**NEW ISSUE-BOOK-ENTRY-ONLY**

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

# OFFICIAL STATEMENT
**Dated: April 30, 2020**

*In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein.*

***THE BONDS ARE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS***

## $3,575,000
## CITY OF ALVARADO, TEXAS
**(A municipal corporation and political subdivision of the State of Texas located in Johnson County)**
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020**

**Dated Date: May 15, 2020** **Due: August 15, as shown on Inside Cover**

The City of Alvarado, Texas (the "City" or "Issuer") is issuing its General Obligation Refunding Bonds, Series 2020 (the "Bonds") in accordance with the Constitution and laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended, and a bond ordinance authorizing the Bonds (the "Bond Ordinance") adopted by the City Council of the City. In the Bond Ordinance, the City Council delegated to a designated officer of the City the authority to complete the sale of the Bonds and to establish certain terms related to the terms of issuance and sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completed the sale of the Bonds. The Bond Ordinance and the Pricing Certificate are jointly referred to herein as the "Ordinance". (See "THE BONDS - Authority for Issuance" herein.)

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

Interest on the Bonds will accrue from May 15, 2020 (the "Dated Date"), will be payable February 15 and August 15 of each year, commencing August 15, 2020, until maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued as fully-registered Bonds in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Book-entry interests in the Bonds, within a stated maturity, will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of Bonds representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by U.S. Bank National Association, Dallas, Texas, as Paying Agent/Registrar, to DTC, which will in turn remit such principal and interest to its participating members, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2012 (the "Refunded Obligations") in order to achieve debt service savings and (ii) pay costs related to the issuance of the Bonds. (See Schedule I – Schedule of Refunded Obligations, "PLAN OF FINANCING FOR THE BONDS – Purpose", "SOURCES AND USES OF FUNDS" and "THE BONDS – Use of Bond Proceeds" herein.)

The City reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, 2031, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. Additionally, the Bonds maturing on August 15, 2029, August 15, 2031, August 15, 2033, August 15, 2035 and August 15, 2037 are subject to the mandatory sinking fund redemption provisions, as further described herein. (See "THE BONDS - Redemption" herein.)

### STATED MATURITY SCHEDULE
(See Inside Cover Page)

*The Bonds are offered for delivery when, as and if issued by the City and accepted by the underwriter listed below (the "Underwriter") 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. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal opinion of Bond Counsel may be printed on, or attached to, the Bonds. (See Appendix C – Form of Opinion of Bond Counsel). It is expected that the Bonds will be available for delivery through DTC on or about May 21, 2020.*

**SAMCO CAPITAL**

**CITY OF ALVARADO, TEXAS**
**GENERAL OBLIGATION REFUNDING BONDS**
**SERIES 2020**

**MATURITY SCHEDULE**
**(Due August 15)**
**Base CUSIP Number: 022355 [1]**

**$940,000 Serial Bonds**

| Stated Maturity | Principal Amount | Interest Rate (%) | Initial Yield (%)[2] | CUSIP Suffix[1] |
|---|---|---|---|---|
| 8/15/2020 | $ 30,000 | 4.000 | 1.380 | GP0 |
| 8/15/2021 | 105,000 | 4.000 | 1.380 | GQ8 |
| 8/15/2022 | 110,000 | 4.000 | 1.510 | GR6 |
| 8/15/2023 | 115,000 | 4.000 | 1.620 | GS4 |
| 8/15/2024 | 115,000 | 4.000 | 1.720 | GT2 |
| 8/15/2025 | 125,000 | 4.000 | 1.810 | GU9 |
| 8/15/2026 | 125,000 | 4.000 | 1.880 | GV7 |
| 8/15/2027 | 215,000 | 4.000 | 1.940 | GW5 |

(Interest to accrue from the Dated Date)

$450,000 4.000% Term Bond due 8/15/2029, Price to Yield 2.050%[2], CUSIP Suffix GY1[1]

$485,000 4.000% Term Bond due 8/15/2031, Price to Yield 2.080%[2][3], CUSIP Suffix HA2[1]

$520,000 4.000% Term Bond due 8/15/2033, Price to Yield 2.240%[2][3], CUSIP Suffix HC8[1]

$570,000 4.000% Term Bond due 8/15/2035, Price to Yield 2.330%[2][3], CUSIP Suffix HE4[1]

$610,000 4.000% Term Bond due 8/15/2037, Price to Yield 2.400%[2][3], CUSIP Suffix HG9([1]

(Interest to accrue from the Dated Date)

(1) CUSIP numbers have been assigned to this issue and are included solely for the convenience of the purchasers of the Bonds. "CUSIP" is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in anyway as a substitute for the CUSIP Services. None of the City, its Financial Advisor or the Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) The initial yields and prices are established by, and are the sole responsibility of, the Underwriter.

(3) Yield shown to first optional redemption date of August 15, 2030.

## CITY OF ALVARADO, TEXAS
**104 West College Street**
**Alvarado, Texas 76009**
**(817) 790-3351**

### ELECTED OFFICIALS

| Name | Title | First Elected | Term Expires | Occupation |
|---|---|---|---|---|
| Tom Durington | Mayor | 5/2000 | 5/2022 | Retired |
| Michael Bennett | Council Member | 5/2015 | 5/2022 | Roofer |
| Beverly Short | Council Member | 5/2016 | 5/2021 | Housewife |
| Lydia Moon | Council Member | 5/2018 | 5/2022 | Bookkeeper |
| Jacob Wheat | Council Member | 5/2010 | 5/2022 | Truck Driver |
| Shawn Goulding | Council Member | 5/2012 | 5/2021 | Sales |
| Cherry Bryant | Council Member | 5/2018 | 5/2021 | Home Health |

### ADMINISTRATION

| Name | Position | Years of Service in Current Position | Total Years of Service |
|---|---|---|---|
| Rick Holden | City Manager | 2 | 20+ |
| Paula Hardison | Director of Finance | 2 | 2 |
| Debbie Thomas, TRMC | City Secretary | 12 | 17 |

### CONSULTANTS AND ADVISORS

| | |
|---|---|
| Bond Counsel | McCall, Parkhurst & Horton L.L.P.<br>Dallas, Texas |
| Financial Advisor | Hilltop Securities, Inc.<br>Dallas, Texas |
| Certified Public Accountants | Waters, Vollmering & Associates L.L.P.<br>Mansfield, Texas |

***For Additional Information Please Contact:***

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Dallas, Texas 75270
(214) 859-9447
john.martin@hilltopsecurities.com

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

THE COVER PAGE AND THE PAGE ENTITLED "SELECTED DATA FROM THE OFFICIAL STATEMENT" CONTAIN CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND THEY ARE NOT INTENDED AS A SUMMARY OF THE BONDS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

NONE OF THE CITY, ITS FINANCIAL ADVISOR OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

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

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

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

REFERENCES TO WEB SITE ADDRESSES PRESENTED HEREIN ARE FOR INFORMATIONAL PURPOSES ONLY AND MAY BE IN THE FORM OF A HYPERLINK SOLELY FOR THE READER'S CONVENIENCE. UNLESS SPECIFIED OTHERWISE, SUCH WEB SITES AND THE INFORMATION OR LINKS CONTAINED THEREIN ARE NOT INCORPORATED INTO, AND ARE NOT PART OF, THIS FINAL OFFICIAL STATEMENT FOR PURPOSES OF, AND AS THAT TERM IS DEFINED IN, 15C2-12 OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.

## TABLE OF CONTENTS



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

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## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

| | |
|---|---|
| **The Issuer** | The City of Alvarado, Texas (the "City" or "Issuer"), is located in Johnson County. The City is a political subdivision of the State of Texas (the "State") and a municipal corporation organized and existing under the laws of the State. |
| **The Bonds** | The City of Alvarado, Texas General Obligation Refunding Bonds, Series 2020 (the "Bonds"), are being issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and a bond ordinance (the "Bond Ordinance") adopted by the City Council of the City (the "City Council"). In the Bond Ordinance, the City Council delegated to a designated officer of the City, pursuant to certain provisions of Chapter 1207, authority to effect the sale of the Bonds and to establish certain terms related to the issuance and sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completed the sale of the Bonds. The Bond Ordinance and the Pricing Certificate are jointly referred to herein as the "Ordinance". (See "THE BONDS - Authority for Issuance" herein.) |
| **Paying Agent/Registrar** | The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. |
| **Security** | The Bonds constitute direct obligations of the City payable from a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property in the City. |
| **Redemption Provisions** | The Bonds maturing on or after August 15, 2031, are subject to redemption prior to their stated maturity at the option of the City on August 15, 2030, or any date thereafter, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof within a maturity, at the redemption price of par plus accrued interest. Additionally, the Bonds maturing on August 15, 2029, August 15, 2031, August 15, 2033, August 15, 2035 and August 15, 2037 are subject to the mandatory sinking fund redemption provisions, as further described herein. (See "THE BONDS – Redemption Provisions" herein.) |
| **Use of Proceeds** | Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's Combination Tax and Revenue Bonds of Obligation, Series 2012 (the "Refunded Obligations") in order to achieve debt service savings and (ii) pay costs related to the issuance of the Bonds. (See Schedule I – "Schedule of Refunded Obligations", "PLAN OF FINANCING FOR THE BONDS – Purpose", "SOURCES AND USES OF FUNDS" and "THE BONDS – Use of Bond 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 ("DTC"), described herein. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Such Book-Entry-Only System may affect the method and timing of payments on the Bonds and the manner in which the Bonds may be transferred. (See "BOOK-ENTRY-ONLY SYSTEM" herein.) |
| **Rating** | S&P Global Ratings, a division of S&P Global Inc. ("S&P"), has assigned their credit rating of "AA", to the Bonds without regard to any credit enhancement. An explanation of the significance of any rating may be obtained from the rating agency. (See "OTHER PERTINENT INFORMATION-Ratings" herein.) |
| **Qualified Tax-Exempt Obligations** | The City designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions" herein.) |
| **Payment Record** | The City has never defaulted in repayment of its bonded indebtedness. |
| **Issuance of Additional Debt** | The City has no plans to issue additional general obligation debt within the next twelve months. |
| **Delivery** | When issued, anticipated on or about May 21, 2020. |
| **Legality** | Delivery of the Bonds is subject to the approval by the Attorney General of the State and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P. Dallas, Texas. |

## INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Alvarado, Texas (the "City" or "Issuer") of its $3,575,000 General Obligation Refunding Bonds, Series 2020 (the "Bonds") identified on the cover page hereof.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined below). Included in this Official Statement are descriptions of the Bonds and certain information about the Issuer and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the Issuer or the Financial Advisor upon request by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's undertaking to provide certain information on a continuing basis.

## PLAN OF FINANCING FOR THE BONDS

### Authorization and Purpose

The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas (the "State" or "Texas"), particularly Chapter 1207 ("Chapter 1207"), Texas Government Code, as amended, and an ordinance authorizing the issuance of the Bonds (the "Bond Ordinance") adopted by the City Council (the "City Council") of the City on March 16, 2020, in which the City delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" which contains the final terms of sale and completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance") Capitalized terms used herein have the same meanings assigned to such terms in the Ordinance, except as otherwise defined herein.

Proceeds from the sale of the Bonds will be used to provide funds sufficient to refund a portion of the City's outstanding Combination Tax and Revenue Certificates of Obligation, Series 2012 (the "Refunded Obligations") and pay costs of issuance related to the Bonds (see "SOURCES AND USES OF FUNDS" and Schedule I - Schedule of Refunded Obligations" herein). The refunding is being undertaken to lower the City's debt service and will result in a present value debt service savings to the City.

### Refunded Obligations

The principal and interest due on the Refunded Obligations are to be paid on the redemption date thereof from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and U.S. Bank National Association, Dallas, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriter, the City will deposit with the Escrow Agent the amount that, together with investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct noncallable obligations of the United States of America (State and Local Government Series) (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations.

Public Finance Partners LLC, a nationally recognized consulting firm, will issue its report (the "Report") verifying at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the Escrow Securities will mature and pay interest in such amounts which, together with uninvested funds in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Escrow Securities will not be available to pay the Bonds (see "VERIFICATION OF MATHEMATICAL COMPUTATIONS").

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

## THE BONDS

### General Description

The Bonds will be dated May 15, 2020 (the "Dated Date"). The Bonds are stated to mature on August 15 in the years and in the principal amounts and will bear interest at per annum rates as set forth on page ii hereof. The Bonds will be issued only in fully registered form and in principal denominations of $5,000 or any integral multiple thereof within a maturity. The Bonds shall bear interest from the Dated Date on the unpaid principal amounts, and the amount of interest to be paid each payment period shall be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will be payable on February 15 and August 15 of each year commencing August 15, 2020, until maturity or prior redemption; provided, however, that so long as Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC") is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. Principal is payable at the designated office of the Paying Agent/Registrar, initially U.S. Bank National Association, Dallas, Texas. Interest on the Bonds 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 registration books or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described below. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. which will distribute the amounts received to the Beneficial Owners of the Bonds. Such Book-Entry-Only System may change the method and timing of payment for the Bonds and the method of transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein.

**Security for Payment**

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

**Redemption**

Optional Redemption: The Bonds maturing on or after August 15, 2031 are subject to redemption prior to their stated maturity at the option of the City on August 15, 2030, 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.

Mandatory Sinking Fund Redemption: In addition, the Term Bonds maturing on August 15, 2029, August 15, 2031, August 15, 2033, August 15, 2035 and August 15, 2037 are subject to the mandatory sinking fund redemption provisions, as further described herein by the Paying Agent/Registrar by lot, or by any other customary method that results in a random selection, at a price equal to the principal amount thereof, plus accrued interest to the redemption date, out of moneys available for such purpose in the interest and sinking fund for the Bonds, on August 15 in the years and in the respective principal amounts, set forth in the following schedule:

Term Bonds Maturing August 15, 2029

| Year | Principal Amount |
|---|---|
| 8/15/2028 | $ 220,000 |
| 8/15/2029* | 230,000 |

Term Bonds Maturing August 15, 2031

| Year | Principal Amount |
|---|---|
| 8/15/2030 | $ 240,000 |
| 8/15/2031* | 245,000 |

Term Bonds Maturing August 15, 2033

| Year | Principal Amount |
|---|---|
| 8/15/2032 | $ 255,000 |
| 8/15/2033* | 265,000 |

Term Bonds Maturing August 15, 2035

| Year | Principal Amount |
|---|---|
| 8/15/2034 | $ 280,000 |
| 8/15/2035* | 290,000 |

Term Bond Maturing August 15, 2037

| Year | Principal Amount |
|---|---|
| 8/15/2036 | $ 300,000 |
| 8/15/2037* | 310,000 |

* Stated Maturity

Notice of Redemption: At least 30 days prior to the date fixed for any such redemption, the Issuer shall cause a written notice of such redemption to be deposited in the United States mail, first class postage prepaid, addressed to each registered owner of a Bond to be redeemed at the address shown on the registration books of the Paying Agent/Registrar on the business day of mailing such notice. 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 FAIL TO RECEIVE SUCH NOTICE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof, which are to be so redeemed. If such notice of redemption is given and if due provisions for such payment is made, all as provided above, the Bonds or portions thereof shall be deemed to be 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 from the funds provided for such payment.

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

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

**Tax Rate Limitations**

Article XI, Section 4 of the Texas Constitution is applicable to the City and limits the maximum annual ad valorem tax rate of the City to $1.50 per $100 assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.00 of the $1.50 maximum tax rate for all general obligation debt, based on a 90% tax collection factor.

**Payment Record**

The City has never defaulted in repayment of its bonded indebtedness.

**Legality**

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

**Defeasance**

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent (or other financial institution permitted by applicable law), 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 Bonds. Thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Bonds. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment of the Bonds.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the City to take any action amending the terms of the Bonds are extinguished.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described in clauses (a) – (c) in the first paragraph of this section above to be made with amounts deposited to defease the Bonds. Because the Ordinance specifically permits the use of other investments that may be permitted by future law, registered owners are 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 Texas law. There is no assurance that the ratings for U.S. Treasury Securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

**Default and Remedies**

The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set for in the Ordinance, the failure to perform which materially, adversely affects the rights of the registered owners of the Bonds, 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 registered owner, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders 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.3rd 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, bondholders may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds.

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

**Amendments to the Ordinance**

In the Ordinance, the City 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 holders, (ii) grant additional rights or security for the benefit of the holders, (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 holders, (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 holders.

The Ordinance further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds 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 holders in original principal amount of the then outstanding Bonds so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

## SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied approximately as follows:

| **Sources of Funds** | |
|---|---|
| Principal Amount | $ 3,575,000.00 |
| Accrued Interest | 2,383.33 |
| Premium | 504,068.15 |
| **Total Sources of Funds** | $ 4,081,451.48 |

| **Uses of Funds** | |
|---|---|
| Deposit to Escrow Fund | $ 3,956,535.47 |
| Deposit to Debt Service Fund | 2,527.63 |
| Costs of Issuance | 90,400.00 |
| Underwriter's Discount | 31,988.38 |
| **Total Uses of Funds** | $ 4,081,451.48 |

## REGISTRATION, TRANSFER AND EXCHANGE

### Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Issuer replaces the Paying Agent/Registrar, the new Paying Agent/Registrar must 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, must be a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

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

### Record Date

The record date ("Record Date") for determining the person to whom interest is payable, on any interest payment date, means the last business day of the month next preceding such interest payment date.

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

**Limitation on Transfer or Exchange of Bonds**

The Paying Agent/Registrar is not required to transfer or exchange any Bond during the period commencing with the close of business on any Record Date immediately preceding a principal or interest payment date for such Bond and ending with the opening of business on the next following such principal or interest payment date.

**Registration**

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

**Replacement Bonds**

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

## BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer and the Underwriter believe to be reliable, but the Issuer and the Underwriter takes no responsibility for the accuracy thereof.

