiscal Charges	-	-	-	-	-
Total Expenditures	<u>\$ 10,280,697</u>	<u>\$ 10,155,888</u>	<u>\$ 10,285,175</u>	<u>\$ 9,622,216</u>	<u>\$ 9,695,455</u>
Excess (Deficit) of Revenues Over Expenditures	\$ 574,027	\$ 449,180	\$ (398,048)	\$ (26,553)	\$ 127,191
Other Financing Sources (Uses):					
Transfers In	\$ 1,656,198	\$ 1,747,633	\$ 1,751,035	\$ 1,621,041	\$ 1,590,272
Transfers Out	(2,249,328)	(1,943,867)	(1,900,628)	(2,072,323)	(2,196,852)
Bond Proceeds	445,000	-	1,140,000	-	1,017,496
Other Uses - Bond Issuance	(9,000)	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ (157,130)</u>	<u>\$ (196,234)</u>	<u>\$ 990,407</u>	<u>\$ (451,282)</u>	<u>\$ 410,916</u>
Net Change in Fund Balances	416,897	252,946	592,359	(477,835)	538,107
Fund Balance - Beginning	3,075,844	2,822,898	2,230,539	2,708,374 *	2,324,095
Fund Balance - Ending	<u>\$ 3,492,741</u> ⁽¹⁾	<u>\$ 3,075,844</u>	<u>\$ 2,822,898</u>	<u>\$ 2,230,539</u>	<u>\$ 2,862,202</u>

Source: The Issuer's Comprehensive Annual Financial Reports

* Restated

⁽¹⁾ The Issuer's 2019 Unaudited Comprehensive Annual Financial Reports.

CONDENSED WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

TABLE 21

	Fiscal Year Ended September 30				
	<u>2019 Unaudited</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues	\$ 10,315,801	\$ 10,143,915	\$ 9,414,662	\$ 9,298,273	\$ 9,239,705
Expenses	<u>5,814,250</u>	<u>5,404,014</u>	<u>5,356,721</u>	<u>4,871,498</u>	<u>4,517,481</u>
Net Available for Debt Service	<u>\$ 4,501,551</u> ⁽¹⁾	<u>\$ 4,739,901</u>	<u>\$ 4,057,941</u>	<u>\$ 4,426,775</u>	<u>\$ 4,722,224</u>
Annual Revenue Bond Debt Service Requirements	\$ -	\$ -	\$ -	\$ -	\$ -
Coverage of Annual Revenue Bond Requirements	N/A	N/A	N/A	N/A	N/A
Annual Requirements on all Bonds Paid from System Revenues	\$ 2,284,296	\$ 2,340,712	\$ 1,552,404	\$ 1,306,980	\$ 1,311,682
Coverage of Annual Requirements on all Bonds Paid from System Revenues	1.97 x	2.02 x	2.61 x	3.39 x	3.60 x
Customer Count:					
Water	6,555	6,554	6,525	6,441	6,448
Sewer	5,885	5,864	5,841	5,759	5,754

Note: All revenues and expenses associated with sanitation services are EXCLUDED from these figures.

Source: The City's Comprehensive Annual Financial Reports and the Issuer.

⁽¹⁾ The Issuer's 2019 Unaudited Comprehensive Annual Financial Reports.

WATER RATES

TABLE 22

Existing Rates

(Rates Effective October 1, 2019-September 30, 2020)

Residential Rates

Meters Less Than Four inches in Size

Monthly Demand Charge	\$ 7.86	
Usage Fee	\$ 3.97	/1,000 Gallons

Commercial Rates

Meters Four inches in Size or Larger

0 to 230,000 Gallons (minimum)	\$ 920.96	
above 230,000	3.71	per 1000

Previous Rates

(Rates Effective October 1, 2018-September 30, 2019)

Residential Rates

Meters Less Than Four inches in Size

Monthly Demand Charge	\$ 7.63	
Usage Fee	\$ 3.85	/1,000 Gallons

Commercial Rates

Meters Four inches in Size or Larger

0 to 230,000 Gallons (minimum)	\$ 829.27	
above 230,000	\$ 3.60	per 1000

PRINCIPAL WATER CUSTOMERS 2019-2020

TABLE 23

(As of 12/31/2019)

<u>Name of Customer</u>	<u>Average Monthly Consumption (Gallons)</u>	<u>Average Monthly Bill</u>
North Hopkins Water Supply District	15,768,300	\$ 60,779
Saputo Foods, Inc	14,556,742	53,268
Ocean Spray, Inc.	7,204,008	25,936
BEF Foods, Inc.	5,713,275	20,591
Brashear Water District	3,587,308	12,969
Shady Grove Water District	2,428,858	6,608
Christus Hospital	1,277,975	4,851
Brinker Water Supply District	1,129,800	4,564
Kalashine Holdings Apartments	1,241,258	4,809
Pioneer Crossing	1,087,392	1,113
Totals	<u>53,994,916</u>	<u>\$ 195,488</u>

SEWER RATES

TABLE 24

Existing Rates

(Rates Effective October 1, 2019-September 30, 2020)

Avg. of 0-4000 Gal.	\$ 27.55
Avg. of 4000+ Gal.	\$ 27.55 +\$3.99 per 1000 gal over 4000

Previous Rates

(Rates Effective October 1, 2018-September 30, 2019)

Avg. of 0-4000 Gal.	\$ 27.01
Avg. of 4000-8000 Gal.	\$ 27.01 +\$3.92 per 1000 gal over 4000

PRINCIPAL SEWER CUSTOMERS 2019-2020

TABLE 25

(As of 12/31/2019)

<u>Name of Customer</u>	<u>Average Monthly Consumption (Gallons)</u>	<u>Average Monthly Bill</u>
Saputo Foods, Inc	14,556,742	\$ 57,165
BEF Foods, Inc.	5,713,275	22,414
Ocean Spray, Inc.	7,204,008	14,492
Flowserve	723,808	5,557
Kalashine Holdings Apartments	1,241,258	4,911
Christus Hospital	1,277,975	3,906
Canyon Creek Apartments	674,208	2,665
Rahman Properties	555,158	2,088
Coldspring Holding	416,025	1,612
Sulphur Springs High School	638,558	1,612
Totals	<u>33,001,015</u>	<u>\$ 116,422</u>

Source: Information from the Issuer

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APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF SULPHUR SPRINGS AND HOPKINS COUNTY, TEXAS

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**GENERAL INFORMATION REGARDING THE CITY OF SULPHUR SPRINGS
AND HOPKINS COUNTY, TEXAS**

CITY OF SULPHUR SPRINGS, TEXAS

Location

The City of Sulphur Springs (the "City") is 80 miles east of Dallas, 100 miles west of Texarkana, 65 miles north of Tyler and 40 miles south of Paris.



Population:

<u>Census Report</u>	<u>City of Sulphur Springs</u>	<u>Hopkins County</u>
Current Estimate	16,162	36,496
2010	15,449	35,161
2000	14,551	31,960
1990	14,062	28,833
1980	12,804	25,257
1970	10,642	20,170

Sources: United States Bureau of the Census and the Issuer.

Major Employers within the City for 2018

<u>Employer</u>	<u>Type of Business</u>	<u>Approximate Number of Employees 2018</u>
Sulphur Springs ISD	Public Education	687
Grocery Supply Company	Wholesale Grocery	533
Hopkins County Hospital	Health Care Services	481
Saputo Foods, Inc.	Dairy Products	430
Wal-Mart Stores, Inc.	Retail Sales	336
CMH Manufacturing	Mobil Home Construction	264
Hopkins County	Government	229
BEF Foods	Grocery	201
Flowsolve Inc.	Manufacturing	194
City of Sulphur Springs	Government	182

Source: Issuer's 2018 Comprehensive Annual Financial Report

Residential and Commercial Building Construction

Fiscal Year <u>Ended 9-30</u>	Residential		Commercial		Total	
	Number of <u>Permits</u>	Property Value <u>\$ Amount</u>	Number of <u>Permits</u>	Property Value <u>\$ Amount</u>	Number of <u>Permits</u>	Property Value <u>\$ Amount</u>
2010	10	1,917,618	7	42,300,000	17	44,217,618
2011	18	9,067,677	8	8,792,000	26	17,859,677
2012	12	33,560,160	11	2,010,580	23	35,570,740
2013	12	32,379,200	4	1,727,551	16	34,106,751
2014	4	719,000	19	6,817,600	23	7,536,600
2015	16	2,772,300	19	4,496,200	35	7,268,500
2016	13	1,746,400	10	3,745,600	23	5,492,000
2017	18	2,894,000	7	10,705,500	25	13,599,500
2018	24	5,730,587	11	8,607,854	35	14,338,441
2019*	17	4,861,302	6	2,995,661	23	7,856,963

* As of September 30, 2019.

Sources: The Issuer

HOPKINS COUNTY, TEXAS

General

Hopkins County (the "County") is a northeast Texas county with an economy based on agriculture. The Texas Almanac designates dairy cattle, beef cattle, hay, and wheat as principal sources of agricultural income. Hopkins County is the second leading dairy county in Texas and the Southwest United States. Minerals produced in the County include oil, gas, and lignite. The County was created in 1846 from Lamar and Nacogdoches Counties. Sulphur Springs, Texas is the County seat (current population estimate, 16,162) and has an economy based on dairy farming, food processing and distribution, varied manufacturing and tourism. Other towns include Como, Cumby and Tira. The 2010 census for the County was 35,161, an increase of 10.02% since 2000.

*Source: Latest Texas Municipal Report published by the Municipal Advisory Council of Texas, the U.S. Census Report and the Issuer.

Labor Force Statistics

	Hopkins County		State of Texas	
	November <u>2019</u>	November <u>2018</u>	November <u>2019</u>	November <u>2018</u>
Civilian Labor Force	17,686	17,312	14,265,562	13,961,940
Total Employed	17,168	16,778	13,788,541	13,475,980
Total Unemployed	518	534	477,021	485,960
% Unemployed	2.9%	3.1%	3.3%	3.5%
% Unemployed (United States)	3.3%	3.5%	3.3%	3.5%

Source: Texas Workforce Commission, Labor Market Information.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Certificates, assuming no material changes in facts or law.

**CITY OF SULPHUR SPRINGS, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2020**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$[]

AS BOND COUNSEL FOR THE CITY OF SULPHUR SPRINGS, TEXAS, (the "*Issuer*") in connection with the issuance of the Certificates of Obligation described above (the "*Certificates*"), we have examined into the legality and validity of the Certificates, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Certificates and in the ordinance of the Issuer authorizing the issuance and sale of the Certificates (the "*Ordinance*"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance and sale of the Certificates, including executed Certificate Number T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to sovereign immunity of political subdivisions, bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by and payable from a pledge of the surplus revenues derived from the operation of the Issuer's waterworks and sewer system remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue obligations (now or hereafter outstanding) that are secured by a lien on all or any part of the net revenues of the Issuer's waterworks and sewer system, all as defined and provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "*Code*").



IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

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

Respectfully,

APPENDIX D

ISSUER'S GENERAL PURPOSE AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED SEPTEMBER 30, 2018

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

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CITY OF SULPHUR SPRINGS, TEXAS

Comprehensive Annual Financial Report

For the Fiscal Year Ended September 30, 2018

Prepared by:

Department of Finance

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INTRODUCTORY SECTION

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January 29, 2019

To the Honorable Mayor, Members of the Governing Council, and Citizens of
the City of Sulphur Springs, Texas

State law requires that every general-purpose local government publish and file in the office of the municipal secretary within 120 days of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended September 30, 2018.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Evans & Knauth, PLLC, CPA's and Consultants, have issued an unmodified ("clean") opinion on the City of Sulphur Springs, Texas financial statements for the year ended September 30, 2018. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Sulphur Springs, Texas, incorporated in 1859, is located in the northeastern part of the state. It currently occupies 25 square miles and serves a population of 16,162. The City of Sulphur Springs, Texas is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

The City of Sulphur Springs, Texas has operated under the council-manager form of government since 1947. Policy-making and legislative authority are vested in a governing council (Council) consisting of the mayor and six other members, all elected on a non-partisan basis. The Council appoints the government's manager, who in turn appoints the heads of the various departments. Council members serve three-year terms. The mayor is appointed each year by vote of the City Council. The mayor and council members are elected at large.

