

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

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

\$9,275,000

CITY OF GRANITE SHOALS, TEXAS

**(A political subdivision of the State of Texas located in Burnet County)
GENERAL OBLIGATION AND REFUNDING BONDS, SERIES 2020**

Dated: June 15, 2020 (interest to accrue from Delivery Date)

Due: August 1, as shown on inside cover

The \$9,275,000 City of Granite Shoals, Texas, General Obligation and Refunding Bonds, Series 2020 (the "Bonds") are being issued by the City of Granite Shoals, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas, Chapters 1251, 1331, and 1207 Texas Government Code, as amended, an election held in the City on November 5, 2019, and an ordinance adopted by the City Council on June 23, 2020 (the "Ordinance"). See "THE BONDS – Authority for Issuance".

The Bonds constitute direct and general obligations of the City payable from ad valorem taxes levied annually against all taxable property therein, within the limits prescribed by law (see "THE BONDS - Security and Source of Payment" and "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations" herein).

Interest on the Bonds will accrue from the Delivery Date (defined below) and will be payable February 1 and August 1 of each year, commencing February 1, 2021, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Principal of the Bonds will be payable by the paying agent/registrars (the "Paying Agent/Registrar"), initially UMB Bank, N.A., Austin, Texas, to Cede & Co., as nominee of DTC. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer relating to the Bonds. DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interest in the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. So long as the Bonds are in Book-Entry-Only form, and DTC is the securities depository therefor, Cede & Co., as nominee for DTC, will be the registered owner of the Bonds and references herein to registered owners shall mean Cede & Co. and not the beneficial owners of the Bonds.

Proceeds from the sale of the Bonds will be used for (i) constructing, improving, extending, expanding and/or upgrading the City's surface and ground water systems, including for improvements to the City's water treatment plant, a new elevated water storage tank and water line upgrades, including the purchase or acquisition of any necessary rights-of-way and easements, design costs and other related costs (collectively, the "Project"), (ii) refunding a portion of the City's currently outstanding obligations, as described in Schedule I attached hereto (the "Refunded Obligations") for debt service savings and (iii) paying all or a portion of the legal, fiscal and engineering fees in connection with the Project and the costs of issuance related to the Bonds.

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2029 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

SEE MATURITY SCHEDULE ON INSIDE COVER

The Bonds are offered when, as and if issued and subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the initial purchaser thereof named below (the "Underwriter") by its counsel, Norton Rose Fulbright US LLP, Austin, Texas. The Bonds are expected to be available for initial delivery to the Underwriter through the services of DTC on or about August 3, 2020 (the "Delivery Date").

MATURITY SCHEDULE

\$9,275,000
CITY OF GRANITE SHOALS, TEXAS
GENERAL OBLIGATION AND REFUNDING BONDS, SERIES 2020

Maturity	Principal	Interest		CUSIP No
Date	Amount	Rate	Yield	Suffix ⁽¹⁾
(8/1)				
2021	\$470,000	4.000%	0.540%	DR9
2022	490,000	4.000	0.600	DS7
2023	510,000	2.000	0.670	DT5
2024	520,000	2.000	0.760	DU2
2025	525,000	2.000	0.870	DV0
2026	545,000	2.000	1.020	DW8
2027	550,000	4.000	1.140	DX6
2028	370,000	4.000	1.250	DY4
2029	380,000	4.000	1.300	DZ1
2030	395,000	3.000	1.440 ⁽²⁾	EA5
2031	410,000	3.000	1.530 ⁽²⁾	EB3
2032	420,000	2.000	1.950 ⁽²⁾	EC1
2033	430,000	2.000	2.040	ED9
2034	440,000	2.000	2.080	EE7
2035	445,000	2.000	2.130	EF4
2036	455,000	2.000	2.170	EG2
2037	465,000	2.000	2.210	EH0
2038	475,000	2.000	2.250	EJ6
2039	485,000	2.000	2.290	EK3
2040	495,000	2.125	2.330	EL1

(Interest to accrue from the Delivery Date)

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2029 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”).