*Use of Certain Terms in Other Sections of this Official Statement*

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

## INVESTMENT POLICIES

Under State law, the City is authorized to make investments meeting the requirements of the PFIA, which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, 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) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA") that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State 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; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the City or cash held by the City to be 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; (11) 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; (12) commercial paper with a stated maturity of 365 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; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the City and deposited with the City or a third party selected and approved by the City.

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

Political subdivisions 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 (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. 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 State 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 the probable income to be derived." At least quarterly the City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest 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) State law. No person may invest City funds without express written authority from the City Council.

**Additional Provisions**

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

**Current Investments**

As of March 31, 2020, the City had investments totaling $13,015,489 (unaudited) held in investment pools and certificates of deposit.

## DEFINED BENEFIT PENSION PLAN

The City of Alvarado participates as one of 872 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 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. 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. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS. For more detailed information concerning the benefits provided, contributions and net pension liability in connection with the Defined Benefit Pension Plan, see Appendix D, "Notes to the Basic Financial Statements from the City's Annual Financial Report", Note J, Page 48.

## SUPPLEMENTAL DEATH BENEFITS FUND

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

The City contributes to the SDBF at a contractually required rates as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. For more detailed information concerning the other post-employment benefits, see Appendix D, "Notes to the Basic Financial Statements from the City's Annual Financial Report", Note K, Page 54.

## 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. Prospective investors are encouraged to review 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 (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Johnson County Appraisal District (the "Appraisal District"). Except as generally 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"). See "APPENDIX A – Financial Information of the Issuer - 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 "APPENDIX A – Financial Information of the Issuer - 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 City, in establishing their tax rolls and tax rates. See "AD VALOREM TAX PROCEDURES – Issuer and Taxpayer Remedies."

### 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 "APPENDIX A – Financial Information of the Issuer - Table 1" for the reduction, if any, 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 at least $3,000 of the appraised value of the homesteads of persons sixty-five (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. The exemption described in (2), above, may be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See "APPENDIX A – Financial Information of the Issuer - Table 1" for the reduction, 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 "APPENDIX A – Financial Information of the Issuer - Table 1" for the reduction, if any, attributable to the local option freeze 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 and Goods-In-Transit Exemptions**

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are 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 taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

See "APPENDIX A – Financial Information of the Issuer - Table 1" for the reduction, if any, attributable to Freeport Property and/or Goods-in-Transit 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. See “CITY APPLICATION OF THE PROPERTY TAX CODE” for descriptions of any TIRZ created in the City.

**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. See “CITY APPLICATION OF THE PROPERTY TAX CODE” for descriptions of any of the City’s tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, See “CITY APPLICATION OF THE PROPERTY 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 Bonds**.

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.

**Debt Tax Rate Limitations**

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

**Issuer and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the City, 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.

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at $50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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 "AD VALOREM TAX PROCEDURES – Public Hearing and Maintenance and Operations Tax Rate Limitations"). The Property Tax Code also establishes a procedure for providing 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.

**City's Rights in the Event of Tax Delinquencies**

Taxes levied by the City are a personal obligation of the owner of the property. 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 each taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the 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, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

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.

**Levy and Collection of Taxes**

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

**Penalties and Interest**

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

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

[(a)] *After July, penalty remains at 12% and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed.*

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

## CITY APPLICATION OF THE PROPERTY TAX CODE

The City grants an exemption of $5,000 to the market value of the residence homestead of persons 65 years of age or older and the disabled.

The City has not granted an additional exemption of 20% of the market value of residence homesteads.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

The City does not tax non-business personal property.

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

The City does grant the Article VIII, Section 1-j ("Freeport Property") exemption.

The City does tax goods in transit.

The City does collect an additional one-half cent sales tax for reduction of ad valorem taxes.

The City has adopted a tax abatement policy and has entered into tax abatement agreements.

The City one active TIRZ.

## ADDITIONAL TAX COLLECTIONS

**Municipal Sales Tax Collections**

The City has adopted the provisions of Chapter 34 of the Texas 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, including the Bonds. Net collections on a fiscal year basis are shown in Appendix A.

**Optional Sales Tax Levy**

The Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (½%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the amount of the estimated sales tax revenues to be generated in the current year. Further, the Tax Code provides certain cities the option of assessing a maximum one-half percent (½%) sales tax on retail sales of taxable items for economic development purposes, if approved by a majority of the voters in a local option election.

At an election held on November 5, 1991, the City's registered voters approved an additional one-quarter percent (¼%) sales tax to be collected for economic development purposes in accordance with Chapters 501, 502 and 504, Texas Local Government Code, as amended. Levy of this sales tax began in April 1992.

At an election held on January 15, 1994, registered voters of the City approved the imposition of a one-half percent (½%) additional sales tax to be used for property tax reduction. Levy of the ad valorem tax reduction sales tax began April 1, 1994, and the City received its first payment in June 1994. (See "APPENDIX A – Financial Information of the Issuer - TABLE 14 – MUNICIPAL SALES TAX" herein.)

At a special election held on January 20, 1996 the City's registered voters approved an additional one-half percent (½%) sales tax to be collected for community development purposes in accordance with Section 4B, Article 5190.6 of Vernon's Annotated Texas Civil Statutes, now codified under Texas Local Government Code, Title 12, Subtitle C1. Levy of the 4B sales tax began on July 1, 1996 and the City received its first payment in September 1996.

The City has not held an election authorizing a sales tax under Section 4A, Article 5190.6 of Vernon's Annotated Texas Civil Statutes, now codified under Texas Local Government Code, Title 12, Subtitle C1.

## TAX MATTERS

<u>Opinion</u>

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the Issuer, 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 Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds 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 Issuer will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C -- Form of Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel to the Issuer will rely upon (a) the Issuer's federal tax certificate,(b) covenants of the Issuer with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters and (c) the report of Public Finance Partners LLC as to the sufficiency of the deposit to the escrow fund to redeem the refunded obligations. Failure of the Issuer to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds 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 Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel to the Issuer is conditioned on compliance by the Issuer with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the Issuer has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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 Bonds.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer 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 Bonds, 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 Issuer as the taxpayer and the Bondholders 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 Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds 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 Bond 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 Bond 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 Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond 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 Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (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 Bond. The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds 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 Bonds 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 Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

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 Bonds. 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 BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, 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 Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Bonds" to the extent such gain does not exceed the accrued market discount of such Bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the 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 Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds 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 Bonds under Federal or state law and could affect the market price or marketability of the Bonds. 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 Bonds should consult their own tax advisors regarding the foregoing matters.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed $10,000,000.

The City designated the Bonds as "qualified tax-exempt obligations" and coventns that the above-described $10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

## INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance of Executive Order GA-16 on April 17, 2020, which, among other things, requires Texans to minimize in-person contact with people who are not in the same household unless such people are involved in essential services or essential daily activities and closes schools to in-person classroom attendance by students through the 2019-2020 school year, unless such order is otherwise extended, modified, rescinded, or superseded by the Governor. Furthermore, the Governor has suspended various statutes of the Texas Open Meetings Act that require government officials and members of the public to be physically present at a specified meeting location. This temporary suspension will allow for telephonic or videoconference meetings of governmental bodies that are accessible to the public in an effort to reduce in-person meetings that assemble large groups of people. . In addition to the actions by the state and federal officials, certain local officials, including the City and the County Judge of Johnson County, have declared a local state of disaster and have issued “shelter-in-place” guidelines. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place guidelines are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values and/or the collection of sales tax revenues within the City. See “AD VALOREM TAX PROCEDURES” and “ADDITIONAL TAX COLLECTIONS.” The Bonds are secured by an ad valorem tax (within the limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the City’s operations and maintenance expenses. See “AD VALOREM TAX PROCEDURES – Public Hearing and Maintenance and Operations Tax Rate Limitations” and “– Debt Tax Rate Limitations.” Additionally, the City collects a sales and use tax on all taxable transactions within the City’s boundaries. A reduction in the collection of sales tax revenues may negatively impact the City’s operating budget and overall financial condition.

The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City’s operations and financial condition.

## LEGAL MATTERS

The City will furnish the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, in substantially the form attached hereto as Appendix C.

The customary closing papers, including a certificate of the City to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds, will also be furnished to the Underwriter. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, in connection with the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect hereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions “PLAN OF FINANCING FOR THE BONDS – Refunded Obligations,” “THE BONDS” (except under the subcaption “Payment Record” and “Default and Remedies”), "REGISTRATION, TRANSFER AND EXCHANGE," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION (except under the subcaption "Compliance with Prior Agreements"), “LEGAL MATTERS” except the last two sentences of the second paragraph hereof as to which no opinion is expressed, and the subcaptions “Registration and Qualification of Bonds for Sale” and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER PERTINENT INFORMATION", and such firm is of the opinion that the information relating to the Bonds and legal matters contained in the Official Statement under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal fee to be paid to the Counsel for the Underwriter is contingent on the sale and delivery of the Bonds.

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

## CONTINUING DISCLOSURE OF INFORMATION

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

### Annual Reports

The City will provide certain updated financial information and operating data to the MSRB on an annual basis in an electronic format that is prescribed by the MSRB and available via the EMMA system. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables 1 through 4, 7, 8, 11, 12 and 14 in Appendix A and its annual audited financial statements. The City will update and provide the information in Tables 1 through 4, 7, 8, 11, 12 and 14 in Appendix A within six months after the end of each fiscal year ending in and after 2018. The City will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2020. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D hereto or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site identified above or filed with the SEC, as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, the City must provide updated information included in Tables 1 through 4, 7, 8, 11, 12 and 14 in Appendix A 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 not yet available) as described above. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

### Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (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. Neither the Bonds nor the Ordinance make any provision for debt service reserves, liquidity enhancement, credit enhancement, or a trustee though there is a paying agent/registrar. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

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

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

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 (including an official statement or other offering document), if it is available to the public on the MSRB's Internet website or has been filed with the SEC.

### Limitations and Amendments

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

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

### Compliance with Prior Agreements

During the past five years, the City has substantially complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the Issuer, on or before the settlement date of the Bonds, its Report indicating that it has verified, the mathematical accuracy of computations of the adequacy of the cash and the maturing principal of and interest on the escrow securities, to pay, when due or upon early redemption, the principal of, interest on and related call premium requirements, if any, of the Refunded Obligations.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the Issuer. In addition, Public Finance Partners LLC has relied on any information provided to it by the Issuer's retained advisors, consultants or legal counsel.

The Report of Public Finance Partners LLC will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Obligations.

## OTHER PERTINENT INFORMATION

### Registration and Qualification of Bonds for Sale

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

**Litigation**

In the opinion of the City officials, 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 City, would have a material adverse effect on the financial condition of the City.

**Legal Investments and Eligibility to Secure Public Funds in Texas**

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

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

**Rating**

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

**Financial Advisor**

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

**Underwriting**

The Underwriter has agreed, subject to certain conditions to purchase the Bonds from the Issuer at a price of $4,047,079.77 (representing the par amount of the Bonds of $3,575,000.00, plus an original issue premium of $504,068.15, and less an Underwriter's discount of $31,988.38), plus accrued interest on the Bonds from the Dated Date to the date of initial delivery of the Bonds.

The Underwriter's obligation is subject to certain conditions precedent. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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

**Audited Financial Statements**

Waters, Vollmering & Associates, L.L.P., the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. Excerpts from the report of Waters, Vollmering & Associates, L.L.P. relating to City's financial statements for the fiscal year ended September 30, 2018 are included in this Official Statement in Appendix D; however, Waters, Vollmering & Associates, L.L.P. has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement.

**Forward-Looking Statements Disclaimer**

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials.

Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

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

The Bond Ordinance delegated to the Pricing Officer the authority to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the reoffering of the Bonds by the Underwriter.

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# SCHEDULE I
# SCHEDULE OF REFUNDED OBLIGATIONS

**Combination Tax and Revenue Certificates of Obligation, Series 2012**
**Date of Redemption: August 15, 2020**

| Maturity August 15 | Original Principal Amount | Interest Rate | Amount to be Refunded | Unrefunded Amount |
|---|---|---|---|---|
| 2020 | $ 130,000 | 2.000% | $ - | $ 130,000 |
| 2021 | 130,000 | 2.000% | 130,000 | - |
| 2022 | 135,000 | 2.250% | 135,000 | - |
| 2023(1) | 140,000 | 3.000% | 140,000 | - |
| 2024(1) | 140,000 | 3.000% | 140,000 | - |
| 2025(2) | 145,000 | 3.500% | 145,000 | - |
| 2026(2) | 145,000 | 3.500% | 145,000 | - |
| 2027 | 235,000 | 3.500% | 235,000 | - |
| 2028 | 240,000 | 3.500% | 240,000 | - |
| 2029 | 250,000 | 3.500% | 250,000 | - |
| 2030 | 260,000 | 3.000% | 260,000 | - |
| 2031 | 265,000 | 3.500% | 265,000 | - |
| 2032 | 275,000 | 3.500% | 275,000 | - |
| 2033(3) | 285,000 | 3.500% | 285,000 | - |
| 2034(3) | 295,000 | 3.500% | 295,000 | - |
| 2035(4) | 305,000 | 4.000% | 305,000 | - |
| 2036(4) | 315,000 | 4.000% | 315,000 | - |
| 2037(4) | 330,000 | 4.000% | 330,000 | - |
| | $ 4,020,000 | | $ 3,890,000 | $ 130,000 |

**TOTAL AMOUNT OF REFUNDED OBLIGATIONS:** **$3,890,000**

(1) Part of Term Bonds maturing August 15, 2024
(2) Part of Term Bonds maturing August 15, 2026s
(3) Part of Term Bonds maturing August 15, 2034
(4) Part of Term Bonds maturing August 15, 2037

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# APPENDIX A

## FINANCIAL INFORMATION OF THE ISSUER

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

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# FINANCIAL INFORMATION OF THE CITY

**ASSESSED VALUATION** **TABLE 1**

| | | |
|---|---|---|
| 2019 Actual Market Value of Taxable Property | | $ 540,853,382 |
| Less: | | |
| Total Exempt Value | $ 137,657,282 | |
| Assessed Value | $ 403,196,100 | |
| Exemptions | | |
| Local Over 65 / Freeze | $ 4,095,392 | |
| Veterans Exemptons | 2,699,411 | |
| Productivity Value | 11,392,274 | |
| Other | 15,148,423 | |
| 10% Cap Loss | 5,651,968 | |
| Total Exemptions | $ 38,987,468 | |
| 2019 Taxable Assessed Valuation | | $ 364,208,632 |
| Less 2019 Taxable Assessed Valuation captured by the TIRZ #1 and TIRZ #2 | | $ 946,085 |
| 2019 Net Taxable Assessed Valuation after TIRZ captured incremental value. | | $ 363,262,547 |

Source: Texas Comptroller of Public Accounts and Central Appraisal District of Johnson County.

**GENERAL OBLIGATION BONDED DEBT** **TABLE 2**

**General Obligation Debt Principal Outstanding** (Following payments made through March 31, 2020):

| | | |
|---|---|---|
| Outstanding Debt (See Table 7) | | $ 11,437,000 |
| Refunded Obligations (See Schedule I) | | (3,890,000) |
| The Bonds | | 3,575,000 |
| Total Gross General Obligation Debt Outstanding: | | $ 11,122,000 |
| Less: Self-Supporting General Obligation Debt (See Table 7) | | $ 2,410,000 |
| Total Net General Obligation Debt Outstanding: | | $ 8,712,000 |
| Ratio of Net General Obligation Debt to 2019 Net Assessed Valuation available for General Obligation Debt. | | 2.39% |
| 2019 Net Assessed Valuation available for General Obligation Debt. | | $ 364,208,632 |
| Population: 2000-3,288; 2010-3,785 Current - | 4,382 | |
| Per Capita 2019 Net Assessed Valuation - | $83,115 | |
| Per Capita Gross General Obligation Debt - | $2,538 | |
| Per Capita Net General Obligation Debt - | $1,988 | |

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

| Purpose | Original Amount | Final Due Date | Source of Funds | Principal Amount Outstanding | Amount of Annual Payments |
|---|---|---|---|---|---|
| Vehicles | $ 678,182 | 11/1/2026 | TAX & REVENUE | $ 497,133 | $ 536,001 |

Source: The City.