The City of Sulphur Springs, Texas provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreational and cultural activities. The City of Sulphur Springs, Texas also is financially accountable for a legally separate economic development corporation which is reported separately within the City of Sulphur Springs, Texas financial statements. Additional information on this legally separate entity can be found in the notes to the financial statements.

The Council is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the City of Sulphur Springs, Texas financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the City Manager.

Local Economy

The economic outlook for Sulphur Springs and Hopkins County continues to remain positive. Over the years, the economy of Sulphur Springs has included a rich history of dairy farming and now includes 3 major food processing industries and 20 manufacturing businesses. The combined efforts of the SS/Hop Co EDC and local governments has brought the area two new manufacturers in the past 2 years that will eventually provide 200 new jobs. In addition to these industrial businesses, Sulphur Springs has seen tremendous growth in restaurant and retail industries. In the past 5 years alone, the City has added a Panda Express, Schlotzsky's, Taco Bueno, Wendy's, Dairy Queen, Starbucks, KFC, and this spring a Chick-Fil-A restaurant will open. In addition to business growth, the City has experienced residential growth as well. In 2018, 23 new single-family residences were added along with 12 multi-family units. The City's revitalization efforts downtown continue to serve as an attractant to businesses and new citizens because of the value it adds to the quality of life here in Sulphur Springs. With the combination of our vibrant downtown, parks, schools, new jobs, and expansion along the I-30 corridor, the City expects to see our local economy flourish in the coming years.

At the end of 2018, the unemployment rate for the area was 3.6% with a slight increase in wages over December 2017. In 2018, the City benefitted from the positive economic growth occurring locally, statewide and nationwide. Sales tax revenue increased in 2013 by 10.7%, 3.4% in 2014, 4.3% in 2015 and 5.1% in 2016 but showed no increase in 2017. In 2018, sales tax revenue increased by 10.17% and as of January 2019, sales tax is up 10.83%.

Long-Term Financial Planning

In 1998, the City of Sulphur Springs started budgeting significant resources for its Capital Improvement Plan (CIP). The annual CIP was part of a long-term planning document which had been finalized in 1997. Funding was designed to be ongoing year by year. Significant progress was made from 2008-2016 on capital projects but has been scaled back in recent years due to budgetary constraints and increase in the cost of materials over time. In 2018, a new CIP was adopted that includes the reconstruction of 10 streets, and associated utilities and drainage. Along with the 10 streets being reconstructed over the next 5 years, 24 streets are a part of the Street Improvement Plan (SIP) in which they will receive maintenance and overlays. The CIP and SIP are budgeted in conjunction with the annual adopted operating budget. In the past, the City has used debt to fund a significant portion of the capital projects. Our new 5-year plan does not include the issuance of any new debt for these projects.

In December 2018, the City Council approved a Street Maintenance Fee (SMF). A Street Maintenance Fee (SMF) is a fee collected from benefitted properties within the city limits for the purpose of maintaining the street system. The collected fees will go into a separate fund named a Street Improvement Fund. Monies collected will be separate from the General Fund and can only be applied to activities related to maintaining the street system. January 2019 marked the first month of collection of the SMF. The City initially planned to spend roughly \$560,000 annually over the next five years which would allow us to maintain about 2 miles of street network a year. With the SMF, we anticipate an additional \$500,000 annually that will allow the City to essentially double our efforts for street maintenance but still be well short of what is needed. In the overall picture, we will still be about \$500,000 (in today's dollars) short of properly funding street maintenance.

During FY 2008, the City of Sulphur Springs created a Tax Increment Financing Reinvestment Zone to redevelop its downtown core. The Project and Financial Plan was adopted in 2009 and financially guided that work through its completion. Work on the downtown started in the latter part of 2009 and continued through 2012. Work was completed in 2013. At this point the city is diligently working to increase commercial activity in its downtown district. Since 2007, taxable values of properties located in the TIFRZ have increased 55%.

Major Initiatives

In 2010, the State completed construction on a new section of highway linking Hwy 154 with Hwy 19 by extending Hwy 11, essentially completing a long anticipated southern section of a loop around Sulphur Springs. The section continues a road upon which both Walmart and Lowes have frontage, creating the opportunity for additional commercial development. Six years ago, the school district opened a new Middle School on that highway. In 2012, two new apartment complexes were started on that highway and completed as of 2014. Development in that area had been largely stalled because of a Pro Rata agreement that the school district had for the water and sewer lines that they paid for. The agreement will end February 1, 2019 and allow the opportunity for more development to occur.

The City Council is currently in the process of annexing two industrial parks into the City limits. If successful, it is anticipated that businesses located in the parks will provide the City with an increase in property tax revenue of \$63,500 annually.

In October 2018, the City signed a development agreement with Luminant Mining Company that will lead to the City owning 4,901 acres located just outside of the City limits. It is anticipated that Luminant will begin deeding portions of the land over to the City within 12-18 months. Part of the agreement is that the City will annex the land into the City limits. The donation of this land provides the City and its citizens with significant possibilities in the near future.

In FY 2015 Garver Engineering was hired to engineer a complete overhaul of the Wastewater Plant. In 2016 that project went out for bid with a construction cost of \$17.4 million. The city received funding assistance from the Texas Water Development Board with 30 year bonds with an overall interest rate of 1.38%. As of January 2019, roughly 82.18% of that project has been completed and is expected to be completed during 2019.

Awards & Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sulphur Springs, Texas for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2017. This was the twenty-eighth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unflinching support for maintaining the highest standards of professionalism in the management of the City of Sulphur Springs, Texas finances.

Respectfully submitted,



Marc Maxwell
City Manager



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

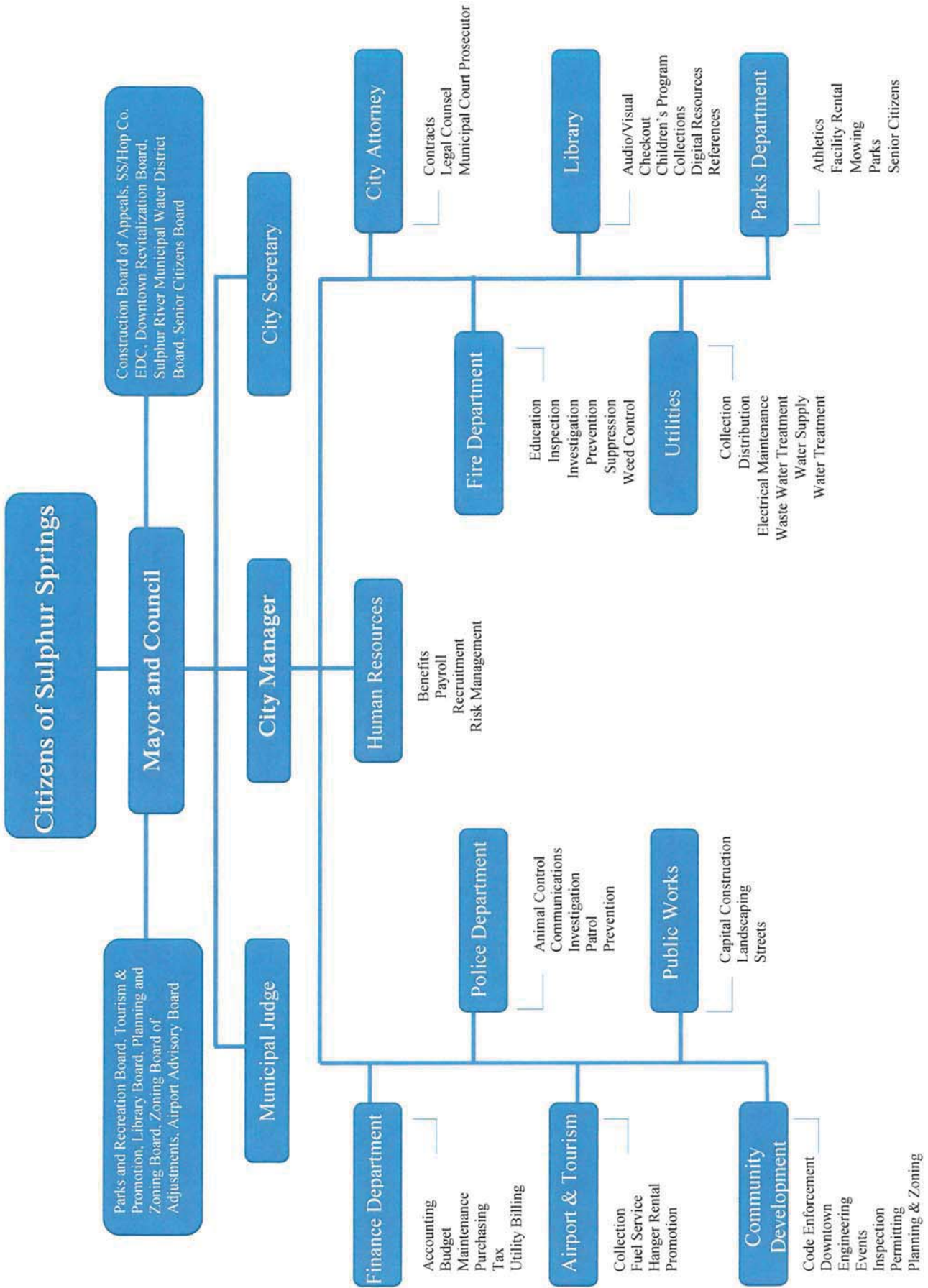
**City of Sulphur Springs
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2017

Christopher P. Morill

Executive Director/CEO



CITY OF SULPHUR SPRINGS, TEXAS

List of Principal Officials
September 30, 2018

<u>Title</u>	<u>Name</u>
Mayor	John Sellers
Mayor Pro-Tem	Emily Glass
Councilman	Doug Moore
Councilwoman	Erica Armstrong
Councilman	Freddie Taylor
Councilman	Norman Sanders
Councilman	Jimmy Lucas
City Manager	Marc Maxwell
City Secretary	Gale Roberts
City Attorney	Jim McLeroy
Finance Director	Lesia Smith
City Engineer	David Reed
Community Development Director	Tory Niewiadomski
Director of Public Safety	Jay Sanders
Director of Human Resources	Gordon Frazier
Library Director	Hope Cain
Parks and Recreation Director	Kevin McCarty
Director of Airport and Tourism	Joseph Baker
Utilities Director	Robert Lee

FINANCIAL SECTION

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Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Sulphur Springs, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Sulphur Springs, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sulphur Springs, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons of the General Fund and the Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis; Schedule of Changes in Net Pension Liability, Schedule of Changes in Net OPEB Liability and Related Ratios and Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sulphur Springs, Texas' basic financial statements. The combining and individual fund financial statements and schedules and other information such as the introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Evans & Knauth, PLLC

Evans & Knauth, PLLC
Frisco, TX
January 29, 2019

Management's Discussion & Analysis

As management of the City of Sulphur Springs, we offer readers of the City of Sulphur Springs' financial statements this narrative overview and analysis of the financial activities of the City of Sulphur Springs for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 – 5 of this report. All amounts, unless otherwise indicated, are expressed in actual dollars.

Financial Highlights

- The assets of the City of Sulphur Springs exceeded its liabilities at the close of the most recent fiscal year by \$45,279,510 (net position). Of this amount, \$16,354,549, (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$2,385,036. The primary reason for the increase in net position was positive results from business-type activities.
- As of the close of the current fiscal year, the City of Sulphur Springs governmental funds reported combined ending fund balances of \$4,149,894, an increase of \$505,861 in comparison with the prior year. The reason for the increase in fund balances is a reduction in capital outlay purchases.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,075,844 or 30 percent of total general fund expenditures.
- The City of Sulphur Springs long-term debt decreased by \$5,011,060 during the current fiscal year.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the City of Sulphur Springs' assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Sulphur Springs is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City of Sulphur Springs 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 of Sulphur Springs include general government, public safety, highways and streets, culture and recreation. The business-type activities of the City of Sulphur Springs include the water treatment plant and distribution system, wastewater treatment plant and collection system, as well as sanitation collection and disposal.