⁽¹⁾ 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 any way as a substitute for the CUSIP Services. None of the Underwriter, the City or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 1, 2029, the first optional call date for such Bonds, at a redemption price of par plus accrued interest to the date of redemption.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter 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 information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a promise or guarantee of the Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

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

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 JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE CITY, THE 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 OR ITS BOOK-ENTRY-ONLY SYSTEM.

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 City	The City of Granite Shoals, Texas (the “City”) is a political subdivision and Home Rule City of the State of Texas (the “State”). The City is located near the intersection of U.S. Highway 281 and State Highways 71, and is 55 miles northwest of Austin, Texas. The City had a 2010 census population of 4,910.
The Bonds	\$9,275,000 General Obligation and Refunding Bonds, Series 2020, dated June 1, 2020, maturing as described on the inside cover page of this Official Statement.
Security for the Bonds	The Bonds are payable from a continuing and direct annual ad valorem tax levied against all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds.
Redemption Provisions of the Bonds	The City reserves the right, at its sole option, to redeem Bonds having stated maturities on or after August 1, 2030, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. (See “THE BONDS – Optional Redemption” herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income of the owners thereof for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of delivery thereof, subject to matters discussed herein under "TAX MATTERS". (See "TAX MATTERS" and Appendix D - "Form of Opinion of Bond Counsel" herein.)
Qualified Tax-Exempt Obligations	The City has designated the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions. (See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”)
Use of Proceeds	Proceeds from the sale of the Bonds will be used for (i) constructing, improving, extending, expanding and/or upgrading the City's surface and ground water systems, including for improvements to the City's water treatment plant, a new elevated water storage tank and water line upgrades, including the purchase or acquisition of any necessary rights-of-way and easements, design costs and other related costs (collectively, the “Project”), (ii) refunding a portion of the City’s currently outstanding obligations, as described in Schedule I attached hereto (the “Refunded Obligations”) for debt service savings and (iii) paying all or a portion of the legal, fiscal and engineering fees in connection with the Project and the costs of issuance related to the Bonds.
Authority for Issuance	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 1251, 1331, and 1207 Texas Government Code, as amended, an election held in the City on November 5, 2019, and an ordinance (the “Ordinance”) to be adopted by the City Council of the City on the sale date of the Bonds.
Ratings	S&P Global Ratings (“S&P”) has assigned a rating of “AA-” to the Bonds. An explanation of the significance of such rating may be obtained from said rating agency. (See “RATING” herein.)
Payment Record	The City has never defaulted on the payment of its bonded indebtedness.
Future Bond Issues	The City does not anticipate the issuance of additional tax debt during the next 12 months.
Delivery	When issued, anticipated on or about August 3, 2020.

CITY OF GRANITE SHOALS, TEXAS
2221 N. Phillips Ranch Road
Granite Shoals, Texas 78654

ELECTED OFFICIALS

CITY COUNCIL

Name	Term Expires (May) ⁽¹⁾	Occupation
Carl J. Brugger Mayor	2021	Retired
Jim Davant Mayor Pro-Tem, District 3	2021	Retired
Ron Munos Council Member, District 1	2021	Retired
Bruce Jones Council Member, District 2	2020	Real Estate Agent
Dr. Steve Hougen Council Member, District 4	2020 ⁽²⁾	Retired Medical Doctor
Elizabeth Edwards Council Member, District 5	2020 ⁽³⁾	Former Financial Trader
Will Skinner Council Member, District 6	2020	Utility Operator

⁽¹⁾ Council Member elections called for May 2, 2020 have been postponed by the City to November 3, 2020 as permitted by Texas Governor Abbott's Proclamation dated March 18, 2020 which was issued after the Governor declared a state of disaster in the State of Texas due to COVID-19. As a result, under Article XVI, Section 17 of the Texas Constitution (commonly referred to as the "Holdover Doctrine"), these current officeholders will remain in office until a successor is sworn in pending the results of the November 3, 2020 election.