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS** **TABLE 4**

| Fisc Year 30-Sep | Current Total Debt Service | Refunded Debt Service | The Bonds Principal | The Bonds Interest | The Bonds Total | Combined Debt Service | Less: Self-Supporting Debt [(a)] | Net General Obligation Debt Service |
|---|---|---|---|---|---|---|---|---|
| 2020 | $ 1,162,803 | $ (67,281) | $ 30,000 | $ 35,750 | $ 65,750 | $ 1,161,272 | $ (327,525) | $ 833,747 |
| 2021 | 1,144,335 | (264,563) | 105,000 | 141,800 | 246,800 | 1,126,572 | (323,325) | 803,247 |
| 2022 | 1,147,310 | (266,963) | 110,000 | 137,600 | 247,600 | 1,127,948 | (328,925) | 799,023 |
| 2023 | 947,650 | (268,925) | 115,000 | 133,200 | 248,200 | 926,925 | (123,925) | 803,000 |
| 2024 | 949,127 | (264,725) | 115,000 | 128,600 | 243,600 | 928,002 | (126,725) | 801,277 |
| 2025 | 945,657 | (265,525) | 125,000 | 124,000 | 249,000 | 929,132 | (124,325) | 804,807 |
| 2026 | 945,083 | (260,450) | 125,000 | 119,000 | 244,000 | 928,633 | (126,925) | 801,708 |
| 2027 | 710,000 | (345,375) | 215,000 | 114,000 | 329,000 | 693,625 | (124,325) | 569,300 |
| 2028 | 708,775 | (342,150) | 220,000 | 105,400 | 325,400 | 692,025 | (126,725) | 565,300 |
| 2029 | 712,025 | (343,750) | 230,000 | 96,600 | 326,600 | 694,875 | (128,925) | 565,950 |
| 2030 | 709,575 | (345,000) | 240,000 | 87,400 | 327,400 | 691,975 | (125,925) | 566,050 |
| 2031 | 707,925 | (342,200) | 245,000 | 77,800 | 322,800 | 688,525 | (127,925) | 560,600 |
| 2032 | 708,450 | (342,925) | 255,000 | 68,000 | 323,000 | 688,525 | (124,725) | 563,800 |
| 2033 | 708,275 | (343,300) | 265,000 | 57,800 | 322,800 | 687,775 | (126,525) | 561,250 |
| 2034 | 712,375 | (343,325) | 280,000 | 47,200 | 327,200 | 696,250 | (128,125) | 568,125 |
| 2035 | 705,575 | (343,000) | 290,000 | 36,000 | 326,000 | 688,575 | (124,525) | 564,050 |
| 2036 | 466,725 | (340,800) | 300,000 | 24,400 | 324,400 | 450,325 | (125,925) | 324,400 |
| 2037 | 470,325 | (343,200) | 310,000 | 12,400 | 322,400 | 449,525 | (127,125) | 322,400 |
| 2038 | 123,125 | | | | | 123,125 | (123,125) | |
| 2039 | 124,125 | | | | | 124,125 | (124,125) | |
| 2040 | 124,663 | | | | | 124,663 | (124,663) | |
| 2041 | 124,988 | | | | | 124,988 | (124,988) | |
| 2042 | 125,100 | | | | | 125,100 | (125,100) | |
| | $ 15,183,990 | $ (5,433,456) | $ 3,575,000 | $ 1,546,950 | $ 5,121,950 | $ 14,872,484 | $ (3,494,450) | $ 11,378,034 |

[(a)] General obligation debt in the amounts shown for which repayment is provided from revenues of the City's waterworks and sewer system. The amount of self supporting debt is based on the percentages of revenue support as shown in "COMPUTATION OF SELF-SUPPORTING DEBT BY SOURCE – TABLE 7" and "COMPUTATION OF UTILITY SYSTEM SELF-SUPPORTING DEBT – TABLE 8". It is the City's current policy to make these payments from such revenues, but such policy is subject to change. In the event payments are not made from such revenues, the City will be required to assess and ad valorem tax sufficient to make such payments.

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

| | | |
|---|---|---|
| 2019 Net Assessed Valuation | $ | 364,208,632 |
| Maximum Annual Debt Service Requirements (Fiscal Year Ending 2020) [a] | | 1,161,272 |
| Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections | | 0.3254 |

[a] Includes the Bonds and general obligation self-supporting debt. Excludes the Refunded Obligations.
Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

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

| | | |
|---|---|---|
| 2019 Net Assessed Valuation | $ | 364,208,632 |
| Maximum Annual Debt Service Requirements(Fiscal Year Ending 2020) [a] | | 833,747 |
| Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections | | 0.2336 |

[a] Excludes general obligation self-supporting debt and the Refunded Obligations. Includes the Bonds.
Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

**COMPUTATION OF SELF-SUPPORTING DEBT BY SOURCE (following refunding)** **TABLE 7**

| | | |
|---|---|---|
| **Combination Tax and Revenue Certificates of Obligation, Series 2012** | | |
| Gross Balance Outstanding: | $ | 130,000 |
| % of Self Supporting Utility System | | 0.00% |
| Balance Supported by Utility System | $ | - |
| **Combination Tax and Revenue Certificates of Obligation, Series 2015** | | |
| Gross Balance Outstanding: | $ | 2,945,000 |
| % of Self Supporting Utility System | | 0.00% |
| Balance Supported by Utility System | $ | - |
| **General Obligation Refunding Bonds, Series 2017** | | |
| Gross Balance Outstanding: | $ | 2,410,000 |
| % of Self Supporting Utility System | | 100.00% |
| Balance Supported by Utility System | $ | 2,410,000 |
| **General Obligation Refunding Bonds, Series 2019** | | |
| Gross Balance Outstanding: | $ | 2,062,000 |
| % of Self Supporting Utility System | | 0.00% |
| Balance Supported by Utility System | $ | - |
| **General Obligation Refunding Bonds, Series 2020*** | | |
| Gross Balance Outstanding: | $ | 3,575,000 |
| % of Self Supporting Utility System | | 0.00% |
| Balance Supported by Utility System | $ | - |
| **Combined Totals:** | | |
| Gross Balance Outstanding: | $ | 11,122,000 |
| Balance Supported by Utility System: | $ | 2,410,000 |
| % Self Supporting from Utility System: | | 21.67% |

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

*(As of September 30, 2019, Unaudited)*

| | |
|---|---|
| System Operating Revenues | $ 3,058,255 |
| Operating Expenses | 2,652,339 |
| Balance Available for Other Purposes | $ 405,916 |
| | |
| Maximum Annual Debt Service for Self-Supporting Debt (2020) | $ 328,925 |

Note: The City has no outstanding revenue bonds secured by the Utility System.

Source: Audited Financial Statements of the City.

**GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE** **TABLE 9**

| Fiscal Year Ending 9/30 | Outstanding Debt | Refunded Obligations | The Bonds | Total | Bonds Unpaid at End of Year | Percent of Principal Retired (%) |
|---|---|---|---|---|---|---|
| 2020 | $ 801,000 | | $ 30,000 | $ 831,000 | $ 10,291,000 | 7.47% |
| 2021 | 794,000 | $ (130,000) | 105,000 | 769,000 | 9,522,000 | 14.39% |
| 2022 | 819,000 | (135,000) | 110,000 | 794,000 | 8,728,000 | 21.52% |
| 2023 | 644,000 | (140,000) | 115,000 | 619,000 | 8,109,000 | 27.09% |
| 2024 | 664,000 | (140,000) | 115,000 | 639,000 | 7,470,000 | 32.84% |
| 2025 | 678,000 | (145,000) | 125,000 | 658,000 | 6,812,000 | 38.75% |
| 2026 | 697,000 | (145,000) | 125,000 | 677,000 | 6,135,000 | 44.84% |
| 2027 | 480,000 | (235,000) | 215,000 | 460,000 | 5,675,000 | 48.98% |
| 2028 | 495,000 | (240,000) | 220,000 | 475,000 | 5,200,000 | 53.25% |
| 2029 | 515,000 | (250,000) | 230,000 | 495,000 | 4,705,000 | 57.70% |
| 2030 | 530,000 | (260,000) | 240,000 | 510,000 | 4,195,000 | 62.28% |
| 2031 | 545,000 | (265,000) | 245,000 | 525,000 | 3,670,000 | 67.00% |
| 2032 | 565,000 | (275,000) | 255,000 | 545,000 | 3,125,000 | 71.90% |
| 2033 | 585,000 | (285,000) | 265,000 | 565,000 | 2,560,000 | 76.98% |
| 2034 | 610,000 | (295,000) | 280,000 | 595,000 | 1,965,000 | 82.33% |
| 2035 | 625,000 | (305,000) | 290,000 | 610,000 | 1,355,000 | 87.82% |
| 2036 | 410,000 | (315,000) | 300,000 | 395,000 | 960,000 | 91.37% |
| 2037 | 430,000 | (330,000) | 310,000 | 410,000 | 550,000 | 95.05% |
| 2038 | 100,000 | | | 100,000 | 450,000 | 95.95% |
| 2039 | 105,000 | | | 105,000 | 345,000 | 96.90% |
| 2040 | 110,000 | | | 110,000 | 235,000 | 97.89% |
| 2041 | 115,000 | | | 115,000 | 120,000 | 98.92% |
| 2042 | 120,000 | | | 120,000 | | 100.00% |
| | $ 11,437,000 | $ (3,890,000) | $ 3,575,000 | $ 11,122,000 | | |

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2015-2019** **TABLE 10**

| Year | Net Taxable Assessed Valuation [1] | Change From Preceding Year Amount ($) | Change From Preceding Year Percent |
|---|---|---|---|
| 2015 | $ 301,236,685 | $ (2,930,162) | (0.96%) |
| 2016 | 304,933,642 | 3,696,957 | 1.23% |
| 2017 | 297,399,001 | (7,534,641) | (2.47%) |
| 2018 | 340,511,104 | 43,112,103 | 14.50% |
| 2019 | 364,208,632 | 23,697,528 | 6.96% |

Source: Texas Comptroller of Public Accounts and Central Appraisal District of Johnson County.
[1] Does not exclude incremental taxable assessed value with TIRZ #1 and TIRZ #2.

**ASSESSED VALUATION AND EXEMPTION HISTORY** **TABLE 11**

| | Tax Year 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Total Market Value: | $ 540,853,382 | $ 511,729,312 | $ 423,227,002 | $ 398,399,157 | $ 389,060,307 |
| Less Exemptions: | | | | | |
| Local Over 65 / Disabled: | $ 4,095,392 | $ 4,133,706 | $ 3,385,688 | $ 3,969,335 | $ 3,869,893 |
| Veterans Exemptions: | 2,699,411 | 2,238,014 | 1,907,565 | 877,540 | 881,524 |
| Productivity Value Loss: | 11,392,274 | 11,718,330 | 10,461,267 | 10,212,677 | 11,119,938 |
| Other: | 15,148,423 | 9,791,802 | 19,566,706 | 17,103,162 | 12,029,662 |
| 10% Cap Loss: | 5,651,968 | 6,824,578 | 2,779,934 | 112,705 | 186,184 |
| Totally exempt Value: | 137,657,282 | 136,511,778 | 87,726,841 | 61,190,096 | 59,736,421 |
| Total Exemptions: | $ 176,644,750 | $ 171,218,208 | $ 125,828,001 | $ 93,465,515 | $ 87,823,622 |
| Net Taxable Value: | $ 364,208,632 | $ 340,511,104 | $ 297,399,001 | $ 304,933,642 | $ 301,236,685 |

Source: Texas Comptroller of Public Accounts and Central Appraisal District of Johnson County.

**PRINCIPAL TAXPAYERS 2019** **TABLE 12**

| Name | Type of Business | Assessed Valuation | Valuation |
|---|---|---|---|
| Sabre Industries Inc | Manufacturing | $ 35,818,292 | 9.83% |
| Motor Home Specialist Inc | RV Sales | 21,557,576 | 5.92% |
| Pole Landlord LA TX LLC | Other | 18,015,776 | 4.95% |
| Quikrete Companies Inc | Concrete | 9,517,801 | 2.61% |
| Dragon Products LTD | Other | 9,367,312 | 2.57% |
| Altec Capital Services LLC | Business | 5,217,744 | 1.43% |
| RV Retailer Texas Real Estate LLC | Car Dealership | 4,739,983 | 1.30% |
| FDL Operating LLC | Oil & Gas | 3,023,788 | 0.83% |
| Quiktrip Corporation | Business | 3,063,397 | 0.84% |
| Oxford Hotel Group LLC | Energy | 2,782,893 | 0.76% |
| | | $ 113,104,562 | 31.05% |

Information based on a 2019 Net Taxable Assessed Valuation of $364,208,632
Source: Texas Comptroller of Public Accounts and Central Appraisal District of Johnson County.

## PROPERTY TAX RATES AND COLLECTIONS — TABLE 13

| Tax Year | Net Taxable Valuation [(1)] | Tax Rate | Tax Levy | % Collections Current | % Collections Total | Year Ended |
|---|---|---|---|---|---|---|
| 2015 | $ 301,236,685 | $0.73300 | $ 2,205,981 | 81.00% | 99.23% | 9/30/2016 |
| 2016 | 304,933,642 | 0.73300 | 2,209,166 | 97.90% | 97.90% | 9/30/2017 |
| 2017 | 297,339,001 | 0.73300 | 2,179,935 | 98.33% | 98.33% | 9/30/2018 |
| 2018 | 340,511,104 | 0.70960 | 2,415,923 | 98.55% | 98.55% | 9/30/2019 |
| 2019 | 364,208,632 | 0.73200 | 2,666,080 | 95.53% * | 95.53% * | 9/30/2020 |

*As of March 31, 2020.

Source: Texas Municipal Reports prepared by Municipal Advisory Council of Texas and the City.

[(1)]Includes the incremental value of property located in TIF #2.

## TAX RATE DISTRIBUTION — TABLE 14

| | 2019-20 | 2018-19 | 2017-18 | 2016-17 | 2015-16 | 2013-14 |
|---|---|---|---|---|---|---|
| General Fund | $ 0.5003 | $ 0.4619 | $ 0.4492 | $ 0.4584 | $ 0.4528 | $ 0.30514 |
| I & S Fund | 0.2318 | 0.2476 | 0.2838 | 0.2746 | 0.2802 | 0.39535 |
| TOTAL | $ 0.7320 | $ 0.7096 | $ 0.7330 | $ 0.7330 | $ 0.7330 | $ 0.70049 |

Sources: City of Alvarado.

## MUNICIPAL SALES TAX — TABLE 15

The City has adopted the provisions of Chapter 321, Texas Tax Code, which provides for the maximum levy of a 1% 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 indebtedness, including the Bonds. The City also levies a ½% sales tax which may be used by the City for the reduction of the City's property tax rate and a one-half percent (1/2%) sales tax to be used for community development purposes in accordance with Section 4B, Article 5190.6, Vernon's Annotated Texas Civil Statutes (now codified as Subtitle C1, Texas Local Government Code). The above taxes aggregate for a 2% local sales and use tax which is the maximum local sales and use tax permitted under Texas law. Collections and enforcements are through the offices of the Comptroller of Public Accounts, State of Texas who remits the proceeds of the tax, after deduction of a 2% service fee.

| Calendar Year | Total Collected | 1.00% General Fund | 0.50% Tax Reduction | 0.50% EDC (4B) |
|---|---|---|---|---|
| 2015 | 1,496,137 | 748,069 | 374,034 | 374,034 |
| 2016 | 1,625,435 | 812,718 | 406,359 | 406,359 |
| 2017 | 1,290,960 | 645,480 | 322,740 | 322,740 |
| 2018 | 2,016,275 | 1,008,137 | 504,069 | 504,069 |
| 2019 | 2,168,032 | 1,084,016 | 542,008 | 542,008 |

Source: Texas Comptroller of Public Accounts.

**OVERLAPPING DEBT DATA AND INFORMATION** **TABLE 16**

| Taxing Body | As of | Amount | % Overlapping | Amount Overlapping |
|---|---|---|---|---|
| Alvarado ISD | 3/31/2020 | $ 82,667,000 | 25.06% | $ 20,716,350 |
| Johnson County | 3/31/2020 | 21,340,000 | 2.75% | 586,850 |
| Total Gross Overlapping Debt | | | | $ 21,303,200 |
| City of Alvarado | | $ 11,122,000 [1] | 100.00% | $ 11,122,000 |
| Total Direct and Overlapping Debt | | | | $ 32,425,200 |

| | |
|---|---|
| Ratio of Direct and Overlapping Debt to 2019 Assessed Valuation | 8.90% |
| Ratio of Direct and Overlapping Debt to 2019 Actual Value | 6.00% |
| Per Capita Direct and Overlapping Debt | $7,399.63 |

Note: The above figures show Gross General Obligation Debt for the City of Alvarado, Texas

The Issuer's Net General Obligation Debt is $ 8,712,000 [1]

Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

| | |
|---|---|
| Total Direct and Overlapping Debt | $ 30,015,200 |
| Ratio of Direct and Overlapping Debt to 2019 Assessed Valuation | 8.24% |
| Ratio of Direct and Overlapping Debt to 2019 Actual Value | 5.55% |
| Per Capita Direct and Overlapping Debt | $6,849.66 |

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

Source: Texas Municipal Reports prepared by Municipal Advisory Council of Texas and the City.

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

| Governmental Entity | 2019 Valuation | 2019 Tax Rate |
|---|---|---|
| Alvarado ISD | $ 1,453,400,700 | $ 1.4610 |
| Johnson County | 13,254,280,795 | 0.4250 |

Source: Texas Municipal Reports prepared by Municipal Advisory Council of Texas.