The government-wide financial statements include not only the City of Sulphur Springs itself (known as the primary government), but also a legally separate economic development corporation. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. The economic development corporation issues separate financial statements.

The government-wide financial statements can be found on pages 23 – 25 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sulphur Springs, 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 of Sulphur Springs 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 *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government 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 of Sulphur Springs maintains eight governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue fund, debt service fund and three capital projects funds, all of which are considered to be major funds. Data from the four other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form at *combining statements* elsewhere in this report.

The City of Sulphur Springs adopts an annual appropriated budget for its general fund and special revenue fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 24 – 34 of this report.

Proprietary Funds. The City of Sulphur Springs maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Sulphur Springs uses enterprise funds to account for its Water, Sewer and Sanitation operations. *Internal Services Funds* are an accounting device used to accumulate and allocate costs internally among the City of Sulphur Springs' various functions. The City of Sulphur Springs uses internal services funds to account for its various type of insurance program including its' partially self funded employee health plan.

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, Sewer and Sanitation operations, which is considered to be a major fund of the City of Sulphur Springs.

The basic proprietary fund financial statements can be found on pages 35 – 39 of this report.

Private Purpose Trust Funds. Private Purpose Trust funds are used to account for resources held for the benefit of parties outside the government. Private Purpose Trust funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Sulphur Springs own programs. The accounting used for Private Purpose Trust funds is much like that used for proprietary funds.

The basic Private Purpose Trust funds financial statements can be found on pages 40 – 41 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 42 – 66 of this report.

Other Information: The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. The individual fund schedule provides a budgetary comparison schedule for the enterprise fund. Combining and individual fund statements and schedules can be found on pages 73 – 77 of this report.

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 of Sulphur Springs, assets exceed liabilities by \$45,279,510 at the close of the most recent fiscal year.

A portion of the City of Sulphur Springs’ net position (63 percent) reflects its investment in capital assets (e.g. land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Sulphur Springs uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Sulphur Springs’ 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 OF SULPHUR SPRINGS – Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current & Other Assets	\$ 5,530,740	5,204,982	13,530,872	20,297,404	19,061,612	25,502,386
Capital Assets	35,304,117	35,227,995	39,322,687	33,117,864	74,626,804	68,345,859
Total Assets	40,834,857	40,432,977	52,853,559	53,415,268	93,688,416	93,848,245
Deferred Outflows	547,613	1,793,689	332,562	769,928	880,175	2,563,617
Total Assets & Deferred Outflows	41,382,470	42,226,666	53,186,121	54,185,196	94,568,591	72,375,020
Long-Term Liabilities	14,956,373	17,605,761	27,330,097	29,691,769	42,286,470	47,297,530
Other Liabilities	1,884,477	1,879,727	3,808,336	3,695,411	5,692,813	5,575,138
Total Liabilities	16,840,850	19,485,488	31,138,433	33,387,180	47,979,283	52,872,668
Deferred Inflows	975,900	147,729	333,898	50,545	1,309,798	198,274
Total Liabilities & Deferred Inflows	17,816,750	19,633,217	31,472,331	33,437,725	49,289,081	53,070,942
Net Position						
Net Invested in Capital Assets	20,507,596	18,596,821	7,908,106	2,572,853	28,415,702	21,169,674
Restricted	11,238	8,222	498,021	531,550	509,259	539,772
Unrestricted	3,046,886	3,988,406	13,307,663	17,643,068	16,354,549	21,631,474
Total Net Position	\$ 23,565,720	22,593,449	21,713,790	20,747,471	45,279,510	43,340,920

An additional portion of the City of Sulphur Springs’ net position (1.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$16,354,549 is available for capital outlay and to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Sulphur Springs is able to report positive balances in all three categories of net position for the government as a whole.

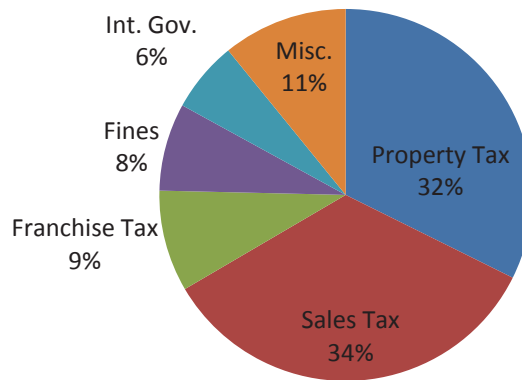
There was an increase of \$7,246,028 in net investment in capital assets.

The government's net position increased by \$2,385,036 during the current fiscal year. That increase was caused by better than budgeted results in the General and Enterprise Funds.

Governmental Activities

Governmental activities (after transfers) increased the City of Sulphur Springs' net position by \$1,309,846.

Revenue by Source Governmental Activities



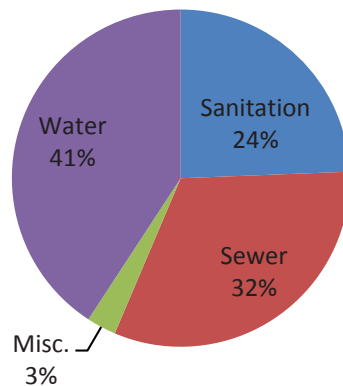
CITY OF SULPHUR SPRINGS – Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,297,325	1,585,511	13,040,780	12,352,883	14,338,105	13,938,394
Operating Grants & Contributions	377,793	364,976	-	-	377,793	364,976
Capital Grants & Contributions	520,264	21,497	-	-	520,264	21,497
General Revenues:						
Property Taxes	4,089,425	3,998,425	-	-	4,089,425	3,998,425
Other Taxes	5,445,362	5,060,254	-	-	5,445,362	5,060,254
Other	604,676	222,604	303,430	160,891	908,106	383,495
Total Revenues	12,334,845	11,253,267	13,344,210	12,513,774	25,679,055	23,767,041
Expenses:						
General Government	2,713,215	2,976,802	-	-	2,713,215	2,976,802
Public Safety	5,716,140	6,070,405	-	-	5,716,140	6,070,405
Transportation	1,432,671	2,021,773	-	-	1,432,671	2,021,773
Sanitation	-	-	2,632,550	2,545,514	2,632,550	2,545,514
Culture & Recreation	2,855,544	1,874,775	-	-	2,855,544	1,874,775
Interest on Long-Term Debt	538,173	512,039	-	-	538,173	512,039
Water & Sewer	-	-	7,405,727	7,726,688	7,405,727	7,726,688
Total Expenses	13,255,742	13,455,794	10,038,277	10,272,202	23,294,019	23,727,996
Increase/(Decrease) in Net Position Before Transfers	(920,897)	(2,202,527)	3,305,933	2,241,572	2,385,036	39,045
Transfers	2,230,743	1,862,485	(2,230,743)	(1,862,485)	-	-
Increase/(Decrease) in Net Position	1,309,846	(340,042)	1,075,190	379,087	2,385,036	39,045
Net Position - Beginning	22,593,449	22,933,491	20,747,471	20,368,384	43,340,920	43,301,875
Prior Period Adjustment	(337,575)	-	(108,871)	-	(446,446)	-
Net Position - Ending	\$ 23,565,720	22,593,449	21,713,790	20,747,471	45,279,510	43,340,920

Business-Type Activities

Business-Type Activities (after transfers) increased the City of Sulphur Springs' net position by \$1,309,846.

Program Revenue Business Type Activities



Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the City of Sulphur Springs' governmental funds reported combined ending fund balance of \$4,149,894, an increase of \$505,861 from the prior year. Most of the increase is a result of reducing capital outlay purchases. Of the current combined ending fund balance, a total of \$386,213 is restricted for construction, while \$3,075,844 is unassigned in the General Fund. Fund balance restricted for debt service is \$11,238.

The general fund is the chief operating fund of the City of Sulphur Springs. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,075,844. Total unassigned fund balance represents 30% of total general fund expenditures.

The airport fund has a total fund balance of \$177,560. The airport fund had an increase of \$16,316 in fund balance.

The debt service fund has a total fund balance of \$11,238, all of which is restricted for payment of debt service. The debt service fund had a \$3,016 increase in fund balance.

The Capital Project Funds have a total fund balance of \$386,213, all of which is restricted for construction. The increase in fund balance of \$132,631 represents an increase in recognition of bond funds.

Proprietary Funds. The City of Sulphur Springs proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Enterprise Fund at the end of the year amounted to \$13,307,663. The total increase in net position of the Enterprise Fund was \$1,075,190. The factors concerning the finances of this fund have already been addressed in the discussion of the City of Sulphur Springs' business type activities.

General Fund Budgetary Highlights

During the year, revenues were \$561,153 more than budgetary estimates and expenditures were \$253,178 more than budgetary estimates. The budget had called for a \$8365,151 decrease in fund balance (prior to transfers, while actual results display an increase in fund balance of \$449,180.

Capital Asset & Debt Administration

Capital Assets. The City of Sulphur Springs investment in capital assets for its governmental and business type activities as of September 30, 2018, amounts to \$74,626,804 (net of accumulated depreciation). This investment in capital assets includes land and right-of-way, lakes and dams, buildings, systems, improvements, and equipment.

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

- Street improvements, Crosstown Trail construction project, Firetruck, and multiple vehicle purchases throughout the district were the major additions to governmental activity capital assets.
- Replacement of major sections of both the water distribution and sewer collection systems and continued progress on the Waste Water Treatment Plant were the major additions to the business-type capital assets.

Additional information on the City of Sulphur Springs' capital assets can be found in the notes to the financial statements on pages 53 – 55 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Sulphur Springs had bonded debt outstanding of \$43,230,000. Of this amount, \$4,235,000 comprises General Obligation Bonds and \$38,995,000 represents Combination Tax and Revenue Bonds.

Additional information on the City of Sulphur Springs' long-term debt can be found in the notes to the financial statements on pages 56 – 59 of this report.

Economic Factors and Next Year's Budgets & Rates

- Sales tax revenue will normally increase by at least the amount of inflation. In 2009, 2010 and in 2011 Sulphur Springs saw a contraction though modest of total sales tax revenue. The last half of FY 2012 and all of FY 2013 (increase of 10.7%) finally brought on a recovery. FY 2014 - FY 2016 continued to grow but more modestly at 3.4%, 4.3% and 5.1% respectively. Sales Tax Revenue regressed to no change in FY 2017, while sales increased 10.17% in 2018.
- Typically, the City of Sulphur Springs only budgets for the next year what it receives in Sales Tax Revenue for the preceding year, saving any good news for the next year as well as to better protect against contraction. That will continue to be true going into FY 2019.
- The FY 2018 budget uses \$268,704 of fund balance which is being used for increased transfers to the Capital Fund, and equipment purchase. Property tax rates stay the same at the long term historical level of 44 cents per hundred. Water and Sewer rates increased by 2.0%. Sanitation rates increased by 2.25%. Employees were given a 1.25% COLA increase.

Request for Information

This financial report is designed to provide a general overview of the City of Sulphur Springs' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 125 S. Davis, City of Sulphur Springs, Texas 75482.