⁽²⁾ Dr. Steve Hougen was appointed May 26, 2020. Dr. Hougen will serve until November 3, 2020 election.

⁽³⁾ Elizabeth Edwards was appointed May 19, 2020. Ms. Edwards will serve until November 3, 2020 election.

APPOINTED OFFICIALS

Name	Position	Years with the City
Jeff Looney	City Manager	2
Peggy Smith	Asst. City Manager	12
Elaine Simpson	City Secretary	6

BOND COUNSEL AND ADVISORS

Bond Counsel
 McCall Parkhurst & Horton L.L.P.
 600 Congress Avenue
 Suite 1800
 Austin, Texas 78701

Certified Public Accountants
 Brooks Watson & Co., PLLC
 14950 Heathrow Forest Parkway
 Suite 530
 Houston, Texas 8788

Financial Advisor
 RBC Capital Markets, LLC
 303 Pearl Parkway,
 Suite 220
 San Antonio, Texas 78219

TABLE OF CONTENTS

<i>Official Statement:</i>	<i>Page</i>
COVER PAGE	i
MATURITY SCHEDULE	ii
USE OF INFORMATION IN THE OFFICIAL STATEMENT	iii
SELECTED DATA FROM THE OFFICIAL STATEMENT	iv
ELECTED AND APPOINTED OFFICIALS	v
TABLE OF CONTENTS	vi
INTRODUCTORY STATEMENT	1
INFECTIOUS DISEASE OUTBREAK – COVID-19	1
THE BONDS	2
SOURCES AND USES OF BOND PROCEEDS	5
ENFORCEMENT OF REMEDIES	5
BOOK-ENTRY-ONLY SYSTEM	6
REGISTRATION, TRANSFER AND EXCHANGE	7
AD VALOREM PROPERTY TAXATION	8
PENSION PLAN	12
INVESTMENTS	12
TAX MATTERS	14
LITIGATION	16
REGISTRATION AND QUALIFICATION OF BONDS FOR SALE	16
LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS	16
LEGAL MATTERS	17
RATING	17
CONTINUING DISCLOSURE OF INFORMATION	17
AUTHENTICITY OF FINANCIAL INFORMATION	19
UNDERWRITING	19
FINANCIAL ADVISOR	19
FORWARD LOOKING STATEMENTS	19
USE OF INFORMATION IN OFFICIAL STATEMENT	19
<i>Schedule of Refunded Obligations</i>	<i>Schedule I</i>
<i>Financial Information Regarding the City of Granite Shoals, Texas</i>	<i>Appendix A</i>
<i>General Information Regarding the City of Granite Shoals and Burnet County, Texas</i>	<i>Appendix B</i>
<i>Excerpts from the City's Annual Financial Report for the Fiscal Year Ended September 30, 2019.</i>	<i>Appendix C</i>
<i>Form of Opinion of Bond Counsel</i>	<i>Appendix D</i>
<i>The Cover Page, Table of Contents, Schedule I, and Appendices attached hereto are part of the Official Statement</i>	

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OFFICIAL STATEMENT
relating to
\$9,275,000
CITY OF GRANITE SHOALS, TEXAS
(A political subdivision of the State of Texas located in Burnet County)
General Obligation and Refunding Bonds, Series 2020

INTRODUCTORY STATEMENT

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

There follows in this Official Statement a description of the City of Granite Shoals, Texas, General Obligation and Refunding Bonds, Series 2020 (the “Bonds”) and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City and, during the offering period, from the Financial Advisor, upon payment of reasonable copying, handling, and delivery charges. Certain capitalized terms used in this Official Statement have meanings assigned to them in the “Ordinance” (defined below) to be adopted by the City Council, except as otherwise indicated herein.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Financial and statistical information included in this Official Statement resulted from operations of the City that occurred well before the world-wide spread (which generally began in March 2020) of the coronavirus pandemic known as “COVID- 19.” The full effect of the COVID-19 pandemic on the City is not known as of this time, but it is expected to materially reduce certain revenue sources of the City in comparison to recent fiscal years included in this Official Statement. For more information see “INFECTIOUS DISEASE OUTLOOK (COVID-19).”