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL ENTITIES** **TABLE 18**

*None*

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

| | Fiscal Year Ending September 30 | | | | |
|---|---|---|---|---|---|
| | 2019 * | 2018 | 2017 | 2016 | 2015 |
| Fund Balance - Beginning of Year | $ 2,875,367 | $ 2,726,976 | $ 2,544,335 | $ 5,211,812 | $ 1,558,012 |
| Revenues: | | | | | |
| Taxes | $ 1,581,406 | $ 1,355,375 | $ 1,389,221 | $ 1,367,976 | $ 1,215,646 |
| Sales Taxes | 1,612,395 | 1,497,920 | 1,308,366 | 1,225,441 | 1,091,343 |
| Franchise Tax | 487,074 | 468,706 | 447,573 | 450,438 | 429,545 |
| Beverage Tax | 600 | 514 | 481 | 571 | 522 |
| Rental Fees | 37,050 | 33,419 | 32,933 | 33,723 | 32,307 |
| Intergovernmental | 966,392 | 236,838 | 251,923 | 192,106 | 188,433 |
| Fines & Forfeitures | 969,393 | 825,873 | 1,156,692 | 917,404 | 735,364 |
| Licenses and Permits | 223,437 | 250,667 | 303,280 | 211,226 | 151,606 |
| Proceeds from dispositon of property | - | 31,294 | 37,440 | 23,985 | - |
| Interest Income | 95,863 | 52,495 | 7,256 | 16,264 | 1,719 |
| Contributions and donations | 490,477 | 12,500 | 13,455 | - | - |
| Water / Sewer administrative fee | 85,000 | 85,000 | 75,000 | 75,000 | 75,000 |
| Miscellaneous | 120,671 | 64,374 | 253,808 | 135,286 | 95,683 |
| Total Revenues | $ 6,669,758 | $ 4,914,975 | $ 5,277,428 | $ 4,649,420 | $ 4,017,168 |
| Expenditures: | | | | | |
| General Government | $ 417,007 | $ 767,379 | $ 704,945 | $ 605,778 | $ 748,783 |
| Public Safety | 3,392,323 | 2,981,242 | 2,725,574 | 2,532,950 | 2,321,480 |
| Highways & Streets | - | - | - | - | - |
| Public Works | 171,957 | 164,511 | 128,293 | 146,353 | 132,697 |
| Community Development | 197,862 | 172,946 | 174,342 | 225,567 | 183,742 |
| Social & Welfare | 71,638 | 71,301 | 65,048 | 68,018 | 63,380 |
| Cultural and recreational | 354,851 | 333,720 | 279,002 | 254,809 | 255,840 |
| Capital Outlay | 1,010,463 | 207,013 | 626,336 | 133,090 | 194,755 |
| Total Expenditures | $ 5,616,101 | $ 4,698,112 | $ 4,703,540 | $ 3,966,565 | $ 3,900,677 |
| Other Sources (Uses) | | | | | |
| Excess (Deficit) of Revenues Over Expenditures | $ 1,053,657 | $ 216,863 | $ 573,888 | $ 682,855 | $ 116,491 |
| Other Financing Sources (Uses) | | | | | |
| Loan Proceeds | $ - | $ - | $ - | $ - | $ - |
| Operating transfer in | 10,000 | 10,000 | 18,238 | 35,221 | 3,635,562 |
| Operating transfer out | (89,647) | (78,472) | (198,346) | (3,385,553) | (98,253) |
| Capital Lease Proceeds | | | | | |
| Debt Proceeds | - | - | - | - | - |
| Total | $ (79,647) | $ (68,472) | $ (180,108) | $ (3,350,332) | $ 3,537,309 |
| Net Change in Fund Balances | $ 974,010 | $ 148,391 | $ 393,780 | $ (2,667,477) | $ 3,653,800 |
| Adjustments | - | - | - | - | - |
| Fund Balance - End of Year | $ 3,849,377 | $ 2,875,367 | $ 2,726,976 | $ 2,544,335 | $ 5,211,812 |

* *Unaudited. The City expectes the audited financial statements on or about May 10, 2020.*

Source: The Issuer's Financial Statements.

**FUND BALANCES** **TABLE 20**

*(As of March 31, 2020. Unaudited)*

| | |
|---|---|
| General Operating Fund | $ 4,138,728 |
| Water and Sewer Operating Fund | 11,648,286 |
| Special Revenue Funds | 197,941 |
| Hotel Tax Fund | 399,547 |
| Alvarado Economic Development | 2,276,597 |
| Gas Royalty | 1,350,199 |
| Special Projects Fund | 809,919 |
| | $ 20,821,217 |

Source: City of Alvarado

**PRINCIPAL WATER CUSTOMERS (BASED ON GALLONS CONSUMED)** **TABLE 21**

| Customer | Type of Industry | Water Usage | Water Revenue |
|---|---|---|---|
| Alvarado Nursing Home | Nursing facility | 244,300 | $ 1,727 |
| RV Retailer Texas, LLC | RV retailer | 169,600 | 1,204 |
| Holiday Inn Express | Hotel | 144,600 | 1,029 |
| Duds and Suds Laundry | Laundromat | 137,800 | 982 |
| Alvarado Heights | Apartment complex | 121,600 | 868 |
| Amadeus Holdings, Inc. | Mobile home park | 110,300 | 789 |
| Westridge Apartments | Apartment complex | 106,300 | 761 |
| Motel 6 | Hotel | 102,400 | 734 |
| La Quinta Inn | Hotel | 91,800 | 660 |
| AISD High School | School | 81,900 | 590 |
| | | 1,310,600 | $ 9,344 |

Source: The City.

**PRINCIPAL SEWER CUSTOMERS** **TABLE 22**

| Customer | Type of Industry | Sewer Monthly Billing |
|---|---|---|
| LaSalle Corrections West, LLC | Correctional facility | $ 3,300 |
| Alvarado Nursing Home | Nursing facility | 1,070 |
| RV Retailer Texas, LLC | RV retailer | 753 |
| Holiday Inn Express | Hotel | 647 |
| Duds and Suds Laundry | Laundromat | 618 |
| Quiktrip #955 | Convenience store | 605 |
| Alvarado Heights | Apartment complex | 549 |
| AISD New Intermediate | School | 534 |
| Amadeus Holdings, Inc. | Mobile home park | 501 |
| Centre 67 Venture 1 | Strip center | 498 |
| | | $ 9,075 |

Source: The City.

## WATER AND SEWER CUSTOMER COUNTS — TABLE 23

| Fiscal Year Ended | Water | Sewer |
|---|---|---|
| 2019* | 1760 | 1660 |
| 2018 | 1692 | 1594 |
| 2017 | 1653 | 1500 |
| 2016 | 1544 | 1435 |
| 2015 | 1518 | 1437 |

*As of March 31, 2020

Source: The City

## WATER AND SEWER RATES — TABLE 24

*(Effective October 1, 2016.)*

**Residential Water Rates:**

| | |
|---|---|
| Base Rate | $30.00 |
| | |
| 0 to 8,000 gallon | $4.25 per 1,000 gallons |
| 8,001 to 10,000 gallon | $5.25 per 1,000 gallons |
| Over 10,000 gallons | $6.25 per 1,000 gallons |

**Commerical Water Rates:**

| | |
|---|---|
| Base Rate | $35.00 |
| | |
| 0 to 8,000 gallon | $5.00 per 1,000 gallons |
| 8,001 to 10,000 gallon | $6.00 per 1,000 gallons |
| Over 10,000 gallons | $7.00 per 1,000 gallons |

**Sewer Rates:**

**Residential Sewer**

| | |
|---|---|
| Base Rate | $18.25 |
| | $4.25 for each additional 1,000 gallons ($60.75 cap) |

**Commerical Sewer**

| | |
|---|---|
| Base Rate | $32.00 |
| | $4.25 for each additional 1,000 gallons |

**Prairieland Groundwater District Fee:**

| | |
|---|---|
| Water Use Fee | $.20 per 1,000 gallons based on water consumption |

Source: The City

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# APPENDIX B

## GENERAL INFORMATION REGARDING THE CITY OF ALVARADO AND JOHNSON COUNTY, TEXAS

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## INFORMATION REGARDING THE CITY OF ALVARADO AND JOHNSON COUNTY, TEXAS

### GENERAL

The City of Alvarado is located 10 miles south of Fort Worth and 35 miles southwest of Dallas. The City has been an agricultural community, but in recent years it has become more industrial in focus. The Sabre Tubular Structures plant employs over 200 hundred people in the manufacturing of steel poles. This 200,000 square foot facility houses the largest hot dip galvanizing system in North America. Another industry in recent years has been natural gas production. The Barnett Shale is a geological formation in the Alvarado area that is thought to contain one of the largest natural gas reserves of any onshore drilling project in the United States.

Johnson County is a north Central Texas county which is part of the Dallas-Fort Worth Metroplex. The economy is based on agribusiness and manufacturing. The Texas Almanac designates livestock, hay, wheat, grain, corn, peaches and oats as principal sources of agricultural income. Minerals produced in the county include limestone, sand, and gravel.

### POPULATION TRENDS

| Year | City of Alvarado | Johnson County |
|---|---|---|
| 2020 Estimate | 4,382 | 169,159 |
| 2010 Census | 3,785 | 150,934 |
| 2000 Census | 3,288 | 126,811 |
| 1990 Census | 2,918 | 97,165 |

Source: United States Census Bureau and NCTCOG.

### LEADING EMPLOYERS

| Employer | Principal Line of Business | 2019 Approximate Number of Employees |
|---|---|---|
| Halliburton | Oil & Gas | 475 |
| Alvarado ISD | Education | 472 |
| Sabre Industries | Manufacturing | 225 |
| Superior Well Services | Oil & Gas | 100 |
| Johnson County Pipe Co. | Manufacturing | 100 |
| Rich Mix Products | Concrete | 82 |
| American Flat Glass | Glass | 81 |
| American Industrial | Concrete | 32 |

Source: The Issuer

### UNEMPLOYMENT RATES

| | February 2020 | February 2019 |
|---|---|---|
| Johnson County | 3.3% | 3.3% |
| State of Texas | 3.6% | 3.7% |
| United States of America | 3.8% | 4.1% |

Source: Texas Workforce Commission, Austin, Texas

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# 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 Bonds, assuming no material changes in facts or law.*

## CITY OF ALVARADO, TEXAS
## GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020

### IN THE AGGREGATE PRINCIPAL AMOUNT OF $3,575,000

---

AS BOND COUNSEL FOR THE CITY OF ALVARADO, TEXAS, (the "*Issuer*") in connection with the issuance of the General Obligation Refunding Bonds described above (the "*Bonds*"), we have examined into the legality and validity of the Bonds, 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 Bonds and in the ordinance of the Issuer authorizing the issuance and sale of the Bonds (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 Bonds, including executed Bond Number T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds 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 Bonds 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 Bonds have been levied and pledged for such purpose, within the limit prescribed by law, all as defined and provided in the Ordinance.

IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof and (ii) the Bonds 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, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the ordinance adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being refinanced and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds and the report of Public Finance Partners LLC, the accuracy of which we have not independently verified. 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 Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds 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 Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds 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 Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds, 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, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

## APPENDIX D

## EXCERPTS FROM THE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED SEPTEMBER 30, 2018

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

The City anticipates the Excerpts from the Annual Financial Report for Fiscal Year Ended September 30, 2019 to be available on or about May, 2020. The City intends to include such Excerpts in the Final Official Statement, if available.

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**CITY OF ALVARADO, TEXAS**

**SEPTEMBER 30, 2018**

# TABLE OF CONTENTS

WATERS, VOLLMERING
& ASSOCIATES, L.L.P.

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council,
City of Alvarado, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alvarado, Texas (the City) 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 theses 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, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2018, and the respective changes in financial



Certified Public Accountants
990 N. Walnut Creek, Suite 2000 Mansfield, Texas 76063 Metro (817) 477-5655 (817) 473-0228

position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Emphasis Matter**

As discussed in Note K to the financial statements, in 2018 the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinions are not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 18, the budgetary comparison information on pages 57 and related notes on page 60, the schedule of changes in net pension liability and related ratios on page 58, and the schedule of contributions on pages 59 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 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 Alvarado, Texas' basic financial statements. The accompanying introductory section, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2019, on our consideration of the City of Alvarado, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Waters, Vollmering & Associates, LLP

Waters, Vollmering & Associates, LLP
Mansfield, Texas
May 15, 2019

# *City of Alvarado*

*104 W. College*
*Alvarado, Texas 76009*

*Phone 817-790-3351*
*FAX 817-783-7925*


May 15, 2019

The Honorable Mayor, City Council and the Citizens of the City of Alvarado

The City Council of the City of Alvarado requires that the City's Finance Department prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, the Annual Audited Financial Report for the City of Alvarado, Texas for the fiscal year ended September 30, 2018, is hereby issued.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making representations, the City has designed a comprehensive internal control framework that is designed both to protect the City's assets form loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements. As management, we assert, that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Waters, Vollmering & Associates, Independent Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements for the City for the fiscal year ended September 30, 2018, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2018, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires the management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report.

**Profile of the City**

The oldest town in Johnson County, Texas, Alvarado was incorporated in 1889 and is located at the intersection of Interstate Highway 35 and U.S. Highway 67, 20 miles south of Fort Worth. The City occupies approximately 4.67 square miles and serves a population of about 4,000. The City is empowered by state statute to levy a tax on both real and business personal property located within its boundaries.

The City operates under a council-manager form of government. Policy-making and legislative authority are vested in a governing Council consisting of the mayor and six (6) Council members. The City is divided into three (3) wards and two (2) Council members represent each ward. While the Council members must live in the ward they serve, the Mayor is elected at large. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and appointing heads of various departments. The Mayor and City Council members serve two-year terms.

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

**Services Provided**

The City provides a full range of services, including public safety (police, fire, and animal control), maintenance of streets, drainage and infrastructure, sanitation services, maintenance of the treated water distribution system, both sanitary and storm water collection and treatment systems, recreational activities, cultural/educational activities including Senior Services and the Public Library, and general administrative services.

**Economic Conditions and Outlook**

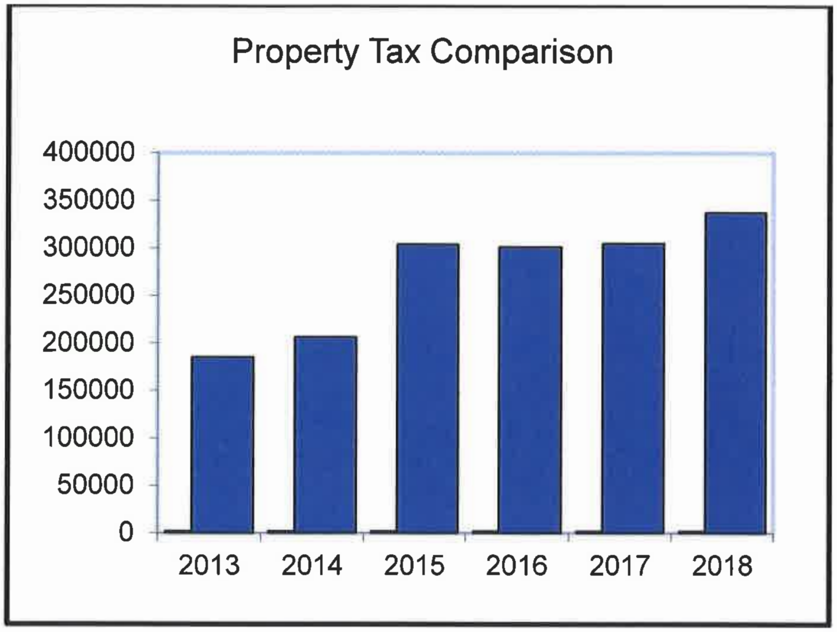
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

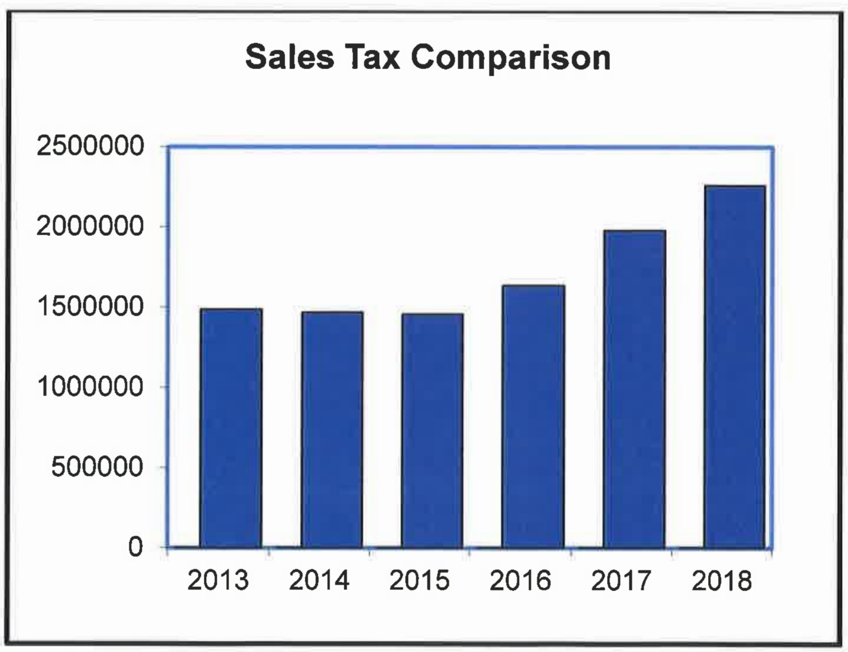
**Local Economy**

FY 2017-2018 concluded with positive trends providing the City with an optimistic outlook. Additional employment opportunities and growth continue to drive the local economy. Sales tax revenue increased from $1,978,914 in 2017 to $ 2,257,535 in 2018, providing an increase of $ 278,621.

The property tax rate for 2018 changed from the previous of $.733000/$100 to a value of $.709555/$100.

The charts below are based upon the 2017-2018 budget year as compared to prior years. Property Valuations noted below for the budget period 2017-2018 are based upon the 2017 assessed property valuations as determined by the Johnson County Appraisal District. The chart for Sales Tax collected also represents the amounts collected during the 2017-2018 budget year.



**Accounting System and Budgetary Control**

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

The annual budget serves as a foundation of the City's financial planning and control. State law provides that the City Council shall adopt the annual budget prepared by the City Manager. The proposed budget must be submitted to the City Secretary no later than August 1st. The City Manager is authorized to transfer budgeted amounts between line items and departments; however any revisions that alter the total expenditures of any fund must be approved by the City Council.

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

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

Budget-to-actual comparisons are provided in this report for the General Fund.

**Debt Management**

The City issues debt only for the purpose of acquiring or constructing capital assets for the general benefit of its citizens, and to allow the fulfillment of its various missions as a City. Debt may be issued for the purposes of purchasing land or right-of-way and/or improvements to land, for construction projects to provide for the general good, or for capital equipment. The City will uphold all related bond covenant agreements associated with bond issues. Bond issues are only conducted after consultation with an outside financial advisor. The City continues to contract with Southwest Securities to provide these services.

**Reserve Requirements**

In 2013, the City Council adopted an official Fund Balance Policy. According to this policy the city will reserve General Funds equal to three months of operating expenses. This requirement has been fulfilled with General fund unrestricted reserves of $2,872,851. Overall governmental funds unrestricted reserves total $3,531,531.