BASIC FINANCIAL STATEMENTS

CITY OF SULPHUR SPRINGS

Statement of Net Position
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Economic Development
ASSETS				
Cash & Cash Equivalents	\$ 3,602,400	6,780,497	10,382,897	1,790,904
Investments	746,927	2,240,782	2,987,709	-
Restricted Cash & Cash Equivalents	-	3,235,395	3,235,395	-
Receivables (Net of Allowance for Uncollectibles):				
Utility Bills	-	911,489	911,489	-
Delinquent Property Taxes	247,836	-	247,836	-
Other Taxes	605,653	13,864	619,517	160,847
Other	207,983	164,826	372,809	-
Notes Receivable	-	-	-	4,444,481
Inventory	119,941	184,019	303,960	-
Capital Assets Not Being Depreciated				
Land & Right of Way	976,338	1,452,760	2,429,098	1,990,468
Lakes	-	401,408	401,408	-
Dams/Spillways/Appurtenances	-	2,629,410	2,629,410	-
Construction in Progress	526,902	16,413,690	16,940,592	-
Capital Assets (Net of Accumulated Depreciation):				
Building, Systems & Improvements	14,225,464	17,549,905	31,775,369	14,693,190
Furniture & Equipment	1,711,833	875,514	2,587,347	7,559
Infrastructure	17,863,580	-	17,863,580	-
Total Assets	<u>40,834,857</u>	<u>52,853,559</u>	<u>93,688,416</u>	<u>23,087,449</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred Outflows - TMRS Pension	514,093	175,893	689,986	-
Deferred Outflows - TMRS OPEB	33,520	11,468	44,988	-
Deferred Outflows - Other	-	145,201	145,201	-
Total Deferred Outflow of Resources	<u>547,613</u>	<u>332,562</u>	<u>880,175</u>	<u>-</u>
Total Assets & Deferred Outflows	<u>41,382,470</u>	<u>53,186,121</u>	<u>94,568,591</u>	<u>23,087,449</u>
LIABILITIES				
Accounts Payable	276,151	1,267,694	1,543,845	273,463
Deposits	-	502,121	502,121	-
Accrued Interest Payable	64,973	49,299	114,272	-
Noncurrent Liabilities:				
Due Within One Year	1,543,353	1,989,222	3,532,575	5,771,719
Due in More than One Year	13,601,722	26,866,611	40,468,333	3,639,738
Net Pension Liability	962,808	329,419	1,292,227	-
Net OPEB Liability	391,843	134,067	525,910	-
Total Liabilities	<u>16,840,850</u>	<u>31,138,433</u>	<u>47,979,283</u>	<u>9,684,920</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows - TMRS Pension	975,900	333,898	1,309,798	-
Total Deferred Inflows of Resources	<u>975,900</u>	<u>333,898</u>	<u>1,309,798</u>	<u>-</u>
Total Liabilities & Deferred Inflows	<u>17,816,750</u>	<u>31,472,331</u>	<u>49,289,081</u>	<u>9,684,920</u>
NET POSITION				
Net Invested in Capital Assets	20,507,596	7,908,106	28,415,702	7,279,760
Restricted for:				
Debt Service	11,238	498,021	509,259	-
Unrestricted	3,046,886	13,307,663	16,354,549	6,122,769
Total Net Position	<u>\$ 23,565,720</u>	<u>21,713,790</u>	<u>45,279,510</u>	<u>13,402,529</u>

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

CITY OF SULPHUR SPRINGS
Statement of Activities
For the Fiscal Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,713,215	196,412	47,401	-
Public Safety	5,716,140	596,041	189,435	-
Transportation	1,432,671	495,034	-	43,739
Culture & Recreation	2,855,544	9,838	140,957	476,525
Interest & Fiscal Charges	538,173	-	-	-
Total Governmental Activities	<u>13,255,742</u>	<u>1,297,325</u>	<u>377,793</u>	<u>520,264</u>
Business-Type Activities:				
Water & Sewer	7,405,727	9,840,485	-	-
Sanitation	2,632,550	3,200,295	-	-
Total Business-Type Activities	<u>10,038,277</u>	<u>13,040,780</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 23,294,019</u>	<u>14,338,105</u>	<u>377,793</u>	<u>520,264</u>
Component Unit:				
Economic Development	\$ 1,683,231	-	-	-
Total Component Unit	<u>\$ 1,683,231</u>	<u>-</u>	<u>-</u>	<u>-</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Alcoholic Beverage Taxes
Unrestricted Investment Earnings
Miscellaneous Revenue
Transfers
Total General Revenues & Transfers

Change in Net Position

Net Position - Beginning
Prior Period Adjustment

Net Position - Ending

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development
(2,469,402)		(2,469,402)	
(4,930,664)		(4,930,664)	
(893,898)		(893,898)	
(2,228,224)		(2,228,224)	
(538,173)		(538,173)	
<u>(11,060,360)</u>		<u>(11,060,360)</u>	
	2,434,758	2,434,758	
	567,745	567,745	
	<u>3,002,503</u>	<u>3,002,503</u>	
<u>(11,060,360)</u>	<u>3,002,503</u>	<u>(8,057,857)</u>	
			<u>(1,683,231)</u>
			<u>(1,683,231)</u>
4,089,425	-	4,089,425	-
4,287,402	-	4,287,402	2,053,532
1,115,734	-	1,115,734	-
42,226	-	42,226	-
118,202	226,362	344,564	132,267
486,474	77,068	563,542	631,550
2,230,743	(2,230,743)	-	-
<u>12,370,206</u>	<u>(1,927,313)</u>	<u>10,442,893</u>	<u>2,817,349</u>
1,309,846	1,075,190	2,385,036	1,134,118
22,593,449	20,747,471	43,340,920	12,268,411
<u>(337,575)</u>	<u>(108,871)</u>	<u>(446,446)</u>	<u>-</u>
<u>\$ 23,565,720</u>	<u>21,713,790</u>	<u>45,279,510</u>	<u>13,402,529</u>

CITY OF SULPHUR SPRINGS

Balance Sheet
Governmental Funds
September 30, 2018

	General Fund	Airport Fund	Debt Service Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash & Cash Equivalents	1,903,946	67,749	11,238
Investments	746,927	-	-
Receivables (Net of Allowance for Uncollectibles):			
Delinquent Property Taxes	213,047	-	34,789
Other Taxes	605,653	-	-
Other	-	79,626	-
Inventory	-	32,170	-
Total Assets	<u>3,469,573</u>	<u>179,545</u>	<u>46,027</u>
 LIABILITIES			
Liabilities:			
Accounts Payable	168,636	1,985	-
Total Liabilities	<u>168,636</u>	<u>1,985</u>	<u>-</u>
 DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue Property Taxes	225,093	-	34,789
Total Deferred Inflow of Resources	<u>225,093</u>	<u>-</u>	<u>34,789</u>
 FUND BALANCES:			
Nonspendable:			
Inventory	-	32,170	-
Restricted:			
Debt Service	-	-	11,238
Capital Projects	-	-	-
Assigned:			
Tourism	-	-	-
Police Contingency	-	-	-
Revolving Loan Fund	-	-	-
Airport Contingency	-	145,390	-
Unassigned	3,075,844	-	-
Total Fund Balances	<u>3,075,844</u>	<u>177,560</u>	<u>11,238</u>
 Total Liabilities, Deferred Inflows, & Fund Balances	<u>\$ 3,469,573</u>	<u>179,545</u>	<u>46,027</u>

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

Capital Project Funds	Special Revenue Funds	Total Governmental Funds
230,090	440,484	2,653,507
-	-	746,927
-	-	247,836
-	-	605,653
69,802	58,555	207,983
87,771	-	119,941
<u>387,663</u>	<u>499,039</u>	<u>4,581,847</u>
1,450	-	172,071
<u>1,450</u>	<u>-</u>	<u>172,071</u>
-	-	259,882
<u>-</u>	<u>-</u>	<u>259,882</u>
-	-	32,170
-	-	11,238
386,213	-	386,213
-	177,492	177,492
-	199,764	199,764
-	121,783	121,783
-	-	145,390
-	-	3,075,844
<u>386,213</u>	<u>499,039</u>	<u>4,149,894</u>
<u>387,663</u>	<u>499,039</u>	<u>\$ 4,581,847</u>

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CITY OF SULPHUR SPRINGS
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 September 30, 2018

Total Fund Balances - Governmental Funds \$ 4,149,894

The government uses internal service funds to charge the cost of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consideration is to increase net position. 844,813

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$51,887,856 and the accumulated depreciation was \$(14,874,362). In addition, long-term liabilities, including bonds payable of \$(15,953,705), are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. 19,260,241

Current year capital outlays of \$2,148,386 and long-term debt principal payments of \$1,171,233 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net position. 3,319,619

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to decrease net position. (64,973)

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. (1,987,014)

Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$(962,808), a deferred resource inflow in the amount of \$(975,900), and a deferred resource outflow in the amount of \$514,093. The net effect of the GASB 68 adjustment is to decrease net position. (1,424,615)

Included in the noncurrent liabilities is the recognition of the City's net OPEB liability required by GASB 75 in the amount of \$(391,843), and a deferred resource outflow in the amount of \$33,520. The net effect of the GASB 75 adjustment is to decrease net position. (358,323)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, recognizing the liabilities associated with compensated absences, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the gain or loss on disposal of capital assets. The net effect of these reclassifications is to increase net position. (173,922)

Net Position of Governmental Activities \$ 23,565,720

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

CITY OF SULPHUR SPRINGS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2018

	<u>General Fund</u>	<u>Airport Fund</u>	<u>Debt Service Fund</u>
REVENUES			
Taxes:			
Property	\$ 3,536,514	-	528,301
Sales	4,102,033	-	-
Franchise	1,115,734	-	-
Alcoholic Beverage	42,226	-	-
Licenses & Permits	196,412	-	-
Intergovernmental	179,500	43,739	-
Charges for Services	9,838	495,034	-
Fines & Forfeitures	896,479	-	-
Interest	76,281	2,192	12,848
Contributions	-	-	-
Miscellaneous	450,051	900	-
Total Revenues	<u>10,605,068</u>	<u>541,865</u>	<u>541,149</u>
EXPENDITURES			
Current:			
General Government	2,462,792	-	-
Public Safety	5,193,186	-	-
Transportation	590,145	562,168	-
Culture & Recreation	1,260,434	-	-
Capital Outlay	649,331	14,381	-
Debt Service:			
Principal	-	-	1,171,233
Interest & Fiscal Charges	-	-	543,703
Total Expenditures	<u>10,155,888</u>	<u>576,549</u>	<u>1,714,936</u>
Excess/(Deficiency) of Revenues			
Over/(Under) Expenditures	<u>449,180</u>	<u>(34,684)</u>	<u>(1,173,787)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	1,747,633	51,000	1,176,803
Transfers Out	(1,943,867)	-	-
Bonded Debt Proceeds	-	-	-
Total Other Financing Sources (Uses)	<u>(196,234)</u>	<u>51,000</u>	<u>1,176,803</u>
Net Change in Fund Balances	252,946	16,316	3,016
Fund Balances - Beginning - Restated	<u>2,822,898</u>	<u>161,244</u>	<u>8,222</u>
Fund Balances - Ending	<u>\$ 3,075,844</u>	<u>177,560</u>	<u>11,238</u>

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

<u>Capital Project Funds</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
-	29,554	4,094,369
-	185,369	4,287,402
-	-	1,115,734
-	-	42,226
-	-	196,412
476,525	79,726	779,490
-	-	504,872
-	68,044	964,523
1,468	6,270	99,059
9,935	108,632	118,567
-	3,213	454,164
<u>487,928</u>	<u>480,808</u>	<u>12,656,818</u>
-	-	2,462,792
-	100,051	5,293,237
-	-	1,152,313
-	132,306	1,392,740
1,529,970	-	2,193,682
-	-	-
-	-	1,171,233
-	-	543,703
<u>1,529,970</u>	<u>232,357</u>	<u>14,209,700</u>
<u>(1,042,042)</u>	<u>248,451</u>	<u>(1,552,882)</u>
1,783,413	7,900	4,766,749
(608,740)	(155,399)	(2,708,006)
-	-	-
<u>1,174,673</u>	<u>(147,499)</u>	<u>2,058,743</u>
132,631	100,952	505,861
<u>253,582</u>	<u>398,087</u>	<u>3,644,033</u>
<u>386,213</u>	<u>499,039</u>	<u>4,149,894</u>

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CITY OF SULPHUR SPRINGS

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
September 30, 2018

Total Net Change in Fund Balances - Governmental Funds \$ 505,861

The government uses internal service funds to charge the cost of certain activities, such as self-insurance, to appropriate functions in other funds. The net loss of the internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position. (145,029)

Current year capital outlays of \$2,148,386 and long-term debt principal payments of \$1,171,233, are expenditures and sources in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net position. 3,319,619

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to decrease net position. 5,530

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current resources. The net effect of the current year's depreciation is to decrease net position. (1,987,014)

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/17 caused the change in the ending net position to increase in the amount of \$322,495. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$(307,495). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$(276,335). The net effect of the GASB 68 adjustment is to decrease net position. (261,335)

The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/17 caused the change in the ending net position to increase in the amount of \$9,588. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$(8,981). The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense decreased the change in net position by \$(21,355). The net effect of the GASB 75 adjustment is to decrease net position. (20,748)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue, recognizing the liabilities associated with compensated absences and changes in unfunded pension obligation. The net effect of these reclassifications is to decrease net position. (107,038)

Change in Net Position of Governmental Activities \$ 1,309,846

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

CITY OF SULPHUR SPRINGS

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund

For the Fiscal Year Ended September 30, 2018

	Original & Final Budgeted Amounts	Actual Amounts	Variance with Budget Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes:			
Property	\$ 3,509,415	3,536,514	27,099
Sales	3,840,000	4,102,033	262,033
Franchise	1,145,000	1,115,734	(29,266)
Alcoholic Beverages	30,000	42,226	12,226
License & Permits	126,200	196,412	70,212
Intergovernmental	179,500	179,500	-
Charges for Services	1,800	9,838	8,038
Fines & Forfeitures	912,000	896,479	(15,521)
Interest	22,000	76,281	54,281
Miscellaneous	278,000	450,051	172,051
Total Revenues	<u>10,043,915</u>	<u>10,605,068</u>	<u>561,153</u>
 EXPENDITURES			
Current:			
General Government			
Administration	617,324	671,263	(53,939)
Finance & Tax	404,262	386,611	17,651
Municipal Court	540,464	483,506	56,958
Community Development	583,171	560,333	22,838
Maintenance - Purchasing	346,889	361,079	(14,190)
Department Capital	32,000	38,968	(6,968)
Total General Government	<u>2,524,110</u>	<u>2,501,760</u>	<u>22,350</u>
Public Safety:			
Police	3,365,201	3,302,537	62,664
Fire	1,866,733	1,890,649	(23,916)
Department Capital	623,477	543,897	79,580
Total Public Safety	<u>5,855,411</u>	<u>5,737,083</u>	<u>118,328</u>
Transportation:			
Street	680,754	590,145	90,609
Total Transportation	<u>680,754</u>	<u>590,145</u>	<u>90,609</u>
Culture & Recreation:			
Library	339,906	315,516	24,390
Parks & Recreation	602,454	582,539	19,915
Downtown	374,431	362,379	12,052
Department Capital	32,000	66,466	(34,466)
Total Culture & Recreation	<u>1,348,791</u>	<u>1,326,900</u>	<u>21,891</u>
Total Expenditures	<u>10,409,066</u>	<u>10,155,888</u>	<u>253,178</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>\$ (365,151)</u>	<u>449,180</u>	<u>814,331</u>

CITY OF SULPHUR SPRINGS

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund

For the Fiscal Year Ended September 30, 2018
continued

	Budgeted Amounts	Actual Amounts	Variance with Budget Positive (Negative)
OTHER FINANCING SOURCES (USES)			
Transfer In	1,735,133	1,747,633	12,500
Transfer Out	(2,661,805)	(1,943,867)	717,938
Total Other Financing Sources/(Uses)	<u>(926,672)</u>	<u>(196,234)</u>	<u>730,438</u>
Net Change in Fund Balances	(1,291,823)	252,946	1,544,769
Fund Balances - Beginning	<u>2,822,898</u>	<u>2,822,898</u>	-
Fund Balances - Ending	<u><u>1,531,075</u></u>	<u><u>3,075,844</u></u>	<u><u>1,544,769</u></u>

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

CITY OF SULPHUR SPRINGS

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 Airport Fund
 For the Fiscal Year Ended September 30, 2018

	Original & Final Budgeted Amounts	Actual Amounts	Variance With Budget Positive (Negative)
REVENUES			
Intergovernmental	\$ 50,000	43,739	(6,261)
Charges for Services	409,639	495,034	85,395
Interest	-	2,192	2,192
Miscellaneous	62,160	900	(61,260)
Total Revenues	<u>521,799</u>	<u>541,865</u>	<u>20,066</u>
EXPENDITURES			
Transportation	499,693	562,168	(62,475)
Capital Outlay	97,654	14,381	83,273
Total Expenditures	<u>597,347</u>	<u>576,549</u>	<u>20,798</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>(75,548)</u>	<u>(34,684)</u>	<u>40,864</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	51,000	51,000	-
Transfer Out	3,889	-	(3,889)
Total Other Financing Sources/(Uses)	<u>54,889</u>	<u>51,000</u>	<u>(3,889)</u>
Net Change in Fund Balances	(20,659)	16,316	36,975
Fund Balances - Beginning	<u>161,244</u>	<u>161,244</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 140,585</u>	<u>177,560</u>	<u>36,975</u>

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

CITY OF SULPHUR SPRINGS

Statement of Net Position

Proprietary Fund

September 30, 2018

	Business-Type Activities		Governmental
	Enterprise	Enterprise	Internal
	Fund	Fund	Service
	Current Year	Prior Year	Fund
ASSETS			
Current Assets:			
Cash & Cash Equivalents	\$ 6,780,497	9,628,925	948,893
Investments	2,240,782	6,720,668	-
Restricted Cash & Cash Equivalents	3,235,395	3,134,980	-
Receivables (Net of Allowance of Uncollectibles)			
Utility Bills	911,489	800,787	-
Sales Taxes	13,864	12,044	-
Other	164,826	-	-
Inventory	184,019	-	-
Total Current Assets	<u>13,530,872</u>	<u>20,297,404</u>	<u>948,893</u>
Noncurrent Assets:			
Capital Assets:			
Land & Right-of-Way	1,452,760	1,452,760	-
Lakes	401,408	401,408	-
Dams/Spillways/Appurtenances	2,629,410	2,629,410	-
Buildings & Systems	41,866,923	41,623,567	-
Equipment	3,093,486	3,072,777	-
Construction in Progress	16,413,690	9,024,192	-
Less: Accumulated Depreciation	(26,534,990)	(25,086,250)	-
Total Capital Assets (Net of Accumulated Depreciation)	<u>39,322,687</u>	<u>33,117,864</u>	<u>-</u>
Total Noncurrent Assets	<u>39,322,687</u>	<u>33,117,864</u>	<u>-</u>
Total Assets	<u>52,853,559</u>	<u>53,415,268</u>	<u>948,893</u>
Deferred Outflow of Resources:			
Deferred Outflows - TMRS Pension	175,893	613,699	-
Deferred Outflows - TMRS OPEB	11,468	-	-
Deferred Outflows - Other	145,201	156,229	-
Total Deferred Outflow of Resources	<u>332,562</u>	<u>769,928</u>	<u>-</u>
Total Assets & Deferred Outflows	<u>53,186,121</u>	<u>54,185,196</u>	<u>948,893</u>

CITY OF SULPHUR SPRINGS

Statement of Net Position

Proprietary Fund

September 30, 2018

continued

	Business-Type Activities		Governmental
	Enterprise Fund Current Year	Enterprise Fund Prior Year	Internal Service Fund
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 1,267,694	1,230,437	104,080
Deposits	502,121	460,982	-
Accrued Interest	49,299	49,299	-
Compensated Absences Payable	125,227	140,288	-
Current Portion of Revenue Certificates of Obligation Payable	1,050,715	1,022,095	-
Current Portion of General Obligation Enterprise Bonds Payable	813,280	792,310	-
Total Current Liabilities	<u>3,808,336</u>	<u>3,695,411</u>	<u>104,080</u>
Noncurrent Liabilities:			
Revenue Certificates of Obligation Payable	24,180,836	25,231,551	-
General Obligation Bonds Payable	2,685,775	3,499,055	-
Net Pension Liability	329,419	961,163	-
Net OPEB Liability	134,067	-	-
Total Noncurrent Liabilities	<u>27,330,097</u>	<u>29,691,769</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - TMRS Pension	333,898	50,545	-
Deferred Inflows - TMRS OPEB	-	-	-
Deferred Inflows - Other	-	-	-
Total Deferred Inflows of Resources	<u>333,898</u>	<u>50,545</u>	<u>-</u>
Total Liabilities & Deferred Inflows	<u>31,472,331</u>	<u>33,437,725</u>	<u>104,080</u>
NET POSITION			
Net Invested in Capital Assets	7,908,106	2,572,853	-
Restricted for:			
Revenue Bond Current Debt Service	498,021	531,550	-
Unrestricted	13,307,663	17,643,068	844,813
Total Net Position	<u>\$ 21,713,790</u>	<u>20,747,471</u>	<u>844,813</u>

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

CITY OF SULPHUR SPRINGS

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended September 30, 2018

	Business-Type Activities		Governmental
	Enterprise Fund Current Year	Enterprise Fund Prior Year	Internal Service Fund
OPERATING REVENUES			
Charges for Sales & Services	\$ -	-	1,265,893
Water Sales	5,266,702	5,127,921	-
Sewer Charges	4,197,870	3,946,630	-
Sanitation Charges	3,200,295	3,099,112	-
Service Charges	127,972	123,395	-
Water & Sewer Connections	83,115	55,825	-
Intergovernmental	164,826	-	-
Miscellaneous Revenues	77,068	69,315	120
Total Operating Revenues	<u>13,117,848</u>	<u>12,422,198</u>	<u>1,266,013</u>
OPERATING EXPENSES			
Cost of Sales & Services	-	-	1,513,454
Administration	-	-	121,041
Personnel Services	2,565,010	2,747,586	-
Supplies	1,300,483	1,196,918	-
Contractual Services	4,171,071	3,957,731	-
Depreciation	1,459,768	1,400,108	-
Total Operating Expenses	<u>9,496,332</u>	<u>9,302,343</u>	<u>1,634,495</u>
Operating Income (Loss)	<u>3,621,516</u>	<u>3,119,855</u>	<u>(368,482)</u>
NONOPERATING REVENUES/(EXPENSES)			
Interest Revenue	226,362	91,576	19,143
Interest Expense & Fiscal Charges	(541,945)	(969,859)	-
Insurance Proceeds	-	-	48,569
Insurance Claim Expenses	-	-	(16,259)
Total Nonoperating Revenues (Expenses)	<u>(315,583)</u>	<u>(878,283)</u>	<u>51,453</u>
Net Income/(Loss) Before Transfers	3,305,933	2,241,572	(317,029)
Transfers In	-	402,906	172,000
Transfers Out	<u>(2,230,743)</u>	<u>(2,265,391)</u>	<u>-</u>
Change in Net Position	1,075,190	379,087	(145,029)
Net Position - Beginning	20,747,471	20,368,384	989,842
Prior Period Adjustment	<u>(108,871)</u>	<u>-</u>	<u>-</u>
Net Position - Ending	<u>\$ 21,713,790</u>	<u>20,747,471</u>	<u>844,813</u>

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

CITY OF SULPHUR SPRINGS
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended September 30, 2018

	Business-Type Activities		Governmental Activities
	Enterprise Fund	Enterprise Fund	Internal Service Fund
	Current Year	Prior Year	
Cash Flows from Operating Activities:			
Cash Received from Customers & Users	\$ 12,881,639	12,379,265	1,266,013
Cash Payments to Suppliers for Goods & Services	(5,618,316)	(4,075,255)	(1,618,170)
Cash Payments to Employees for Services	(2,465,900)	(2,428,966)	-
Net Cash Provided/(Used) by Operating Activities	<u>4,797,423</u>	<u>5,875,044</u>	<u>(352,157)</u>
Cash Flows from Noncapital Financing Activities:			
Transfers to Other Funds	(2,230,743)	(2,265,391)	-
Transfers from Other Funds	-	402,906	172,000
Insurance Proceeds, Net	-	-	32,310
Net Cash Provided/(Used) by Noncapital Financing Activities	<u>(2,230,743)</u>	<u>(1,862,485)</u>	<u>204,310</u>
Cash Flows from Capital & Related Financing Activities:			
Acquisition & Construction of Capital Assets	(7,653,563)	(9,182,010)	
Principal Paid on Bonds	(1,814,405)	(3,084,930)	
Proceeds from Sale of Bonds	-	24,203,646	
Interest Paid on Debt	(541,945)	(969,859)	
Net Cash Provided/(Used) by Capital & Related Financing Activities	<u>(10,009,913)</u>	<u>10,966,847</u>	
Cash Flows from Investing Activities:			
Proceeds from Sale of Investments	4,468,859	-	-
Purchase of Investments	-	(4,188,095)	-
Interest on Deposits & Investments	226,362	91,576	19,143
Net Cash Provided/(Used) by Investing Activities	<u>4,695,221</u>	<u>(4,096,519)</u>	<u>19,143</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	(2,748,013)	10,882,887	(128,704)
Cash & Cash Equivalents - Beginning	<u>12,763,905</u>	<u>1,881,018</u>	<u>1,077,597</u>
Cash & Cash Equivalents - Ending	<u>\$ 10,015,892</u>	<u>12,763,905</u>	<u>948,893</u>