**Cash Management**

The City utilizes its bank depository contract and its investment policy in the management of all cash. Under the Bank depository contract, the City operating account earns the bank's public fund interest rate. The City's investment policy embraces current state regulations on the investment of public funds and authorizes the City to invest in certificates of deposits, direct obligations of the United States Government or the State of Texas, obligations of an agency of the United States Government or the State of Texas, Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States and state government investment pools. The City requires all deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of pledged collateral is maintained by the Director of Finance. Repurchase agreements are documented by a specific agreement noting the collateral pledge in each agreement. Collateral is reviewed to assure that the market value of the pledged securities is adequate.

**Tax Appraisal/Tax Collection Responsibilities**

The appraised value of taxable property in Alvarado is established by the Johnson County Appraisal District. The City of Alvarado and other taxing jurisdictions in Johnson County provide a pro-rata share of the budgeted expenditures incurred by the Appraisal District, based on individual levy. The Johnson County Tax Assessor-Collector provides tax collection services for the City and other taxing jurisdictions with Johnson County.

**Risk Management**

Risk management within the City is a joint effort of all City departmental heads in coordination with the City's property and casualty provider. Under a contractual arrangement, the City's facilities, procedures, and claims are reviewed by a loss prevention representative with an insurance provider. The representative and department heads address area of needs as identified through both external and internal analysis.

The City purchases liability insurance with limits of $2M for all exposures. The City also purchases workers' compensation coverage through a public entity insurance pool.

**Acknowledgements**

The preparation of this report could not be accomplished without efforts of the entire City staff. Staff members are greatly appreciated for their hard work and contributions to this effort. It is through the guidance and leadership of the Mayor and City Council members that these efforts are able to be accomplished. The staff is thankful for the hard work of the Mayor and Council. Most of all the staff is thankful for the citizens of Alvarado and the opportunity to serve such a great community.

Respectfully Submitted,

Rick Holden
City Manager

Paula Hardison
Finance Director

**CITY OF ALVARADO**
**PRINCIPAL CITY OFFICIALS**
**SEPTEMBER 30, 2018**

| | |
|---|---|
| Mayor | Tom Durington |
| Council Members | Cherry Bryant |
| | Beverly Short |
| | Shawn Goulding |
| | Michael Bennett |
| | Jacob Wheat |
| | Lydia Moon |
| City Manager | Rick Holden |
| City Secretary | Debbie Thomas |
| City Attorney | Ashley Dierker |
| Director of Finance | Paula Hardison |
| Director of Public Works | Michael Dwiggins |
| Police Chief | Brad Anderson |
| Fire Chief | Richard VanWinkle |

# MANAGEMENT'S DISCUSSION AND ANALYSIS
# FISCAL YEAR ENDED SEPTEMBER 30, 2018

As management of the City of Alvarado, we offer readers of the City of Alvarado's financial statements this narrative overview and analysis of the financial activities of the City of Alvarado 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. Comparative data is included for analysis of government wide activities.

## FINANCIAL HIGHLIGHTS

- The assets of the City of Alvarado exceeded its liabilities at the close of the most recent fiscal year by $22,624,404 (total net position). Of this amount, $5,960,714 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's total net position increased this fiscal year by $1,212,619.

- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of $7,602,936. Approximately 46.5% or $3,531,531 is available for spending at the City's discretion (unassigned fund balance).

- Special Project Fund has a fund balance of $1,057,073 with restricted usage limited to capital improvements.

- Other Governmental Funds include Royalty Fund with a fund balance of $1,345,155 ($303,581 committed, $382,894 assigned and $658,680 unassigned)

- The City's total debt decreased by $760,522 during the current fiscal year. The governmental funds debt decreased by $472,359 and the water and sewer proprietary fund debt decreased by $288,163 due to scheduled retirement of debt.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The *statement of activities* presents information showing how the City's net assets 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.)

Both of the government-wide financial statements distinguish functions of the City of Alvarado 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 Alvarado include general government, public safety, public works, and culture and recreation. The business-type activity of the City of Alvarado includes a Water and Sewer Fund.

**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 Alvarado, 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 Alvarado can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City of Alvarado maintains 7 individual funds for governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General Fund, Debt Service Fund, and Special Project Fund, all of which are considered major funds. Data from the other 4 funds (AEDC Fund, Hotel Tax Fund, Royalty Fund and Court Fund) are combined into a single, aggregated presentation.

***Proprietary funds.*** The City of Alvarado maintains one type of proprietary fund. *Enterprise funds* are used to report same functions presented as *business-type activities* in the government-wide financial statements. The City of Alvarado uses an enterprise fund to account for its Water and Sewer Fund.

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

**Notes to the financial statement.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Alvarado, assets exceeded liabilities by $22,624,404 at the close of the most recent fiscal year. This represents an increase of $1,212,619 from the previous fiscal year.

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

## City of Alvarado's Net Position

| ASSETS | Governmental Activities 2017 | Governmental Activities 2018 | Business-Type Activities 2017 | Business-Type Activities 2018 | Total 2017 | Total 2018 |
|---|---|---|---|---|---|---|
| Current Assets | $ 7,811,515 | $ 8,628,479 | $ 3,314,235 | $ 3,211,222 | $ 11,125,750 | $ 11,839,701 |
| Noncurrent Assets | 9,657,697 | 9,717,352 | 15,990,959 | 16,256,171 | 25,648,656 | 25,973,523 |
| Total Assets | 17,469,212 | 18,345,831 | 19,305,194 | 19,467,393 | 36,774,406 | 37,813,224 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred pension contributions | 187,922 | 213,470 | 38,490 | 43,723 | 226,412 | 257,193 |
| Deferred pension actuarial losses | 84,875 | (70,667) | 17,384 | 4,693 | 102,259 | (65,974) |
| Total Deferred Outflows | 272,797 | 142,803 | 55,874 | 48,416 | 328,671 | 191,219 |
| **LIABILITIES** | | | | | | |
| Current Liabilities | 1,213,479 | 1,548,175 | 1,012,452 | 1,109,472 | 2,225,931 | 2,657,647 |
| LongTerm Liabilities | 6,403,167 | 5,902,276 | 7,110,422 | 6,810,639 | 13,513,589 | 12,712,915 |
| Total Liabilities | 7,616,646 | 7,450,451 | 8,122,874 | 7,920,111 | 15,739,520 | 15,370,562 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | |
| Deferred pension expense | 858 | 4,213 | 176 | 5,264 | 1,034 | 9,477 |
| Total Deferred Inflows | 858 | 4,213 | 176 | 5,264 | 1,034 | 9,477 |
| **NET POSITION** | | | | | | |
| Invested in capital assets, net of related debt | 2,999,137 | 3,523,003 | 8,560,500 | 9,117,202 | 11,559,637 | 12,640,205 |
| Restricted | 3,129,639 | 3,384,930 | 1,192,293 | 638,555 | 4,321,932 | 4,023,485 |
| Unrestricted | 3,995,729 | 4,126,037 | 1,485,225 | 1,834,677 | 5,480,954 | 5,960,714 |
| Total Net Position | $ 10,124,505 | $ 11,033,970 | $ 11,238,018 | $ 11,590,434 | $ 21,362,523 | $ 22,624,404 |

An additional portion of the City of Alvarado's net position, $4,023,485 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of $5,960,714 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2018, the City of Alvarado is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Governmental Activities.** Governmental activities reflected an increase in the City's net position from the previous year by $909,465, from $10,124,505 to $11,033,970.

**Business-type Activities.** Net position from business-type activities increased by $352,416 from $11,238,018 to $11,590,434.

The following table provides a summary of the City's operations for the year ended September 30, 2018, with the comparative totals for the year ended September 30, 2017.

## City of Alvarado's Changes in Net Position

| | Governmental Activities | | Business Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| **REVENUES:** | | | | | | |
| Charges for Services | $ 2,023,118 | $ 1,543,706 | $ 2,843,399 | $ 3,066,647 | $ 4,866,517 | $ 4,610,353 |
| Operating Grants/Contributions | 13,455 | 12,500 | 19,449 | 12,500 | 32,904 | 25,000 |
| Capital Grants/Contributions | | | | | - | - |
| General Revenues: | | | | | - | - |
| Property Taxes | 2,218,707 | 2,211,531 | | | 2,218,707 | 2,211,531 |
| Sales Tax | 1,978,433 | 2,257,535 | | | 1,978,433 | 2,257,535 |
| Franchise Tax | 447,573 | 468,706 | | | 447,573 | 468,706 |
| Alcoholic beverage taxes | 481 | 514 | | | 481 | 514 |
| Unrestricted investment earnings | 53,456 | | 22,962 | | 76,418 | - |
| Gain/Loss on Sale of Assets | 40,863 | 25,611 | 7,983 | | | 25,611 |
| Other revenue | 388,142 | 275,052 | - | 79,299 | 388,142 | 354,351 |
| Total Revenue | 7,164,228 | 6,795,155 | 2,893,793 | 3,158,446 | 10,009,175 | 9,953,601 |
| **EXPENSES:** | | | | | | |
| General government | 545,099 | 680,315 | | | 545,099 | 680,315 |
| Public safety | 2,906,597 | 3,182,961 | | | 2,906,597 | 3,182,961 |
| Public works | 307,643 | 381,562 | | | 307,643 | 381,562 |
| Community development | 332,344 | 286,335 | | | 332,344 | 286,335 |
| Cultural & recreational | 306,456 | 366,942 | | | 306,456 | 366,942 |
| Social & welfare | 69,610 | 76,813 | | | 69,610 | 76,813 |
| Economic development | 523,368 | 234,015 | | | 523,368 | 234,015 |
| Pension expense | 153,210 | 134,116 | | | 153,210 | 134,116 |
| Interest on long-term debt | 339,857 | 340,795 | 137,898 | 127,253 | 477,755 | 468,048 |
| Water & sewer operations | | | 2,865,197 | 2,929,875 | 2,865,197 | 2,929,875 |
| Special item outflow | | | | | - | - |
| Total Expenses | 5,484,184 | 5,683,854 | 3,003,095 | 3,057,128 | 8,487,279 | 8,740,982 |
| Change in net assets before transfers | 1,680,044 | 1,111,301 | (109,302) | 101,318 | 1,570,742 | 1,212,619 |
| Transfers | (767,143) | (154,538) | 767,143 | 154,538 | - | - |
| Change in net assets | 912,901 | 956,763 | 657,841 | 255,856 | 1,570,742 | 1,212,619 |
| Net assets - Beginning | 9,211,604 | 10,077,207 | 10,580,177 | 11,334,578 | 19,791,781 | 21,411,785 |
| Net assets - Ending | $ 10,124,505 | $ 11,033,970 | $ 11,238,018 | $ 11,590,434 | $ 21,362,523 | 22,624,404 |

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $7,602,936 which is an increase of $419,872 in comparison with the prior year. Approximately $3,531,531 of this total constitutes unassigned fund balance, which is available for spending at the government's discretion with $382,894 as an assigned fund balance which may be used with Council approval. $2,327,857 of the fund balance is committed to specific projects while $1,057,073 of the balance has restrictions and $303,581 is committed for other purposes. Refer to page 21 of this report for a more detailed presentation of governmental fund balances.

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

There was an increase in the total net position of the City's Proprietary Fund of $255,856 from the previous year. This increase was mainly the result of an increase in capital assets, net of related debt. Unrestricted net assets of the City's Proprietary Funds at the end of the year amounted to $1,834,677, an increase of $349,452 from the previous year.

**General Fund Budgetary Highlights**

When compared to the prior year, total General Fund revenues for the City decreased by $362,453 or under by 6.9%. There was an increase of $247,920 when compared to the original revenue budget projection for Sales Tax. .

Total general fund year-end expenditures decreased by $5,428 under the previous year with $207,013 contributed to the purchase of Capital Outlay items. The year-end expenditures were $188,922 less than the final budgeted amount. This decrease was the result of each department practicing a conservative approach to spending.

## CAPITAL ASSETS

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to $25,973,523 (net of accumulated depreciation.). This investment in capital assets includes land, buildings and improvements, machinery, equipment, infrastructure and construction in progress.

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

- The Police Department purchased a 2018 Ford F-250 Pick-Up for $32,570 after Council approved allocation of $30,000 from fund balance.
- The Police Department purchased three 2018 Ford Explorer vehicles for $ 85,655.
- The Parks Department purchased a 2018 Chevrolet Silverado for $ 21,330.
- The Fire Department purchased/leased a new pumper Truck for $678,000.
- The City continued their street improvements with expenditures of $70,900 for Baugh, Jessup & Cotter Streets.
- The Fire department purchased V-FORCE fire protective clothing for $8,924.
- Equipment to outfit the Fire Marshal's vehicle was purchased for $12,361.
- The Police Department purchased 12 Tasers for $5,409.
- The Police Department purchased 29 radios for $ 5,898.
- The Parks Department purchased a stripping machine for city property parking lots.
- The CVE Department purchased 6 wheel load weighers for $29,370.
- The Police Department purchased 2 in-car cameras for $ 10,740.
- The CVE Department purchased vehicle lights for $ 5,520.
- Cummings Street repairs were completed this year for $ 138,458.
- The Parks Grant that was approved in 2013 at Lake Alvarado to improve the boat ramp and add restrooms began construction this year totaling expenses of $44,892.
- The Old Wagon Barn, renamed Heritage Museum, continued with restoration work totaling expenses this year of $15,532.
- The 2015 Bond issue provided repairs to Cummings Street for $138,458 this year.
- The 2015 Bond issue provided for the Lakeview Outfall Sanitary Sewer project totaling $69,430.
- The 2015 Bond Issue provided for the 250,000 gallon tank assessment totaling $53,598.

The following table provides a summary of the City's capital assets for the year ended September 30, 2018 as compared to the summary of capital assets for the year ended September 30, 2017:

## CITY OF ALVARADO
## CAPITAL ASSETS AT YEAR-END

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Land | 357,193 | 357,193 | 1,005,509 | 1,005,509 | 1,362,702 | 1,362,702 |
| Buildings & Improvements | 1,876,199 | 1,838,528 | 9,265 | 9,065 | 1,885,464 | 1,847,593 |
| Infrastructure | 3,637,343 | 3,535,264 | | | 3,637,343 | 3,535,264 |
| Vehicles | 251,044 | 914,819 | 78,198 | 54,159 | 329,242 | 968,978 |
| Parks Improvements | 237,055 | 219,583 | | | 237,055 | 219,583 |
| Water System | | | 6,336,380 | 6,166,191 | 6,336,380 | 6,166,191 |
| Sewer System | | | 8,087,892 | 7,744,718 | 8,087,892 | 7,744,718 |
| Other Equipment | 206,158 | 238,558 | 139,050 | 120,802 | 345,208 | 359,360 |
| Construction in Progress | 3,092,705 | 2,613,407 | 334,665 | 1,155,727 | 3,427,370 | 3,769,134 |
| Total | 9,657,697 | 9,717,352 | 15,990,959 | 16,256,171 | 25,648,656 | 25,973,523 |

## DEBT ADMINISTRATION

**Total Debt**. The City of Alvarado's total debt outstanding at the end of the current fiscal year is $13,418,316. This amount is a decrease of $760,522 from the previous fiscal year.

**Long-term Debt.** At the end of the current fiscal year, the City of Alvarado had total long-term debt outstanding of $12,485,456. Of this amount, $11,940,890 is comprised of combination tax and revenue certificate of obligations debt to be paid from property tax revenue, as well as water and sewer revenues from the City. The remainder of the debt, $544,566, is comprised of various notes for vehicles, equipment and buildings.

**Current Debt**. At the end of the current fiscal year, the City of Alvarado had total current debt of $932,860 including current bonds payable, current notes payable and compensated absences.

**Bond Rating.** In September 2017, the City was notified that they continue to have a favorable bond rating of "AA" from Standard and Poor's Rating Service.

The following table provides a summary of the City's outstanding debt for the year ended September 30, 2018 as compared to the summary of capital assets for the year ended September 30,2017:

**CITY OF ALVARADO**
**OUTSTANDING DEBT AT YEAR-END**
**(Net of Depreciation)**

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Certificates of Obligation | $ 5,963,374 | $ 5,576,452 | $ 7,386,272 | $ 7,132,610 | $ 13,349,646 | $ 12,709,062 |
| Tax Anticipation Notes | - | - | | | - | - |
| Capital Leases | 695,186 | 617,897 | 44,187 | 6,359 | 739,373 | 624,256 |
| Notes Payable | - | - | | | - | - |
| Compensated Absences | 77,449 | 69,301 | 12,370 | 15,697 | 89,819 | 84,998 |
| Total | $ 6,736,009 | $ 6,263,650 | $ 7,442,829 | $ 7,154,666 | $ 14,178,838 | $ 13,418,316 |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the City of Alvarado's budget for the 2017-2018 fiscal year:

- The City benefits from its strategic location, which is approximately 20 miles from Fort Worth and 35 miles from Dallas.
- Local inflation factors remain low while the median income continues to rise.
- The City's 2018 property tax rate is $.709555 per $100 of valuation.
- The City currently receives royalties from 29 gas wells.
- Alvarado continues to enjoy sales tax revenue from the sale of alcoholic beverages at several stores selling beer and wine and two package stores selling all types of liquor.
- The Bloomfield housing addition on the northside was completed.
- Bloomfield Homes platted Phase 1 of a new residential subdivision across from the Jr. High School.
- The City continues an annual street improvement program.
- The City is actively working to improve the City parks. A grant was received to improve the park at Alvarado Lake and is scheduled to reopen in Summer 2019. An "inclusive park" is being added to Parkway Park.
- Freese & Nichols Engineers completed a water/sewer/streets master plan and began work on an impact fee process to facilitate infrastructure growth.