CITY OF SULPHUR SPRINGS
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended September 30, 2018
continued

	Business-Type Activities		Governmental Activities
	Enterprise Fund	Enterprise Fund	Internal Service Fund
	Current Year	Prior Year	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income/(Loss)	\$ 3,621,516	3,119,855	(368,482)

Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities

Depreciation Expense	1,459,768	1,400,108	-
(Increase)/Decrease in Accounts Receivable	(110,702)	(56,669)	-
(Increase)/Decrease in Sales Tax Receivable	(1,820)	(1,273)	-
(Increase)/Decrease in Other Receivables	(164,826)	-	-
(Increase)/Decrease in Inventory	(184,019)	2,543,601	-
(Increase)/Decrease in Deferred Outflows	440,306	136,983	-
Increase/(Decrease) in Accounts Payable	37,257	1,079,394	16,325
Increase/(Decrease) in Customer Deposits	41,139	15,009	-
Increase/(Decrease) in Compensated Absences	(15,061)	60,075	-
Increase/(Decrease) in Net Pension Liability	(631,744)	110,494	-
Increase/(Decrease) in Net OPEB Liability	22,256	-	-
Increase/(Decrease) in Deferred Inflows	283,353	11,068	-
Total Adjustments	<u>1,175,907</u>	<u>5,298,790</u>	<u>16,325</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ 4,797,423</u>	<u>8,418,645</u>	<u>(352,157)</u>

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

CITY OF SULPHUR SPRINGS
Statement of Fiduciary Net Position
Pension Trust Fund
September 30, 2018

ASSETS

Cash & Cash Equivalents	\$ 25,464
Total Assets	<u>25,464</u>

LIABILITIES

Accounts Payable	1,847
Total Liabilities	<u>1,847</u>

NET POSITION

Net Position Restricted for Pensions	<u>\$ 23,617</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF SULPHUR SPRINGS
Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Fiscal Year Ended September 30, 2018

ADDITIONS

Contributions	\$ 117,807
Interest Income	<u>1,312</u>
Total Additions	<u>119,119</u>

DEDUCTIONS

General Government	<u>196,066</u>
Total Deductions	<u>196,066</u>

Change in Net Position	(76,947)
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Net Position, Beginning	<u>100,564</u>
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Net Position, Ending	<u><u>\$ 23,617</u></u>
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The notes to the financial statements are an integral part of this statement.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The government is a municipal corporation governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government. Each discretely presented component unit has a September 30 year end.

Discretely Presented Component Unit. The Sulphur Springs Hopkins County Economic Development Corporation (EDC) serves all citizens of the government and is governed by a board appointed by the government's elected council. The government can impose its will on the EDC and affect the day-to-day operations of the EDC by removing appointed board members at will. The scope of public service of the EDC benefits the government and its citizens and is operated primarily within the geographic boundaries of the government. The EDC is presented as a governmental fund type.

Complete financial statements for the individual component unit may be obtained at the entity's administration offices.

**Sulphur Springs Hopkins County
Economic Development Corporation**

1200 Enterprise Lane
Sulphur Springs, Texas 75482

Government – Wide & 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. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the 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.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement Focus, Basis of Accounting & Financial Statement Presentation

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

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. 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 payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *special revenue fund* accounts for revenues that are legally restricted for particular purposes, such as airport, tax increment financing, and tourism. The government's major special revenue fund is used to account for activity related to the City airport. The airports major revenue sources are fuel sales and hangar rentals.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

The government reports the following proprietary funds:

- The *enterprise fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The government's enterprise fund is for water and sewer operations.
- The *internal service fund* accounts for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The government's internal service fund is for self-insurance.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement Focus, Basis of Accounting & Financial Statement Presentation *(continued)*

Additionally, the government reports the following pension trust funds:

- The *volunteer firemen pension fund* is used to account for dues and contributions that are received pursuant to a trust agreement that restricts the use of those dues and contributions to providing payments to volunteer firemen. This was a volunteer single-employer defined contribution plan for volunteer fire fighters before the City established a fire department. No contributions are being made into the plan and once assets are depleted the plan will be closed.
- The *employee pension fund* is used to account for employee contributions and employers match to an employee supplemental retirement plan. This is a volunteer single-employer define contribution plan established under section 457(b) of the Internal Revenue Code. The 457 plan is a 67% match with the maximum city participation at \$335 per month. Total City contributions were \$194,866.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes 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.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund, and of the government's internal service fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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.

Deposits & Investments

Cash and cash equivalents includes cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. Other short-term investments are included in investments.

Short – Term Inter-Fund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term inter-fund loans are classified as "inter-fund receivables/payables." There were no inter-fund balances as of September 30, 2018.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories & Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain resources set aside for the repayment of bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. When the government incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first.

Capital Assets

Capital assets, which include 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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest 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 interest earned on invested proceeds over the same period.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings	30-40
Building Improvements	20-30
Street Infrastructure	10-30
System Infrastructure	15-25
Equipment	5-10
Vehicles	5-7

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types 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.

Fund Equity

Fund Balance Classification: The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of September 30, 2018.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Manager to which the City Council delegates this authority. This delegation of authority was granted by ordinance.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the governmental funds.

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

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Equity *(continued)*

As of September 30, 2018, fund balances are composed of the following:

	General Fund	Airport Fund	Debt Service Fund	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
Nonspendable:						
Inventories	\$ -	32,170	-	-	-	32,170
Restricted:						
Debt Service	-	-	11,238	-	-	11,238
Capital Projects	-	-	-	386,213	-	386,213
Assigned:						
Tourism	-	-	-	-	177,492	177,492
Police Contingency	-	-	-	-	199,764	199,764
Revolving Loan Fund	-	-	-	-	121,783	121,783
Airport	-	145,390	-	-	-	145,390
Unassigned	3,075,844	-	-	-	-	3,075,844
Total Fund Balances	<u>\$3,075,844</u>	<u>177,560</u>	<u>11,238</u>	<u>386,213</u>	<u>499,039</u>	<u>4,149,894</u>

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS.

For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet & the Government – Wide Statement of Net position

The governmental fund balance sheet includes a 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 that "various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting." The details of this (\$173,922) adjustment are as follows:

Long-Term Debt:	
Compensated Absences Payable	\$ (348,554)
Deferred Revenue:	
To Remove the Uncollected Tax Levy from Deferred Revenue	259,882
Capital Assets	
Disposal of Capital Assets	<u>(85,250)</u>
Net Adjustment to Decrease Fund Balance - Total Governmental Funds to Arrive at Net Position - Governmental Activities	<u>\$ (173,922)</u>

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS *(continued)*

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances & the Government – Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a 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 “various other reclassifications are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.” The details of this (\$107,038) adjustment are as follows:

Long-Term Debt:	
Changes in Compensated Absences Payable	\$ (16,844)
Taxes:	
To Move the Uncollected Tax Levy to Revenue	259,882
To Remove the Prior Year Tax Collections from Current Year Revenue	<u>(264,826)</u>
	(4,944)
Capital Assets:	
Disposal of Capital Assets	<u>(85,250)</u>
Net Adjustment to Decrease Net Changes in Fund Balance - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	
	<u>\$ (107,038)</u>

STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund, special revenue fund (airport fund), and water and sewer fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds. Annual budgets are not adopted for non-major special revenue funds or the debt service fund.

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

1. Prior to September 1, the City Manager and staff meet with the City Council in a series of workshops to work on the budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. On the first Tuesday in September, the City Manager officially presents the budget to the City Council for consideration. A second Council meeting and second reading of the budget ordinance is scheduled before October 1 to finalize the adoption of the new budget.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY *(continued)*

Budgetary Information *(continued)*

5. Formal budgetary integration, using the modified accrual basis, is employed as a management control device during the year for the General Fund and Special Revenue Fund. No supplemental appropriations were made during the fiscal year for the General Fund or Special Revenue Fund.
6. The budget approved for the Water and Sewer Fund follows similar approval procedures but departs from accounting principles generally accepted in the United States of America by not including depreciation in the approved budget. These amounts are reported at year end as part of the "actual" column. No supplemental appropriations were made during the fiscal year.
7. The Debt Service and Capital Project Funds do not have formal budgets since all are controlled by contractual obligations approved at inception or as part of the General Fund on an annual basis. The non-major governmental funds are not budgeted.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbered amounts lapse at year end. At year end, encumbrances are canceled or re-appropriated as part of the following year budget.

Budget/GAAP Reconciliation

The following schedule reconciles the amounts on the Statement of Revenues, Expenses and Changes in Fund Net Position – Budget and Actual to the amounts on the Statement of Revenues, Expenses and Changes in Fund Net Position – Enterprise Fund:

	<u>Water & Sewer Fund</u>
Net Position (Budget)	\$ 23,173,558
Depreciation	<u>(1,459,768)</u>
Net Position (GAAP)	<u>\$ 21,713,790</u>

DEPOSITS & INVESTMENTS

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were insured up to \$250,000 or collateralized as required by State statutes at September 30, 2018. At year-end, the carrying amount of the City's demand deposits was a balance of \$2,308,287 – bank balance, \$2,785,880. The cash on hand carrying amount totaled \$2,390. Additionally, cash held in escrow for construction was \$819,980 and is being held by an independent institution. The bank balance and certificates of deposits for the primary government were covered by FDIC insurance and collateral held in the City's name by the pledging financial institution's trust department or agent in the government's name.

The carrying amount of deposits for the EDC, a discretely presented component unit, was \$1,790,904 and the bank balance was \$2,204,187. Of the bank balance, \$500,000 was covered by federal depository insurance and \$1,704,187 was covered by collateral held by the pledging financial institution's trust department or agent in the government's name.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

DEPOSITS & INVESTMENTS *(continued)*

Investments – State statutes, city policies, and city resolutions authorize the City’s investments. The Director of Financial Services and the Assistant Director of Financial Services are authorized by the City Council to invest all available funds consistent with the investment policy. The City is authorized to invest in United States obligations or its agencies and instrumentalities, direct obligations of the State of Texas or its agencies and instrumentalities, other obligations backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, obligations of states, agencies, counties, cities, and other political subdivisions of any State having an investment rating of not less than “A” or its equivalent, fully collateralized repurchase agreements, certificates of deposit issued by a depository institution that has its main office or branch office in the State of Texas, money market mutual funds regulated by the Securities and Exchange Commission with a dollar weighted average portfolio maturity of 90 days or less, and local government investment pools organized and operating in compliance with the Inter-local Cooperation Act.

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

Credit Risk is the risk that a security issuer may default on an interest or principal payment. It is the government’s policy to limit its investments to those investments rated at least AAAM. The credit quality rating for TexPool at year end was AAAM by Standard & Poor’s.

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits, value of its investments, or collateral securities that are in the possession of an outside party. The PFIA, the government’s investment policy, and Government Code Chapter 2257 “Collateral for Public Funds” contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments. The government’s funds are deposited and invested under terms of a depository contract with amounts greater than the FDIC insurance coverage protected by approved pledged securities held on behalf of the government. Public funds investment pools created to function as money market mutual funds must mark their portfolios to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. The government’s policy manages custodial credit risk by requiring securities purchased by a broker-dealer for the government to be held in a Safekeeping account in the government’s name. The policy also requires that security transactions be conducted on a delivery-versus-payment basis.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the government’s investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. It is the government’s policy to not allow for a concentration of credit risk. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The government is not exposed to concentration of credit risk.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the government’s investment in external investment pools is less than 60 days.

Foreign Currency Risk is the potential for loss due to fluctuations in exchange rates. The government’s policy does not allow for any direct foreign investments, and therefore the government is not exposed to foreign currency risk.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

DEPOSITS & INVESTMENTS *(continued)*

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs-other than quoted prices included within Level 1-that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The City has recurring fair value measurements as presented in the table below. Investment balances of such investments are as follows:

	September 30, 2018	Fair Value Measurements using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Primary Government</u>				
<u>Cash & Cash Equivalents:</u>				
Bank Deposits	\$ 2,310,677	-	-	-
Certificates of Deposit	500,000			
Total Cash & Cash Equivalents	<u>2,810,677</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Cash Held for Construction:</u>				
BOK Financial	819,980	-	-	-
Total Cash Held for Construction	<u>819,980</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Investments measured at</u>				
<u>Amortized Costs:</u>				
Texpool	10,013,099	-	-	-
<u>Investments by fair value level:</u>				
US Treasury Notes	2,987,709	-	2,987,709	-
Total Investments	<u>13,000,808</u>	<u>-</u>	<u>2,987,709</u>	<u>-</u>
Total Investments	<u>16,631,465</u>	<u>-</u>	<u>2,987,709</u>	<u>-</u>

Investment Pools are measured at amortized costs and are exempt from fair value reporting.

U.S. Treasury Notes classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

DEPOSITS & INVESTMENTS *(continued)*

The *Texpool* investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less and weighted average lives of 120 days or less, investments held are highly rated by nationally recognized statistical rating organizations, have no more than 5% of portfolio with one issuer (excluding U.S. government securities), and can meet reasonable foreseeable redemptions. Texpool has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

RECEIVABLES

Receivables at September 30, 2018 consist of the following:

	General	Airport	Debt Service	Enterprise	Capital Projects	Special Revenue Funds	Total
Receivables:							
Utility Bills	\$ -	-	-	911,489	-	-	911,489
Delinquent Taxes	225,093	-	34,789	-	-	-	259,882
Sales Taxes	324,422	-	-	13,864	-	-	338,286
Alcoholic Beverage Taxes	7,894	-	-	-	-	-	7,894
Franchise Taxes	273,337	-	-	-	-	-	273,337
Other	-	79,626	-	164,826	69,802	58,555	372,809
Gross Receivables	830,746	79,626	34,789	1,090,179	69,802	58,555	2,163,697
Less: Allowance for Uncollectibles	(12,046)	-	-	-	-	-	(12,046)
Net Total Receivables	<u>\$ 818,700</u>	<u>79,626</u>	<u>34,789</u>	<u>1,090,179</u>	<u>69,802</u>	<u>58,555</u>	<u>2,151,651</u>

Taxes are levied on October 1 and are payable until February 1 without penalty. Property taxes attach as an enforceable lien on property as of February 1. No discounts are allowed for early payment. Penalty is calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 up to the date collected by the government at the rate of 1% per month. Under state law, property taxes on real property constitute a lien on the property and cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes applicable to personal property may be deemed uncollectible by the government. The government's current policy is to write-off uncollectible personal property taxes after four years.

At September 30, 2018, the EDC had sales taxes receivable of \$160,847. No allowance for uncollectibles has been made.

Notes Receivable – Economic Development Corporation

On May 16, 2008, the Corporation sold certain real property and improvements for \$700,000 and financed the purchase. The loan is collateralized by the real property and improvements. The \$700,000 note is to be repaid in monthly payments of \$8,000 each beginning August 28, 2013 and continuing until November 28, 2020 when one final payment of \$4,000 is due.

On November 17, 2016, the Corporation sold certain real property (technology center) for \$1,248,694 and financed the purchase. The loan is collateralized by the real property. The note is to be repaid in interest free annual payments of \$249,739 beginning December 26, 2016 and continuing until December 25, 2020.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

RECEIVABLES - Notes Receivable – Economic Development Corporation *(continued)*

On December 7, 2016, the Corporation sold certain real property (a lot at the municipal airport) for \$280,000 and financed the purchase. The loan is collateralized by the real property. The note is to be repaid in interest free annual payments beginning December 30, 2016 and continuing until December 30, 2027.

On October 1, 2017, the Corporation sold certain equipment to Armorock, LLC for \$378,615 and financed the purchase. The loan is collateralized by the equipment. The note is to be repaid in monthly payments of \$7,069, including 4.56% interest, beginning October 1, 2017 and continuing until September 1, 2022.

On November 1, 2017, the Corporation sold certain real property to Plant Process Fabricators for \$3,000,000 and financed the purchase. The loan is collateralized by the real property. The note is to be repaid in monthly payments of \$25,000, including 4.0% interest, beginning December 1, 2017 and continuing until October 1, 2030.

The Corporation has made loans to small and emerging enterprises in the local areas. The loans are being repaid in monthly installments, including interest compute at two percent, and are secured by specific equipment.

The following summarizes changes in the EDC notes receivable for the fiscal year.

Beginning Balance	Additions	Retirements	Ending Balance
<u>\$ 1,415,793</u>	<u>3,403,615</u>	<u>(374,927)</u>	<u>\$ 4,444,481</u>

CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	1,031,440	-	(55,102)	976,338
Construction in Progress	113,359	1,043,322	(629,779)	526,902
Total Capital Assets Not Being Depreciated	<u>1,144,799</u>	<u>1,043,322</u>	<u>(684,881)</u>	<u>1,503,240</u>
Capital Assets Being Depreciated:				
Buildings & Improvements	21,069,053	-	-	21,069,053
Furniture & Equipment	5,081,900	618,416	(73,673)	5,626,643
Infrastructure	24,592,104	1,116,427	-	25,708,531
Total Capital Assets Being Depreciated	<u>50,743,057</u>	<u>1,734,843</u>	<u>(73,673)</u>	<u>52,404,227</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(6,174,312)	(669,277)	-	(6,843,589)
Furniture & Equipment	(3,591,086)	(367,249)	43,525	(3,914,810)
Infrastructure	(6,894,463)	(950,488)	-	(7,844,951)
Total Accumulated Depreciation	<u>(16,659,861)</u>	<u>(1,987,014)</u>	<u>43,525</u>	<u>(18,603,350)</u>
Total Capital Assets Being Depreciated, Net	<u>34,083,196</u>	<u>(252,171)</u>	<u>(30,148)</u>	<u>33,800,877</u>
Governmental Activities				
Net Investment in Capital Assets	<u>\$ 35,227,995</u>	<u>791,151</u>	<u>(715,029)</u>	<u>35,304,117</u>

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

CAPITAL ASSETS *(continued)*

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,452,760	-	-	1,452,760
Lakes	401,408	-	-	401,408
Dam/Spillway	2,629,410	-	-	2,629,410
Construction in Progress	9,024,192	7,389,498	-	16,413,690
Total Capital Assets Not Being Depreciated	<u>13,507,770</u>	<u>7,389,498</u>	<u>-</u>	<u>20,897,268</u>
Capital Assets Being Depreciated:				
Buildings & Plant	41,623,567	243,356	-	41,866,923
Equipment	3,072,777	20,709	-	3,093,486
Total Capital Assets Being Depreciated	<u>44,696,344</u>	<u>264,065</u>	<u>-</u>	<u>44,960,409</u>
Less Accumulated Depreciation for:				
Buildings & Plant	(23,092,975)	(1,224,043)	-	(24,317,018)
Equipment	(1,993,275)	(224,697)	-	(2,217,972)
Total Accumulated Depreciation	<u>(25,086,250)</u>	<u>(1,448,740)</u>	<u>-</u>	<u>(26,534,990)</u>
Total Capital Assets Being Depreciated, Net	<u>19,610,094</u>	<u>(1,184,675)</u>	<u>-</u>	<u>18,425,419</u>
Business-Type Activities Net Investment in Capital Assets	<u>\$ 33,117,864</u>	<u>6,204,823</u>	<u>-</u>	<u>39,322,687</u>

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

Governmental Activities:	
General Government	\$ 138,145
Public Safety	239,638
Transportation	1,384,662
Culture & Recreation	224,569
Total Depreciation Expense - Governmental Activities	<u>\$ 1,987,014</u>
Business-Type Activities: Water & Sewer	<u>\$ 1,448,740</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,448,740</u>

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

CAPITAL ASSETS *(continued)*

Capital asset activity for the EDC for the year ended September 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Component Unit:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,652,612	532,473	(194,617)	1,990,468
Construction in Progress	<u>2,814,468</u>	<u>6,557,056</u>	<u>(3,327,336)</u>	<u>6,044,188</u>
Total Capital Assets Not Being Depreciated	<u>4,467,080</u>	<u>7,089,529</u>	<u>(3,521,953)</u>	<u>8,034,656</u>
Capital Assets Being Depreciated:				
Buildings	9,345,878	3,746,531	(3,618,298)	9,474,111
Office Equipment	<u>37,588</u>	<u>-</u>	<u>-</u>	<u>37,588</u>
Total Capital Assets Being Depreciated	<u>9,383,466</u>	<u>3,746,531</u>	<u>(3,618,298)</u>	<u>9,511,699</u>
Less Accumulated Depreciation for:				
Buildings	(889,349)	(222,208)	286,449	(825,108)
Office Equipment	<u>(27,302)</u>	<u>(2,728)</u>	<u>-</u>	<u>(30,030)</u>
Total Accumulated Depreciation	<u>(916,651)</u>	<u>(224,936)</u>	<u>286,449</u>	<u>(855,138)</u>
Total Capital Assets Being Depreciated, Net	<u>8,466,815</u>	<u>3,521,595</u>	<u>(3,331,849)</u>	<u>8,656,561</u>
Component Unit				
Net Investment in Capital Assets	<u>\$ 12,933,895</u>	<u>10,611,124</u>	<u>(6,853,802)</u>	<u>16,691,217</u>

INTER-FUND TRANSFERS

Inter-fund transfer activity for the year ended September 30, 2018, was as follows:

	<u>Transfers Out:</u>						<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Tax Increment Financing</u>	<u>Tourism</u>	<u>Police Fund</u>	<u>Water & Sewer Fund</u>	
Transfers In:							
General Fund	\$ -	-	-	50,000	-	1,697,633	1,747,633
Airport Fund	25,000	16,000	-	-	-	10,000	51,000
Debt Service Fund	369,097	592,740	-	-	-	214,966	1,176,803
Capital Projects	1,463,015	-	76,955	-	28,444	214,999	1,783,413
Police	7,900	-	-	-	-	-	7,900
Internal Services Fund	78,855	-	-	-	-	93,145	172,000
Water & Sewer Fund	-	-	-	-	-	-	-
Total	<u>\$ 1,943,867</u>	<u>608,740</u>	<u>76,955</u>	<u>50,000</u>	<u>28,444</u>	<u>2,230,743</u>	<u>4,938,749</u>

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

INTER-FUND TRANSFERS *(continued)*

Purpose of Transfers

Each transfer represents a specific budgetary policy decision by the City Council. Starting with Fiscal Year 2005, the City Council assessed the three city utilities, Water, Sewer and Sanitation, all part of the Enterprise Fund, a franchise fee of 4% which is similar to franchise fees assessed on the other utilities such as electric, gas and communications. Thus, the Enterprise Fund sent the General Fund \$597,459. The Enterprise Fund sent the General Fund an additional \$1,087,674 to pay for its percentage of Administration, Finance, Planning, and Engineering. The General Fund and Enterprise Fund transferred \$1,463,015 and \$214,999 respectively to the Capital Fund to pay for street and drainage projects. The Airport Fund received \$25,000 from the General Fund and \$16,000 from the Capital Fund to assist with operations as well as match grants for capital work. The transfers from the General, Capital and Enterprise Funds to the Debt Service Fund made specific debt service payments. The General Fund and Enterprise Fund transferred \$78,855 and \$93,145 respectively to the Internal Services Fund to pay for Property and Liability Insurance.

LONG-TERM DEBT

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds have been issued for both governmental and business-type activities. The government also issues revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service.