These factors were considered in preparing the City of Alvarado's budget for the 2017-2018 fiscal year.
The City estimated that the General Fund Operating Budget is budgeted to decrease around 9% for fiscal year ending 2018 compared to fiscal year's 2017 final budget. Total expenditures for 2017-2018 are budgeted to decrease by the same 9%.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Alvarado's finances for all those with an interest in the city's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Alvarado, Office of the Finance Director, 104 West College, Alvarado, Texas 76009.

# BASIC FINANCIAL STATEMENTS

CITY OF ALVARADO, TEXAS
STATEMENT OF NET POSITION
September 30, 2018

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash | $663,896 | $236,578 | $900,474 |
| Investments | 5,617,474 | 1,103,562 | 6,721,036 |
| Receivables (net) | | | |
| Taxes receivable | 370,860 | - | 370,860 |
| Accounts receivable | 128,136 | 432,945 | 561,081 |
| Inventory | - | 61,197 | 61,197 |
| Restricted assets | | | |
| Cash | - | 1,221,972 | 1,221,972 |
| Deposits | 25 | 122,443 | 122,468 |
| Investments | 1,848,088 | 32,525 | 1,880,613 |
| Total current assets | 8,628,479 | 3,211,222 | 11,839,701 |
| Noncurrent assets: | | | |
| Capital assets, net | 9,717,352 | 16,256,171 | 25,973,523 |
| Total noncurrent assets | 9,717,352 | 16,256,171 | 25,973,523 |
| Total assets | 18,345,831 | 19,467,393 | 37,813,224 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred pension contributions | 213,470 | 43,723 | 257,193 |
| Deferred bond discounts | - | 19,167 | 19,167 |
| Deferred OPEB assumptions | 5,064 | 1,037 | 6,101 |
| Deferred pension actuarial losses | (75,731) | (15,511) | (91,242) |
| | 142,803 | 48,416 | 191,219 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 1,214,352 | 154,877 | 1,369,229 |
| Accrued liabilities | 175,562 | 11,683 | 187,245 |
| Due to other governments | | - | - |
| Due to other funds | (364,371) | 364,371 | - |
| Deposits | - | 201,485 | 201,485 |
| Current portion | | | |
| Revenue bonds payable | 380,000 | 355,000 | 735,000 |
| Notes payable | - | - | - |
| Capital leases | 73,331 | 6,359 | 79,690 |
| Compensated absences | 69,301 | 15,697 | 84,998 |
| Total current liabilities | 1,548,175 | 1,109,472 | 2,657,647 |
| Noncurrent liabilities: | | | |
| Revenue bonds payable | 5,196,452 | 6,777,610 | 11,974,062 |
| Notes payable | - | - | - |
| Capital leases | 544,566 | - | 544,566 |
| Net OPEB liability | 59,316 | 12,149 | 71,465 |
| Net pension liability | 101,942 | 20,880 | 122,822 |
| Total noncurrent liabilities | 5,902,276 | 6,810,639 | 12,712,915 |
| Total liabilities | 7,450,451 | 7,920,111 | 15,370,562 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred bond premiums | - | 4,225 | 4,225 |
| Deferred pension expense | 4,213 | 1,039 | 5,252 |
| | 4,213 | 5,264 | 9,477 |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 3,523,003 | 9,117,202 | 12,640,205 |
| Restricted | | | |
| Public Safety | 2,327,857 | - | 2,327,857 |
| Capital improvements | 1,057,073 | 638,555 | 1,695,628 |
| Unrestricted | 4,126,037 | 1,834,677 | 5,960,714 |
| Total net position | $11,033,970 | $11,590,434 | 22,624,404 |

CITY OF ALVARADO, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2018

| | | Program Revenues | | | Net (Expense) Revenue and Change in Net Assets | | |
|---|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental activities: | | | | | | | |
| General government: | | | | | | | |
| General government | $680,316 | $447,576 | $12,500 | $0 | ($220,240) | - | ($220,240) |
| Public safety | 3,182,961 | 825,873 | - | - | (2,357,088) | - | (2,357,088) |
| Public works | 381,562 | - | - | - | (381,562) | - | (381,562) |
| Cultural and recreational | 366,942 | - | - | - | (366,942) | - | (366,942) |
| Economic development | 234,015 | - | - | - | (234,015) | - | (234,015) |
| Community development | 286,335 | 236,838 | - | - | (49,497) | - | (49,497) |
| Social and welfare | 76,813 | 33,419 | - | - | (43,394) | - | (43,394) |
| Pension expense | 134,116 | - | | | (134,116) | | (134,116) |
| Interest on long-term debt | 340,795 | - | - | - | (340,795) | - | (340,795) |
| Total governmental activities | $5,683,855 | $1,543,706 | 12,500 | - | ($4,127,649) | - | ($4,127,649) |
| Business-type activities: | | | | | | | |
| Water and sewer | $3,240,653 | $3,079,147 | $218,613 | - | - | $57,107 | $57,107 |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| General property taxes | | | | | 2,211,531 | - | 2,211,531 |
| Sales tax | | | | | 2,257,535 | - | 2,257,535 |
| Franchise tax | | | | | 468,706 | - | 468,706 |
| Interest income | | | | | 118,192 | 44,211 | 162,403 |
| Gain (Loss) on sale of capital assets | | | | | 25,611 | - | 25,611 |
| Administrative fee | | | | | 85,000 | - | 85,000 |
| Miscellaneous | | | | | 72,375 | - | 72,375 |
| Transfers | | | | | (154,538) | 154,538 | - |
| Total general revenues and proceeds | | | | | 5,084,412 | 198,749 | 5,283,161 |
| Change in net position | | | | | 956,763 | 255,856 | 1,212,619 |
| Net position-beginning of period | | | | | 10,077,207 | 11,334,578 | 21,411,785 |
| Net position-ending | | | | | 11,033,970 | $11,590,434 | $22,624,404 |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018

| | General Fund | Debt Service Fund | Special Project Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash | $ - | $ - | $ - | $ 663,896 | $ 663,896 |
| Investments | 2,730,350 | - | - | 2,887,124 | 5,617,474 |
| Receivables, net | | | | | |
| Accounts | 52,887 | - | - | 75,249 | 128,136 |
| Property taxes | 60,489 | 38,204 | - | - | 98,693 |
| Sales taxes | 261,239 | - | - | 109,213 | 370,452 |
| Fines receivable | 333,489 | - | - | - | 333,489 |
| Miscellaneous | - | - | - | - | - |
| Due from other funds | 364,371 | - | - | - | 364,371 |
| Prepaid expenses | - | - | - | - | - |
| Restricted | | | | | |
| Cash | - | - | - | - | - |
| Intergovernmental Receivable | 25 | - | - | - | 25 |
| Investments | 69,880 | 350,889 | 1,264,961 | 162,358 | 1,848,088 |
| Total assets | $ 3,872,730 | $ 389,093 | $ 1,264,961 | $ 3,897,840 | $ 9,424,624 |
| LIABILITIES | | | | | |
| Accounts payable | $ 431,558 | $ 353,460 | $ 207,888 | $ 221,446 | $ 1,214,352 |
| Accrued liabilities | 172,180 | - | - | 3,382 | 175,562 |
| Total liabilities | 603,738 | 353,460 | 207,888 | 224,828 | 1,389,914 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Deferred inflows of property tax revenue | 393,627 | 38,147 | - | - | 431,774 |
| Total liabilities and deferred inflows of resources | 997,365 | 391,607 | 207,888 | 224,828 | 1,821,688 |
| FUND BALANCES | | | | | |
| Fund balances: | | | | | |
| Nonspendable | - | - | - | - | - |
| Restricted | 2,514 | (2,514) | - | 2,327,857 | 2,327,857 |
| Capital improvement | - | - | 1,057,073 | - | 1,057,073 |
| Committed | - | - | - | 303,581 | 303,581 |
| Assigned | - | - | - | 382,894 | 382,894 |
| Unassigned | 2,872,851 | - | - | 658,680 | 3,531,531 |
| Total fund balances | 2,875,365 | (2,514) | 1,057,073 | 3,673,012 | $ 7,602,936 |
| Total liabilities, deferred inflows and fund balance: | $ 3,872,730 | $ 389,093 | $ 1,264,961 | $ 3,897,840 | |

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note B) | 9,717,352 |
| Other long-term assets and liabilities are not available to pay for current-period expenditures, and therefore, are deferred in the funds | 138,590 |
| Long-term liabilities, including bond payable and pension expense, are not due and payable in the current period and therefore are not reported in the funds (Note B) | (6,355,607) |
| Compensated absences are not due and payable in the current period and therefore are not reported in the funds | (69,301) |
| Net position of governmental activities | $ 11,033,970 |

CITY OF ALVARADO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2018

| | General Fund | Debt Service Fund | Special Projects Fund | AEDC | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| REVENUE: | | | | | | |
| General property taxes, interest and penalties | $1,355,375 | $856,156 | - | - | - | $2,211,531 |
| Sales tax | 1,497,920 | - | - | $500,180 | $500,180 | 1,998,100 |
| Hotel tax | - | - | - | - | 258,921 | 258,921 |
| Fines and forfeitures | 825,873 | - | - | - | - | 825,873 |
| Franchise tax | 468,706 | - | - | - | - | 468,706 |
| Mixed beverage tax | 514 | - | - | - | - | 514 |
| Rental fees | 33,419 | - | - | - | - | 33,419 |
| Intergovernmental | 236,838 | - | - | - | - | 236,838 |
| Licenses, fees and permits | 250,667 | - | - | - | 44,631 | 295,298 |
| Interest | 52,495 | - | 19,262 | 18,945 | 46,435 | 118,192 |
| Proceeds from disposition of property | 31,294 | - | - | - | - | 31,294 |
| Contributions and donations | 12,500 | - | - | - | - | 12,500 |
| Water/Sewer administrative fee | 85,000 | - | - | - | - | 85,000 |
| Oil and gas royalties | - | - | - | - | 152,278 | 152,278 |
| Miscellaneous | 64,374 | - | - | - | 35 | 64,409 |
| Total Revenue | 4,914,975 | 856,156 | 19,262 | 519,125 | 1,002,480 | 6,792,873 |
| EXPENDITURES: | | | | | | |
| Current operating | | | | | | |
| General government | 767,379 | - | - | - | 19,546 | 786,925 |
| Public safety | 2,981,242 | - | - | - | 28,461 | 3,009,703 |
| Community development | 172,946 | - | - | 100,937 | 100,937 | 273,883 |
| Public works | 164,511 | - | - | - | - | 164,511 |
| Cultural and recreational | 333,720 | - | - | - | - | 333,720 |
| Social and welfare | 71,301 | - | - | - | - | 71,301 |
| Economic development | - | - | - | - | 232,637 | 232,637 |
| Capital Outlay | 207,013 | - | 183,350 | - | 167,335 | 557,698 |
| Debt Service | - | - | - | - | - | - |
| Principal | - | 447,289 | - | - | - | 447,289 |
| Interest | - | 339,595 | - | - | - | 339,595 |
| Paying agent | - | 1,200 | - | - | - | 1,200 |
| Total Expenditures | 4,698,112 | 788,084 | 183,350 | 100,937 | 548,916 | 6,218,462 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 216,863 | 68,072 | (164,088) | 418,188 | 453,564 | 574,411 |
| OTHER FINANCING SOURCES: | | | | | | |
| Transfers in | 10,000 | 78,472 | 44,892 | - | - | 133,364 |
| Transfers out | (78,472) | (130,000) | (69,430) | - | (10,000) | (287,902) |
| NET CHANGE IN FUND BALANCES | 148,391 | 16,544 | (188,626) | 418,188 | 443,564 | 419,873 |
| FUND BALANCE - October 1, 2017 | 2,726,974 | (19,058) | 1,245,699 | 1,448,272 | 3,229,448 | 7,183,063 |
| FUND BALANCE - September 30, 2018 | $2,875,365 | ($2,514) | $1,057,073 | $1,866,460 | $3,673,012 | $7,602,936 |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

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

| | |
|---|---|
| Net change in fund balances - total governmental funds | $419,873 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of assets acquired during the year | 557,698 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount for depreciation in the current period. | (492,179) |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to increase net position. | 68,313 |
| Governmental funds report principal reductions as expenditures. However, in the statement of activities the payment of the debt principal reduces the outstanding liability. This is the amount of principal payments during the current period. | 472,359 |
| The issuance of long-term debt (e.g. bonds, leases, compensated absences) provides current financial resources to government funds.Issuance of long-term debt does not effect net position. This is the amount of debt issued in the current period. | - |
| Governmental funds do not report compensated absences as expenditures. However, in the statement of activities the accrual of compensated absences increases the expenditure accounts. This is the amount of compensated absences expenditures for the current period. | (69,301) |
| Changes in net position of governmental activities | $956,763 |

# CITY OF ALVARADO, TEXAS
## STATEMENT OF NET POSITION
## WATER AND SEWER PROPRIETARY FUND
September 30, 2018

| | |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash | $236,578 |
| Investments | 1,103,562 |
| Accounts receivable (net of allowance for uncollectible amounts) | 432,945 |
| Inventory | 61,197 |
| Restricted assets | |
| Cash | 1,221,972 |
| Deposits | 122,443 |
| Investments | 32,525 |
| Total current assets | 3,211,222 |
| Noncurrent assets: | |
| Capital assets, net | 16,256,171 |
| Total assets | 19,467,393 |
| **DEFERRED OUTFLOW OF RESOURCES** | |
| Deferred bond discounts | 19,167 |
| Deferred OPEB assumptions | 1,037 |
| Deferred pension contributions | 43,723 |
| Deferred pension actuarial losses | (15,511) |
| | 48,416 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts payable | 154,877 |
| Accrued liabilities | 11,683 |
| Due to other funds | 364,371 |
| Deposits | 201,485 |
| Current portion | |
| Revenue bonds payable | 355,000 |
| Capital leases | 6,359 |
| Compensated absences | 15,697 |
| Total current liabilities | 1,109,472 |
| Noncurrent liabilities: | |
| Revenue bonds payable | 6,777,610 |
| Capital lease payable | - |
| Net OPEB liability | 12,149 |
| Net pension liability | 20,880 |
| Total noncurrent liabilities | 6,810,639 |
| Total liabilities | 7,920,111 |
| **DEFERRED INFLOW OF RESOURCES** | |
| Deferred bond premiums | 4,225 |
| Deferred pension expense | 1,039 |
| | 5,264 |
| **NET POSITION** | |
| Invested in capital assets, net of related debt | 9,117,202 |
| Restricted for: | |
| Capital Improvements | 638,555 |
| Unrestricted | 1,834,677 |
| Total net position | $11,590,434 |

See accompanying notes and independent auditor's report

# CITY OF ALVARADO, TEXAS
## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
## WATER AND SEWER PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2018

| | |
|---|---|
| OPERATING REVENUES: | |
| Water service | $1,406,569 |
| Sewer service | 986,811 |
| Garbage service | 544,816 |
| Late charges | 70,454 |
| Miscellaneous income | 70,497 |
| Total operating revenues | 3,079,147 |
| | |
| OPERATING EXPENSES: | |
| Personnel services | 589,009 |
| Contractual services | 1,043,460 |
| Supplies and maintenance | 527,164 |
| Administrative fees | 85,000 |
| Other fees | 112,273 |
| Depreciation | 700,222 |
| Total operating expenses | 3,057,128 |
| | |
| Operating income (loss) | 22,019 |
| | |
| NON-OPERATING REVENUES (EXPENSES) | |
| Gain on sale of assets | - |
| Grant revenue | 218,613 |
| Interest income | 44,211 |
| Accretion of bond premiums/discounts | 15,602 |
| Bond costs | (71,874) |
| Interest expense | (127,253) |
| Net non-operating revenues (expenses) | 79,299 |
| | |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | 101,318 |
| | |
| Operating transfers in | 945,497 |
| Operating transfers out | (790,959) |
| Net transfers | 154,538 |
| CHANGE IN NET POSITION | 255,856 |
| | |
| NET POSITION, October 1, 2017 (as adjusted, see Note O) | 11,334,578 |
| NET POSITION, September 30, 2018 | $11,590,434 |

CITY OF ALVARADO, TEXAS
STATEMENT OF CASH FLOWS
WATER AND SEWER PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2018

| | | |
|---|---|---|
| CASH FLOWS FORM OPERATING ACTIVITIES: | | |
| Cash received from: | | |
| Customers | | $3,009,748 |
| Cash paid to/for: | | |
| Employees | | (574,708) |
| Suppliers | | (1,327,353) |
| Net cash flows provided by operating activities | | 1,107,687 |
| | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Operating transfers out | ($790,959) | |
| Operating transfers in | 945,497 | |
| Net cash flows provided by noncapital financing activities | | 154,538 |
| | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquistion and construction of capital assets | (859,184) | |
| Principal paid on bonds, notes and lease obligations | (3,408,828) | |
| Interest paid on bonds, notes and lease obligations | (127,253) | |
| Net cash flows used in capital and related financing activities | | (4,395,265) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds received from certificate of obligations | 2,885,000 | |
| Amount received from interest income | 44,211 | |
| Net cash flows provided by investing activities | | 2,929,211 |
| | | |
| Net decrease in cash and cash equivalents | | (203,829) |
| | | |
| Cash and cash equivalents, October 1, 2017 | | 2,920,909 |
| Cash and cash equivalents, September 30, 2018 | | $2,717,080 |
| | | |
| RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating income (loss) | | $22,019 |
| Adjustments for transactions not requiring cash | | |
| Depreciation | $700,222 | |
| Miscellaneous (income) expense | 383,299 | |
| Accretion of bond premiums | (15,602) | |
| Pension | 27,469 | |
| Change in current assets and current liabilities | | |
| (Increase) decrease in accounts receivable | (87,963) | |
| (Increase) decrease in inventory | (12,853) | |
| (Increase) decrease in deferred outflows | 2,370 | |
| Increase (decrease) in accounts payable | 85,700 | |
| Increase (decrease) in accrued liabilities | (241) | |
| Increase (decrease) in customer deposits | 18,564 | |
| Increase (decrease) in net pension liability | (18,624) | |
| Increase (decrease) in compensated absences payable | 3,327 | |
| Total adjustments and changes | | 1,085,668 |
| Net cash provided by operating activities | | $1,107,687 |

See accompanying notes and independent auditor's report

# CITY OF ALVARADO, TEXAS
# NOTES TO THE FINANCIAL STATEMENTS
# SEPTEMBER 30, 2018

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Alvarado, Texas (the "City"), have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to government entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

### 1. Reporting Entity

The City is a municipal corporation formed in 1889 by charter as a general law city. The City is governed by an elected mayor and six-member Council. Two council members are elected for each of three wards while the mayor is elected at large. As required by generally accepted accounting principles, these financial statements present the City and its component units, for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the City's operations, and data from these units are combined with data from the primary government. Information regarding blended component units can be obtained at City Hall.