Long-term liability activity for the year ended September 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable	\$ 15,967,754	-	(1,171,233)	14,796,521	1,211,643
Compensated Absences	331,710	348,554	(331,710)	348,554	331,710
Totals	<u>\$ 16,299,464</u>	<u>348,554</u>	<u>(1,502,943)</u>	<u>15,145,075</u>	<u>1,543,353</u>

The bonds will be repaid by the debt service fund. Compensated absences will be liquidated by the general fund.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

LONG-TERM DEBT *(continued)*

Bonds payable at September 30, 2018 are comprised of the following issues for the debt service fund:

Combination Tax and Revenue Certificates of Obligation

A bond issue of \$4,410,000 (91.59% Debt Service Fund portion) dated July 1, 2009 maturing serially September 1, 2010 to September 1, 2039. Interest rates range from 2.00% to 5.50%, payable March 1 and September 1 to September 1, 2039. \$ 3,325,000

General Obligation Refunding Bonds

A bond issue of \$5,340,000 (45.15% Debt Service Fund portion) dated July 1, 2009 maturing serially July 1, 2010 to July 1, 2022. Interest rates range from 2.00% to 4.00%, payable January 1 and July 1 to July 1, 2022. 735,945

Combination Tax and Revenue Certificates of Obligation

A bond issue of \$7,440,000 dated July 1, 2012 maturing serially September 1, 2013 to September 1, 2042. Interest rates range from 1.25% to 3.75%, payable March 1 and September 1 to September 1, 2039. 5,615,000

Combination Tax & Limited Surplus Revenue Certificates of Obligation

A bond issue of \$5,350,000 (93.37% Debt Service Fund portion) dated December 4, 2014 maturing serially July 1, 2016 to July 1, 2035. Interest rates range from 1.5% to 3.5%, payable January 1 and July 1 to July 1, 2035. 4,170,000

Combination Tax & Limited Surplus Revenue Certificates of Obligation

A bond issue of \$5,230,000 (20.92% Debt Service Fund portion) dated August 17, 2017 maturing serially September 1, 2018 to September 1, 2037. Interest rates range from 2.0% to 4.0%, payable March 1 and September 1 to September 1, 2037. 950,576

Combined Debt

\$ 14,796,521

The annual requirements to amortize the bonded debt outstanding for the debt service fund as of September 30, 2018 are as follows:

Year Ending	Principal	Interest	Total
2019	1,211,643	510,129	1,721,772
2020	1,186,978	479,672	1,666,650
2021	1,214,683	449,267	1,663,950
2022	1,255,093	414,978	1,670,071
2023	1,005,872	378,312	1,384,184
2024-2028	4,067,252	1,446,003	5,513,255
2029-2033	1,965,000	897,313	2,862,313
2034-2038	1,965,000	473,650	2,438,650
2039-2042	925,000	77,775	1,002,775
Totals	<u>\$ 14,796,521</u>	<u>5,127,097</u>	<u>19,923,618</u>

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

LONG-TERM DEBT *(continued)*

During the year ended September 30, 2018, the following changes occurred in liabilities reported in the Water and Sewer Fund.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Business-Type Activities:					
Bonds Payable	\$ 30,232,246	-	(1,798,767)	28,433,479	1,848,357
Compensated Absences	140,288	125,227	(140,288)	125,227	140,288
	30,372,534	125,227	(1,939,055)	28,558,706	1,988,645
Bond Premium	312,765	-	(15,638)	297,127	15,638
	<u>\$ 30,685,299</u>	<u>125,227</u>	<u>(1,954,693)</u>	<u>28,855,833</u>	<u>2,004,283</u>

Bonds payable at September 30, 2018 are comprised of the following issues for the Water and Sewer fund:

General Obligation Refunding Bonds

A bond issue of \$5,340,000 (54.85 Water and Sewer Fund portion) dated July 1, 2009 maturing serially July 1, 2010 to July 1, 2022. Interest rates range from 2.00% to 4.00%, payable January 1 and July 1 to July 1, 2022.

894,055

Combination Tax & Revenue Certificates of Obligation

A bond issue of \$4,800,000 dated September 1, 2011 maturing serially September 1, 2013 to September 1, 2032. Interest rates range from 2.00% to 3.50%, payable March 1 and September 1 to September 1, 2032.

3,490,000

General Obligation Refunding Bonds

A bond issue of \$1,755,000 dated August 1, 2012 maturing serially September 1, 2013 to September 1, 2022. Interest rates range from 2.00% to 2.20%, payable March 1 and September 1 to September 1, 2022.

730,000

General Obligation Refunding Bonds

A bond issue \$1,135,000 dated April 16, 2015 maturing serially July 1, 2016 to July 1, 2020. Interest is 1.47%, payable July 1 each year. These bonds were issued to redeem \$1,110,000 of Combination Tax and Revenue Refunding Bonds dated April 14, 2005. This transaction resulted in a cash savings of \$54,640 and a present value savings of \$52,248.

465,000

Combination Tax & Revenue Certificates of Obligation

A bond issue of \$18,200,000 dated October 4, 2016 maturing serially September 1, 2017 to September 1, 2046. Interest rates range from 0.01% to 1.45%, payable March 1 and September 1 to September 1, 2046.

17,510,000

General Obligation Refunding Bonds

A bond issue \$1,555,000 dated August 17, 2017 maturing serially July 1, 2018 to July 1, 2027. Interest is 2.20%, payable January 1 and July 1 to July 1, 2027. These bonds were issued to redeem \$1,515,000 of Combination Tax and Revenue Refunding Bonds dated July 1, 2007.

1,410,000

Combination Tax & Limited Surplus Revenue Certificates of Obligation

A bond issue of \$5,230,000 (79.08% Debt Service Fund portion) dated August 17, 2017 maturing serially September 1, 2018 to September 1, 2037. Interest rates range from 2.0% to 4.0%, payable March 1 and September 1 to September 1, 2037.

3,934,424

Combined Debt

\$ 28,433,479

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

LONG-TERM DEBT *(continued)*

These bonds will be repaid by the Water and Sewer Fund.

The annual requirements to amortize all bonded debt outstanding for the Water and Sewer Fund as of September 30, 2018 are as follows:

Year Ending	Principal	Interest	Total
2019	1,848,357	504,989	2,353,346
2020	1,813,022	474,985	2,288,007
2021	1,605,317	445,596	2,050,913
2022	1,644,907	413,079	2,057,986
2023	1,159,128	377,699	1,536,827
2024-2028	5,592,748	1,544,559	7,137,307
2029-2033	5,075,000	1,046,164	6,121,164
2034-2038	4,095,000	600,992	4,695,992
2039-2043	3,425,000	302,576	3,727,576
2044-2046	2,175,000	63,078	2,238,078
Totals	<u>\$ 28,433,479</u>	<u>5,773,718</u>	<u>34,207,197</u>

Notes Payable – Economic Development Corporation

During the year ended September 30, 2018, the following changes occurred in liabilities reported for the EDC:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Notes payable	\$4,025,277	5,576,886	(190,706)	9,411,457	5,771,719
	<u>\$4,025,277</u>	<u>5,576,886</u>	<u>(190,706)</u>	<u>9,411,457</u>	<u>5,771,719</u>

On October 31, 2005, the Corporation purchased four tracts of land totaling approximately 286 acres from the Hopkins County Industrial Fund, Inc. The land was fully financed by the Fund through a note that bears no interest and is payable upon sale of the land by the Corporation. On August 23, 2006, the Corporation purchased another 248 acres of land that was also financed by the Hopkins County Industrial Fund, Inc. under the same terms as the previous note.

On May 18, 2017, the Corporation borrowed \$2,236,847 from Southside Bank. The loan is being repaid in 113 monthly payments of \$21,051 (beginning June 1, 2017 and 24 monthly payments of \$8,611 (beginning November 1, 2026), including interest computed at 3.05 percent. The note will be paid in full after the final payment on January 1, 2029.

On February 20, 2018, the Corporation obtained a non-revolving construction line of credit (LOC) from Guaranty Bank. The LOC has maximum allowable funds of \$7,800,000. The principal amount will be advanced upon draw requests, until February 20, 2019 at which point, the balance is due in full. During construction, monthly interest only payments will be made (effective March 20, 2018) at an interest rate of 4.75%.

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

BOK Financial - Bond Funds	\$ 819,980
Customer Deposits	502,121
Accrued Interest Payable	49,299
Current Revenue CO's Payable	1,050,715
Current GO Bonds Payable	<u>813,280</u>
Total Restricted Assets	<u>\$ 3,235,395</u>

RISK MANAGEMENT

The government 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 government is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located with Texas. The government pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There was no significant reduction in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage for the past three years.

The government has chosen to establish a risk financing fund for risks associated with the employee's health insurance plan. The risk financing fund is accounted for as an internal service fund where assets are set aside for claim settlements. A premium is charged to each fund that accounts for full-time employees. The total charge allocated to each of the funds (the allocation is based upon number of employees in each fund) is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims. Stop-loss coverage is \$80,000 per employee and \$1,125,489 in the aggregate.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors.

Changes in the medical claims liability amounts in fiscal year 2018 were as follows:

	<u>2018</u>
Unpaid Claims, Beginning of Year	<u>\$ 87,755</u>
Incurred Claims (Including IBNR)	920,704
Claim Payments	<u>(904,379)</u>
Unpaid Claims, End of Year	<u>\$ 104,080</u>

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

RETIREMENT SYSTEM – PENSION PLAN

Plan Description - The City of Sulphur Springs participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas.

TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that 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 at www.tmrs.com.

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

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment 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:

	<u>Plan Year 2018</u>	<u>Plan Year 2017</u>
Employee deposit rate	6%	6%
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	0%, Transfers	0%, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms - At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	112
Inactive Employees Entitled to but Not Yet Receiving Benefits	65
Active Employees	<u>143</u>
	320

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

RETIREMENT SYSTEM – PENSION PLAN *(continued)*

Contributions - Under the state law governing TMRS, the contribution rate for each government 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 projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that government. 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 government contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the government make contributions monthly. Since the government 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 rate goes into effect.

Employees for the City of Sulphur Springs were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.40% and 7.19% in calendar year 2018 and 2017, respectively. The City’s contributions to TMRS for the year ended September 30, 2018 were \$576,057 and were equal to required contributions.

Net Pension Liability - The City’s Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 39,045,311	\$ 35,274,906	\$ 3,770,405
Changes for the Year:			
Service Cost	1,067,537	-	1,067,537
Interest	2,605,150	-	2,605,150
Change of Benefit Terms	-	-	-
Diff. Between Expected/Actual Experience	(235,957)	-	(235,957)
Changes of Assumptions	-	-	-
Contributions - Employer	-	574,089	(574,089)
Contributions - Employee	-	479,074	(479,074)
Net Investment Income	-	4,888,366	(4,888,366)
Benefit Payments, Including Refunds of Employee Contributions	(1,968,528)	(1,968,528)	-
Administrative Expenses	-	(25,337)	25,337
Other Changes	-	(1,284)	1,284
Net Changes	<u>1,468,202</u>	<u>3,946,380</u>	<u>(2,478,178)</u>
Balance at 12/31/2017	<u>\$ 40,513,513</u>	<u>\$ 39,221,286</u>	<u>\$ 1,292,227</u>

CITY OF SULPHUR SPRINGS
Notes to the Financial Statements
September 30, 2018

RETIREMENT SYSTEM – PENSION PLAN *(continued)*

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would have been if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate.

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
City's Net Pension Liability	\$ 6,260,848	\$ 1,292,227	\$ (2,866,593)

Pension Expense and Deferred Outflows and Inflows of Resources - For the year ended September 30, 2018, the City recognized pension expense in the amount of \$932,919. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected & Actual Economic Experience (net of current year amortization)	\$ 22,882	\$ 318,966
Changes in Actuarial Assumptions	234,270	-
Differences Between Projected & Actual Investment Earnings (net of current year amortization)	-	990,832
Contributions Subsequent to the Measurement Date	432,834	-
Total	\$ 689,986	\$ 1,309,798

\$432,834 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	
2019	\$ 95,523
2020	(38,157)
2021	(569,982)
2022	(537,030)
2023	-

RETIREMENT SYSTEM – OTHER POST EMPLOYMENT BENEFITS

Plan Description - The City participates in a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). SDBF is an unfunded multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Texas Municipal Retirement System (TMRS).

OPEB Plan Fiduciary Net Position - Detailed information about the TMRS SDBF's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. This report may be obtained at www.tmr.com.

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