*Blended Presented Component Units*

Alvarado Economic Development Corporation ("AEDC") – This entity was created in May of 2001. It began collecting sales and use tax in October of 2001. The entity's board of directors is appointed by the City Council and the City Management maintains significant continuing management oversight with respect to policies. Additionally, the City is ultimately responsible for all fiscal matters. The AEDC was formed for the purpose of benefiting and accomplishing public purposes for the promotion and development of industrial and manufacturing enterprises and to promote and encourage employment and public welfare of the City by issuing bonds on behalf of the City for financing as stated in the Development Corporation Act of 1979. The AEDC provides these services exclusively to the City and does not issue separate financial statements.

*Related Corporation*

Prairielands Public Facility Corporation – This entity was created in July 2011, as a nonprofit public facilities corporation to act on behalf of the City of Alvarado, Texas to finance or provide for the acquisition, construction, rehabilitation, renovation, repair, equipping, furnishing, and placement in service of certain correctional (public) facilities of the City. The entity's board of directors is appointed by the City Council and the City Management maintains significant continuing management oversight with respect to policies. Additionally, the City is ultimately responsible for all fiscal matters. Although the Prairielands Public Facility Corporation financial matters are ratified or denied by the City, the City is not legally entitled to the Prairielands Public Facility Corporation resources or is it legally obligated for the indebtedness of the Prairielands Public Facility Corporation. The Prairielands Public Facility Corporation has the full legal right, power and authority to enter into that certain Prairieland Detention Center Housing Agreement dated July 1, 2015 and certain Intergovernmental Service Agreement dated as of February 24, 2015 between the City of the United States Department of Homeland Security, U.S. Immigration and Customs Enforcement. The Prairielands Public Facility Corporation provides these services exclusively for the City and issues separate financial statements.

## 2. Basis of Presentation

*Government-wide and Fund Financial Statements*

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a functional category (Police, Public Works, etc.) or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs. An administrative service fee is charges by the General Fund to the proprietary fund to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.)

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.). Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, debt service fund, and the special project fund. The major enterprise fund is the water and sewer fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major category funds. The City has four non-major funds, which are the AEDC fund, hotel and occupancy tax fund, special revenue fund and the royalty fund. The non-major funds are combined in a separate column in the fund financial statements.

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

**3. Measurement Focus and Basis of Accounting**

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 statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues (except grant revenues) to be available if they are collected within 30 days of the end of the current fiscal period. The City considers the availability period for grants to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment, are recorded only when the obligation has matured and will be paid shortly after year end (not to exceed one month).

Ad valorem, franchise and sales tax revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, as soon as all eligibility requirements have been met, including monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if all eligibility requirements are met.

Business type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from 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 City's water and sewer are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major governmental funds:

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

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

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Other Governmental Funds column is a summarization of all the non-major governmental fund types. These are as follows:

Alvarado Economic Development Corporation Fund (AEDC) – is used to account for the revenues collected for economic development and related expenditures.

The Grant Fund – is used to account for the proceeds of grants that are restricted to expenditures for specified purposes.

The Hotel Occupancy Tax Fund is used to account for the revenues collected for hotel and occupancy tax and related expenditures.

The Royalty Fund is used to account for the accumulation of royalties from oil and gas leases on land held by the city. The primary source of revenue is royalty income. Expenses are decided by the City.

The government reports the following major proprietary fund:

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

**4. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balances**

**Deposits and Investments**
The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with original maturities of three months or less from the end of the fiscal year.

The City maintains a cash pool that is available for use by all funds. Each fund's portion of this pool is reflected on the balance sheet or statement of net position as "Cash, Cash Equivalents, and Investments" under each fund's caption.

For fiscal year 2018, the City invested in the external government investment pool administered by the State of Texas, which is entitled the TexPool Fund, as authorized by the City's investment policy. The City records interest revenue earned from investment activities in each respective fund and recognizes its investments on a fair value basis.

**Inventory**
Inventory consists primarily of water and sewer plant parts and supplies, valued at estimated FIFO which is not in excess of market. Inventory is expensed when purchased and adjusted to actual at year-end. Inventory as of September 30, 2018 was $61,197.

**Prepaid Expenditures/Expenses**
Payments made to vendors for services that will benefit periods beyond are recorded as prepaid items. The nonspendable portion of the fund balance is provided equal to the amount of prepaid items, as the amount is not available for expenditure. These payments are recognized under the consumption method.

**Capital Assets**
Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are recorded in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. The government defines capital assets as assets with an initial,

individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair value on the date of donation.

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

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

| | |
|---|---|
| Building and Improvements | 20-30 years |
| Water Systems | 10-33 years |
| Sewer Systems | 50 years |
| Vehicles, Machinery and Equipment | 3-5 years |
| Infrastructure | 30 years |

Interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with the interest earned on invested proceeds over the same period. The City did not capitalize any interest during the fiscal year 2018.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until the appropriate future period.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time.

The components of the deferred outflows of resources and deferred inflows of resources are as follows:

| | Governmental Activities | Proprietary Activities |
|---|---|---|
| Deferred outflow of resources | | |
| Deferred pension contributions | $ 213,470 | $ 43,723 |
| Deferred bond discounts | - | 19,167 |
| Deferred OPEB assumptions | 5,064 | 1,037 |
| Deferred pension activities | (75,731) | (15,511) |
| Total deferred outflow of resources | $ 142,803 | $ 48,416 |

| | | | | |
|---|---|---|---|---|
| Deferred inflow of resources | | | | |
| Deferred bond premiums | $ | -0- | $ | 4,225 |
| Deferred pension expense | | 4,213 | | 1,039 |
| Total deferred inflow of resources | $ | 4,213 | $ | 5,264 |

In the fund financials, revenues that have met the eligibility criteria for future years except for the time availability have been reclassified from liabilities to deferred inflows of resources. In the government wide financials, the deferred revenue from property taxes has been reclassified from liabilities to offset the property tax receivable.

**Compensated Absences**

Vested or accumulated vacation leave is accrued in the government-wide and proprietary fund financial statements when incurred. No liability is recorded for nonvesting, accumulating rights to receive sick pay benefits. Vacation is earned in varying amounts up to a maximum of twenty (20) days for city employees with twelve (12) or more years of service and up to a maximum of approximately twenty-eight (28) days for fire suppression personnel with twelve (12) or more years of service. Employee vacation policy allows for the accrual and carryover of 240 hours. In addition, the City allows for the accrual of compensatory time for non-department heads. Compensatory and vacation time can either be paid or used. As of September 30, 2018, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, "Accounting for Compensated Absences," was $69,301 in the general fund. The amount applicable to the Proprietary Fund was $15,697 and has been recorded in that fund.

**Interfund Charges**

The City allocates to the Water and Sewer Fund a portion of the salaries and wages and related costs of personnel who perform administrative services for the fund but are paid through the General Fund. During the year ended September 30, 2018, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled $85,000.

**Property Tax**

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

**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.

**Long-term Obligations**
In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amounts 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, are reported as debt service expenditures.

**Restricted Assets**
Certain proceeds of Enterprise Fund Revenue Bonds, as well as certain resources set aside for their repayment are classified as Restricted Assets on the balance sheet because their use is limited by applicable bond covenants.

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

**Fund Balance Classification**
The preparation of financial statements in conformity with government accounting standards requires management to classify the fund balances.

For *committed* fund balance classification, the City Council must take formal action to establish, modify or rescind a fund balance commitment. For *assigned* fund balance classification, the City Manager with a concurrence of the Finance Director is authorized to assign amounts for a specific purpose. The *restricted* fund balance classification includes amounts that have constraints that are externally imposed (creditors, grantors, etc) or imposed by enabling legislation. The *nonspendable* classification includes amounts that are not in spendable form or required to be maintained intact. The *unassigned* fund balance classification represents fund balance that has not been classified to another category. The City considers an amount spent when an expenditure in incurred for purposes for which both *restricted* or *unrestricted* fund balance is available. In addition, the City considers an amount spent when an expenditure in incurred for purposes for which an amount in the *committed, assigned,* or *unassigned* amounts could be used.

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

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is excluded from the calculation of net investment in capital assets.
Restricted – Consists of assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which there are both restricted and unrestricted assets available, it is the City's policy those expenses to restricted assets, to the extent such are available, and then to unrestricted assets.

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

**Budget Control**
The City operates as a Type A General Law Municipality under the Texas Local Government Code. The City Council adopts an annual budget prepared in accordance with generally accepted accounting principles in the United States of America. The City Council may transfer part or all of any unencumbered appropriation balance among programs within a specific fund, and, any revisions that alter the total expenditures must be approved by the City Council. The City Council may require their approval of these transfers above a limit they wish to establish. The current City Council has not established a limit that they wish to approve on transfers. Council approval is needed only if the expenditures exceed the certain thresholds set by the Council.

The City, for management purposes, adopts budgets for all funds. Legal budgets are adopted for all funds. Capital Projects are funded through the issuance of general obligation debt authorized for a specific purpose.

**5. New Accounting Principles**

Pronouncements Effective for the 2018 Financial Statements – With this financial report the City has changed its financial reporting to comply with Government Accounting Standards Board (GASB):

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions.*" This statement will improve accounting and financial reporting by statement and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City has implemented GASB 75 in this annual report, see Note O for the impact on the beginning balance of the water sewer fund. The current year effects are in the pension expenses.

In November 2016, the GASB issued Statement No. 83, "*Certain Asset Retirement Obligations.*" This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires the recognition occur when the liability is both incurred and reasonably estimable. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities.*" This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2017, the GASB issued Statement No. 86, "*Certain Debt Extinguishment Issues.*" The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The City has implemented GASB 86 in this annual report, however, it does not have any impact on the City's financial report.

In June 2017, the GASB issued Statement No. 87, "*Leases.*" The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2018, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*" The requirements of this statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2018, the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period.*" The requirements of this statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

## NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The government fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the governmental-wide statement of net position. One element of that reconciliation explains, "long-term liabilities, including bonds payable and pension expense, are not due and payable in the current period and therefore are not reported in the funds." The details of this $6,355,607 difference are as follows:

| | |
|---|---|
| Bonds payable | $5,305,000 |
| Premium on issuance of bonds | 271,452 |
| Capital lease payable | 617,897 |
| Notes payable | -0- |
| Net OPEB liability | 59,316 |
| Net pension liability | 101,942 |
| Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities | $6,355,607 |

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances included reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $9,717,352 difference are as follows:

| | |
|---|---|
| Capital outlay | $ 15,394,068 |
| Depreciation expense | (5,676,716) |
| Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net position of government activities | $ 9,717,352 |

## NOTE C – CASH AND INVESTMENTS

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

The City maintains separate investment accounts. Each fund type's portion is reflected on the combined balance sheet as "Investments" under each fund's caption.

**Deposits**
State statues require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's deposits, including certificates of deposit, were fully insured or collateralized as required by the state statutes at September 30, 2018. At year-end, the carrying amount of the City's deposits was $422,120, with respective bank balances of $557,521. Included in the bank balances are Certificates of Deposit totaling $122,468.

**Investments**
State statues, city bond ordinances and city resolutions authorize the City's investments. The City is authorized to invest idle funds with the external government investment pool administered by the State of Texas, which is entitled the TexPool Fund. TexPool operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk or credit risk.

The City's investments carried at fair value as of September 30, 2018 are:

| Investments: | Fair Value | Effective Duration | Credit Risk |
|---|---|---|---|
| Government Pools | | | |
| Unrestricted | $6,721,036 | N/A | AAAM |
| Restricted | 1,880,613 | N/A | AAAM |

TexPool is an external investment pool operated by the Texas Comptroller of Public Accounts and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

Interest Rate Risk – The City minimizes its interest rate risk by only investing in government investment pools.

Credit Risk – The City minimizes its credit risk by only investing in government investment pools. As noted in the above table, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

## NOTE D – RECEIVABLES

Receivables at September 30, 2018, consisted of the following:

| | | | | | Proprietary Fund |
|---|---|---|---|---|---|
| | General | Debt Service | Other | Total | Water & Sewer Fund |
| Taxes Receivable | | | | | |
| Ad valorem taxes | $83,764 | $52,904 | - | $136,668 | - |
| Allowance for uncollectible acct | (23,275) | (14,700) | - | (37,975) | - |
| Ad valorem, net | 60,489 | 38,204 | - | 98,693 | - |
| Sales taxes | 261,239 | - | $109,213 | 370,452 | - |
| Total Taxes Receivable | 321,728 | 38,204 | 109,213 | 469,145 | |

| | | | | | |
|---|---|---|---|---|---|
| Services Receivable | | | | | |
| Service accounts | 52,887 | - | 75,249 | 128,136 | $438,423 |
| Allowance for uncollectible accts | - | - | - | - | (5,478) |
| Total Services Receivable | 52,887 | - | 75,249 | 128,136 | 432,945 |
| Other Receivables | | | | | |
| Court fees & other | 835,004 | - | - | 835,004 | |
| Allowance for uncollectible accts | (501,515) | - | - | (501,515) | |
| | 333,489 | - | | 333,489 | |
| Total Receivables | $817,958 | $42,901 | $154,434 | $1,015,293 | $432,945 |

**NOTE E – CHANGES IN CAPITAL ASSETS**
**Primary Government**
Capital asset activity for the year ended September 30, 2018 is as follows:

| | Balance 9/30/17 | Additions | Retirements | Transfers | Balance 9/30/18 |
|---|---|---|---|---|---|
| Land | $357,193 | $-0- | $(-0-) | $(-0-) | $357,193 |
| Construction in progress | 3,092,705 | 198,883 | (181) | (678,000) | 2,613,407 |
| Building & improvements | 2,523,095 | 23,110 | (-0-) | (-0-) | 2,546,205 |
| Infrastructure | 5,161,672 | 70,900 | (-0-) | (-0-) | 5,232,572 |
| Vehicles | 1,708,522 | 168,763 | (11,000) | 678,000 | 2,544,285 |
| Parks improvements | 554,336 | -0- | (-0-) | (-0-) | 554,336 |
| Equipment | 1,450,028 | 96,042 | (-0-) | (-0-) | 1,546,070 |
| Total capital assets | 14,847,551 | 557,698 | (11,181) | (-0-) | 15,394,068 |
| Less accumulated depreciation: | | | | | |
| Building & improvements | 646,896 | 60,781 | (-0-) | (-0-) | 707,677 |
| Infrastructure | 1,524,329 | 172,979 | (-0-) | (-0-) | 1,697,308 |
| Vehicles | 1,457,478 | 171,988 | (-0-) | (-0-) | 1,629,466 |
| Parks improvements | 317,281 | 17,472 | (-0-) | (-0-) | 334,753 |
| Equipment | 1,243,870 | 68,959 | (5,317) | (-0-) | 1,307,512 |
| Total accumulated depreciation | 5,189,854 | 492,179 | (5,317) | (-0-) | 5,676,716 |
| Governmental activities capital assets, net | $9,657,697 | $65,519 | $(5,864) | $(-0-) | $9,717,352 |

**Business-Type Activities**

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

| | Balance 9/30/17 | Additions | Retirements | Transfers | Balance 9/30/18 |
|---|---|---|---|---|---|
| Land | $1,005,509 | $-0- | $(-0-) | $(-0-) | $1,005,509 |
| Construction in Progress | 334,665 | 821,062 | (-0-) | (-0-) | 1,155,727 |
| Building & Improvements | 10,033 | -0- | (-0-) | -0- | 10,033 |
| Water System | 10,912,138 | 23,870 | (-0-) | -0- | 10,936,008 |
| Sewer System | 10,994,643 | 14,252 | (22,577) | -0- | 10,986,318 |
| Equipment | 550,786 | -0- | (93,355) | -0- | 457,431 |
| Vehicles | 201,184 | -0- | (-0-) | -0- | 201,184 |
| Total capital assets | 24,008,958 | 859,184 | (115,932) | (-0-) | 24,752,210 |
| Less accumulated depreciation: | | | | | |
| Building & Improvements | 768 | 200 | (-0-) | -0- | 968 |
| Water System | 4,469,508 | 300,309 | (-0-) | -0- | 4,769,817 |
| Sewer System | 2,906,751 | 357,426 | (22,577) | -0- | 3,241,600 |
| Equipment | 411,736 | 18,248 | (93,355) | -0- | 336,629 |
| Vehicles | 122,986 | 24,039 | (-0-) | -0- | 147,025 |
| Total accumulated depreciation | 7,911,749 | 700,222 | (115,932) | -0- | 8,496,039 |
| Business-type activities capital assets, net | $16,097,209 | $158,963 | $(-0-) | $(-0-) | $16,256,171 |

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

| | |
|---|---|
| Governmental activities: | |
| General government | $ 32,385 |
| Public safety | 190,179 |
| Public works | 217,051 |
| Cultural and recreational | 33,222 |
| Community development | 12,452 |
| Social and welfare | 5,512 |
| Economic | 1,378 |
| Total depreciation expense – governmental activities | $492,179 |
| Business-type activities: | |
| Water and sewer | $700,222 |

## NOTE F – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended September 30, 2018, revenues exceeded expenditures in the General Fund by $216,863.

## NOTE G – INTERFUND BALANCES AND TRANSFERS – GOVERNMENT WIDE

The composition of interfund operating transfers for the year ended September 30, 2018, is as follows:

| Fund | Transfer to Other Funds | Transfer from Other Funds |
|---|---|---|
| General Fund | $78,472 | $ 10,000 |
| Debt Service Fund | 130,000 | 78,472 |
| Special Project Fund | 69,430 | 44,892 |
| Nonmajor Governmental Funds | 10,000 | -0- |
| Subtotal | 287,902 | 133,364 |
| Fixed Asset Fund | -0- | -0- |
| Water and Sewer Fund | 790,959 | 945,497 |
| | $1,078,861 | $1,078,861 |

The purpose of interfund operating transfers is to appropriately classify capital assets expenditures and debt expenditures in the correct fund.

## NOTE H - LONG TERM DEBT

1. Governmental activities –

Combination Tax and Revenue Certificate of Obligation:

Combination tax and revenue certificate of obligation are serial debt collateralized by the full faith and credit of the City and are payable from property tax and sales tax revenue. The debt matures annually in varying amounts through 2027, and interest is payable semi-annually. Certificates of obligation proceeds are recorded in the appropriate fund for which the debt was issued and approved by the City. The ordinances authorizing the issuance of the bonds created an interest and sinking fund (Debt Service Fund).

Certificates of obligation debt outstanding and Tax anticipation note at September 30, 2018, is comprised of the following:

| Description of Debt | Amount |
|---|---|
| $3,960,000 General Obligation Refunding Bonds, Series 2011, to refinance the City's debt. Principal payments begin in 2012 and are due in annual installments $210,000 to $320,000 through August of 2026; interest payments of $6,400 to $60,525 from February 2012 through August 2026 with an interest rate of 2% to 4%. | $2,220,000 |
| Add: Premium on General Obligation Refunding Bonds, Series 2011 | 124,170 |
| $3,475,000 2015 Certificate of Obligation for city improvements, due in annual installments ranging from $125,000 to $230,000 beginning August 2016 through August 2035, interest payments ranging from $4,025 to $58,568 from February 2016 through August 2035 with interest rate of 3.0% to 3.5% | 3,085,000 |
| Add: Premium on General Obligation Refunding Bonds, Series 2015 | 147,282 |
| Total Certificate of obligation | $5,576,452 |

Annual debt service requirements to maturity for certificates of obligation debt, before netting of bond discounts and premiums are as follows:

| Year Ending September 30 | Principal | Premium | Interest | Total |
|---|---|---|---|---|
| 2019 | $ 380,000 | $16,921 | $ 184,950 | $ 581,871 |
| 2020 | 395,000 | 16,921 | 173,550 | 585,471 |
| 2021 | 410,000 | 16,921 | 157,200 | 584,121 |
| 2022 | 420,000 | 16,921 | 146,800 | 583,721 |
| 2023 | 440,000 | 16,921 | 130,000 | 586,921 |
| 2024 – 2028 | 1,795,000 | 127,871 | 401,600 | 2,324,471 |
| 2029 – 2033 | 1,010,000 | 45,828 | 185,050 | 1,240,878 |
| 2034 – 2038 | 455,000 | 13,148 | 23,975 | 492,123 |
| Total | $5,305,000 | $271,452 | $1,403,125 | $6,979,577 |

Capital Lease:

Capital lease debt outstanding at September 30, 2018, is comprised of the following:

| Description of Debt | Amount |
|---|---|
| Capital lease obligation secured by vehicles costing $338,982 maturing November 2018, requiring monthly installments of $6,586 including interest accruing at 2.116%. | $13,041 |
| Capital lease obligation secured by vehicle costing $678,182 maturing November 2018, requiring annual installments of $76,572 including interest accruing at 2.69% | 604,856 |
| Total | $617,897 |

Annual debt service requirements to maturity for capital lease debt are as follows:

| Year Ending September 30 | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 73,331 | $16,316 | $ 89,647 |
| 2020 | 61,913 | 14,659 | 76,572 |
| 2021 | 63,579 | 12,992 | 76,571 |
| 2022 | 65,291 | 11,281 | 76,572 |
| 2023 | 67,048 | 9,523 | 76,571 |
| 2024-2028 | 286,735 | 19,552 | 306,287 |
| Total | $617,897 | $84,323 | $702,220 |

Changes in long-term liabilities:

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

| | Amounts payable at beginning of year | Amounts added during year 2018 | Amounts retired during fiscal year 2018 | Amounts payable at end of year | Amounts due within one year |
|---|---|---|---|---|---|
| Certificates of obligation | $5,675,000 | $-0- | $(370,000) | $5,305,000 | $380,000 |
| Notes payable | -0- | -0- | -0- | -0- | -0- |
| Capital lease obligation | 695,186 | -0- | (77,289) | 617,897 | 73,331 |
| Compensated Absences | 77,449 | -0- | (8,148) | 69,301 | 69,301 |
| Subtotal | 6,447,635 | -0- | (455,437) | 5,992,198 | 522,632 |
| Bond premiums | 288,374 | -0- | (16,922) | 271,452 | 16,921 |
| Total | $6,736,009 | $-0- | $(472,359) | $6,263,650 | $539,553 |

2. Business-type activities -

Combination Tax and Revenue Certificate of Obligation:

Combination tax and revenue certificate of obligation are serial debt collateralized by the full faith and credit of the City and are payable from the gross revenues of the water and sewer system. Gross revenues are to be used first to pay operating and maintenance expenses of the system, and second, to maintain revenue bond funds in accordance with the bond covenants. Remaining revenues may then be used for any lawful purpose. The debt matures annually in varying amounts through 2045, and interest is payable semi-annually. Certificates of obligation proceeds are recorded in the appropriate fund for which the debt was issued and approved by the City. The ordinances authorizing the issuance of the bonds created an interest and sinking fund.

Certificates of obligation debt outstanding at September 30, 2018, is comprised of the following:

| Description of Debt | Amount |
|---|---|
| $2,885,000 General Obligation Refunding Bonds Series 2017 for refunding of the combination tax revenue certificate of obligation series 2008A and 2008B due in annual installments ranging from $55,000 to $250,000 beginning August 2018 through 2042, interest payments ranging from $26,963 to $53,263 from February 2018 through 2042 with interest rate ranging from 4% to 4.25%. | $2,635,000 |
| $4,810,000 Combination Tax Revenue Certificate of Obligation Series 2012 for improvements to the waste water treatment plant, sewer, and water improvements due in annual installments ranging from $135,000 to $330,000 beginning August 2014 through 2037, interest payments ranging from $6,600 to $76,482 from February 2013 through 2037 with interest rate ranging from 2% to 4% | 4,150,000 |
| Subtotal | $6,785,000 |
| Add: Net premiums and discounts on certificates of obligations | 347,610 |
| Total | $7,132,610 |

Annual debt service requirements to maturity for certificates of obligation debt, before netting of bond discounts and premiums, are as follows:

| Year Ending September 30 | Principal | Premiums (Discounts) | Interest | Total |
|---|---|---|---|---|
| 2019 | $ 355,000 | $ 16,251 | $ 246,288 | $ 617,539 |
| 2020 | 360,000 | 16,251 | 234,688 | 610,939 |
| 2021 | 365,000 | 16,251 | 222,888 | 604,139 |
| 2022 | 385,000 | 16,251 | 210,888 | 612,139 |
| 2023 | 195,000 | 16,251 | 197,850 | 409,101 |
| 2024 – 2028 | 1,225,000 | 81,257 | 882,250 | 2,188,507 |
| 2029 – 2033 | 1,730,000 | 81,257 | 621,200 | 2,432,457 |
| 2034 – 2038 | 1,720,000 | 74,714 | 279,150 | 2,073,864 |
| 2039 – 2043 | 450,000 | 29,127 | 48,875 | 528,002 |
| Total | $6,785,000 | 347,610 | $2,944,077 | $10,076,687 |

Capital Lease:

Capital lease debt outstanding at September 30, 2018, is comprised of the following:

| Description of Debt | Amount |
|---|---|
| Capital lease obligation secured by vehicles costing $338,982 maturing November 2018, requiring monthly installments of $3,140 including interest accruing at 2.116%. | $6,359 |
| Total | $6,359 |

Annual debt service requirements to maturity for capital lease debt are as follows:

| Year Ending September 30 | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $6,359 | $17 | $6,376 |
| Total | $6,359 | $17 | $6,376 |

Changes in long-term liabilities:

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

| | Amounts payable at beginning of year | Amounts added during year 2018 | Amounts retired during fiscal year 2018 | Amounts payable at end of year | Amounts due within one year |
|---|---|---|---|---|---|
| Certificates of Obligation | $7,271,000 | $2,885,000 | $(3,371,000) | $6,785,000 | $355,000 |
| Capital Lease | 44,187 | -0- | (37,828) | 6,359 | 6,359 |
| Compensated Absences | 12,370 | 3,327 | (-0-) | 15,697 | 15,697 |
| Subtotal | 7,327,557 | 2,888,327 | (3,408,828) | 6,807,056 | 377,056 |
| Bond Premiums | 115,272 | 247,940 | (15,602) | 347,610 | 16,251 |
| Total | $7,442,829 | $3,136,267 | $(3,424,430) | $7,154,666 | $390,838 |

## NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2018, was as follows:

| Fund | Cash & Deposits | Investments | Intergovernmental Receivable |
|---|---|---|---|
| Government Activities: | | | |
| General Fund | $-0- | $69,880 | $25 |
| Court | -0- | 162,358 | -0- |
| Debt Service Fund | -0- | 350,889 | -0- |
| Special Project Fund | -0- | 1,264,961 | -0- |
| Water and Sewer Fund | 1,344,415 | 32,525 | -0- |
| | $1,344,415 | $1,880,613 | $25 |

## NOTE J - RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System.

Plan Description

The City of Alvarado participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member board of

Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

| | Plan Year 2018 | Plan Year 2017 |
|---|---|---|
| Employee deposit rate | 6% | 6% |
| Matching Ratio (city to Employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 years | 5 years |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated Service Credit | 0%, | 0%, |
| 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 | 11 |
| Inactive employees entitled to but not yet receiving benefits | 53 |
| Active employees | 59 |
| Total | 123 |

Contributions

The contribution rates for employees in TMRS is 6% of employee gross earnings, and the city matching percentage is 4.33% , both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Alvarado were required to contribute 6% of their annual gross earnings during their fiscal year. The contribution rates for the City of Alvarado were 5.24% and 5.18% in calendar years 2017 and 2018 respectively. The City's contributions to TMRS for the fiscal year end September 30, 2018 were $137,684, and were equal to the 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.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation: | 2.5% per year |
| Overall payroll growth: | 3.0% per year |
| Investment Rate of Return: | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates of active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservation) with an adjustment to time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

| **Asset Class** | **Target Allocation** | **Long-Term Expected Real Rate of Return (Arithmetic)** |
|---|---|---|
| Domestic Equity | 17.5% | 4.55% |
| International Equity | 17.5% | 6.35% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 4.15% |
| Real Return | 10.0% | 4.15% |
| Real Estate | 10.0% | 4.75% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | 5.0% | 7.75% |
| Total | 100.0% | |

Discount Rate:
The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability

| | Total Pension Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|---|---|---|
| **Balance at 12/31/2016** | $ 3,070,842 | $ 2,767,003 | $ 303,839 |
| Changes for the year: | | | |
| Service Cost | 278,523 | -0- | 278,523 |
| Interest | 215,407 | -0- | 215,407 |
| Changes in benefit terms | -0- | -0- | -0- |
| Difference between expected and actual experience | 2,204 | -0- | 2,204 |
| Changes of assumptions | -0- | -0- | -0- |
| Contributions – employer | -0- | 137,684 | (137,684) |
| Contributions – employee | -0- | 157,654 | (157,654) |
| Net investment income | -0- | 383,900 | (383,900) |
| Benefit payments, including refunds of employee contributions | (37,765) | (37,765) | -0- |
| Administrative expense | -0- | (1,987) | 1,987 |
| Other changes | -0- | (100) | 100 |
| Net changes | $ 458,369 | 639,386 | $ (181,017) |
| **Balance at 12/31/2017** | **$ 3,529,211** | **$ 3,406,389** | **$ 122,822** |

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 be 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 Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|---|---|---|---|
| City's net pension liability | $737,686 | $122,822 | $(370,180) |

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

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

For the year ended September 30, 2018, the city recognized pension expense of $152,945.

At September 30, 2018, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

## SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE

| | Recognition Period (or amortization yrs) | Total (Inflow) or Outflow of Resources | 2017 Recognized in current pension | Deferred (Inflow)/Outflow in future expense |
|---|---|---|---|---|
| Due to Liabilities: | | | | |
| Difference in expected and actual experience actuarial (gains) or losses | 4.9000 | $ 2,204 | $ 450 | $ 1,754 |
| Difference in assumption changes actuarial (gains) or losses | 4.9000 | - | - | - |
| | | | $ 450 | $ 1,754 |
| Due to Assets: | | | | |
| Difference in projected and actual earnings on pension plan investments actuarial (gains) or losses | 5.0000 | $ (197,128) | $ (39,426) | $ (157,702) |
| | | | $ (39,426) | $ (157,702) |
| Total: | | | | $ (155,948) |

$257,193 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | Net deferred outflows (inflows) of resources |
|---|---|
| 2018 | $ 1,030 |
| 2019 | (7,240) |
| 2020 | (45,962) |
| 2021 | (39,070) |
| 2022 | - |
| Thereafter | - |
| Total | $ (91,242) |

## NOTE K – OTHER POST-EMPLOYEMENT BENEFITS – OPEB

*Plan Description*

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

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

The City contributes to the SDBF at a contractually required rates as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

The following employees were covered by the benefit terms at December 31, 2018, (measurement date):

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 5 |
| Inactive employees entitled to but not yet receiving benefits | 7 |
| Active Employees | 59 |
| Total Employees | 71 |

*Total OPEB Liability*

The City's total OPEB liability of $71,465 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The City's total OPEB liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | December 31, 2017 |
|---|---|
| Discount rate | 3.31% as of December 31, 2017 (3.78% as of December 31, 2016) |
| Inflation | 2.50% |
| Salary increases | 3.50% to 10.50%, including inflation |
| Administrative expenses | All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68 |
| Mortality rates – service retirees | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. |
| Mortality rates – disabled retirees | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor. |

*Discount Rate*

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASBS No. 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year-tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20-Year Municipal GO AA Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASB No. 75 also requires that the Total OPEB Liability (TOL) as of the prior fiscal year end based on the 20-Year Bond GO Index.

*Changes in Total OPEB Liability*

| | Total OPEB Liability |
|---|---|
| **Balance at 12/31/2016** | $ 56,986 |
| Changes for the year: | |
| Service Cost | 5,518 |
| Interest on total OPEB liability | 2,253 |
| Changes in assumptions or other inputs | 6,971 |
| Benefit payments, aged adjusted premiums, net of retiree contributions | (263) |
| **Balance at 12/31/2017** | **$ 71,465** |

The total OPEB liability attributable to the governmental activities will be liquidated primarily by the general fund.

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

The total OPEB liability of the City has been calculated using a discount rate of 3.31%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

| | 1% Decrease in Discount Rate (2.31%) | Current Discount Rate (3.31%) | 1% Increase in Discount Rate (4.31%) |
|---|---|---|---|
| Total OPEB Liability | $90,060 | $71,465 | $57,802 |

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

For the year ended September 30, 2018, the City recognized OPEB expense of $8,641. At September 30, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

| | Outflows of Resources |
|---|---|
| Changes of assumptions | $6,101 |
| Benefit payments subsequent to the measurement date | -0- |
| | $6,101 |

Benefit payments subsequent to the measurement date and before fiscal year-end will be recognized as a reduction of the total OPEB liability in the year ending September 31, 2019.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | Amortization of Deferred Outflows of Resources |
|---|---|
| 2018 | $ 870 |
| 2019 | 870 |
| 2020 | 870 |
| 2021 | 870 |
| 2022 | 870 |
| Thereafter | 1,751 |
| | $ 6,101 |

## NOTE L - COMMITMENTS AND CONTINGENCIES

Audits of Grant Activities

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

## NOTE M – RISK MANAGEMENT

The City manages its risk through the purchasing of insurance policies through the Texas Municipal League. Significant losses are covered by commercial insurance for all major programs. For such insured programs, there have been no significant reductions in insurance coverage, and settlement amounts have not exceeded insurance coverage for the current year or three prior years.

## NOTE N – SUBSEQUENT EVENTS

The City evaluated subsequent events through May 15, 2019, which is the same date that the financial statements were issued and determined no subsequent event that were required to be reported.

## NOTE O – CHANGE IN BEGINNING FUND BALANCE – GOVERNMENTAL FUNDS

For the period ended September 30, 2017 the Water and Sewer Proprietary Fund ending balance was understated by $96,562 because of depreciation taken on an asset not yet in service and the application of GASBS No. 75 (see Note K). The effect of these changes on beginning fund balance are as follows:

| | Water & Sewer Proprietary Fund |
|---|---|
| Fund Balance – October 1, 2017, as previously reported | $11,238,018 |
| GASBS No. 75 adjustment | (9,688) |
| Prior year depreciation adjustment | 106,248 |
| Fund Balance – October 1, 2017, as adjusted | $11,334,578 |

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