INFECTIOUS DISEASE OUTBREAK – COVID-19

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which 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 in connection with COVID-19. On March 13, 2020, the President of the United States (the “President”) declared the Pandemic a national emergency and the Texas Governor (the “Governor”) declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the “disaster declarations”). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

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 this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. 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. These include, for example, the issuance on March 19, 2020 of Executive Order GA-08 which, among other things, imposed strict limitations on social gatherings. On March 31, 2020, the Governor issued Executive Order GA-14 which, among other things, extended the social gathering limitation until April 30, 2020 and temporarily closed school districts throughout the State through May 4, 2020, unless otherwise extended, modified, rescinded or superseded by the Governor. Then, on April 17, 2020, the Governor issued Executive Order GA-16, which further extended the social gathering limitation, and extended the closure of Texas school districts to in person attendance through the remainder of the 2019-2020 school year. On April 27, 2020, the Governor released the Governor’s Report to Open Texas and a new series of executive orders which together lay out the plan for reopening a group of closed businesses throughout the State in a phased approach. Phase I of the plan calls for allowing many customer-oriented businesses, such as restaurants and retail stores, to reopen on May 1, 2020, with occupancy restrictions in place of generally 25% of capacity. The Governor also announced in a press conference that if there were no COVID-19 “flare ups” his plan includes increasing the 25% capacity limitations to 50% capacity limitations on May 18, 2020, as well as potentially opening other businesses as part of Phase 2 of the plan. On May 18, 2020, the Governor announced in a press release plans to proceed with Phase 2 of the ongoing plan to safely and strategically open Texas while minimizing the spread of COVID 19. Under Phase 2, beginning May 22, 2020, bars and a number of other businesses and activities that remained closed under Phase I will be allowed to reopen with a 25% occupancy restriction and certain businesses such as restaurants and retail stores that opened during Phase I, will be allowed to increase their occupancy to 50%. For the full text of the Governor’s executive orders, see: <https://lrl.texas.gov/legLeaders/governors/displayDocs.cfm?govdoctypeID=5&governorID=45>.

In addition to the actions by the state and federal officials, many local officials have declared a local state of disaster and have passed "shelter- in-place" orders or ordinances. On March 17, 2020, the City Council issued a Declaration of Disaster declaring a local state of disaster activating the City's emergency management plan. The City's Declaration of Disaster has been extended until September 30, 2020, and the City is currently following the most recent executive orders issued by the Governor. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the State and the risk of contraction in the oil and gas industry and spillover effects into other industries, including manufacturing.

Measures taken to prevent or reduce the spread of COVID-19 could limit the growth of or reduce economic activity in the State and the City and could negatively impact the ability of taxpayers of the City to pay ad valorem taxes levied by the City and customers of services provided by the City to pay for such services, which in turn could limit the growth of or reduce the City's revenue collections. The City continues to monitor the spread of COVID- 19 and is working to address the potential impact of COVID-19. While the potential impact of COVID-19 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. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the City's financial condition.

THE BONDS

General Description

The Bonds will be dated June 15, 2020 (the "Dated Date"), and will be issued in fully-registered form, in denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the date of initial delivery thereof and interest will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2021, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature on the dates and in the amounts as set forth on the inside cover page hereof.

Principal and interest for the Bonds will be paid by UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar"). Subject to the requirements associated with the use of the Book-Entry-Only System (see "BOOK-ENTRY-ONLY SYSTEM" herein), interest will be paid by check dated as of the interest payment date and mailed first class, postage paid, on or before each interest payment date by the Paying Agent/Registrar to the registered owners (the "Owners") appearing on the registration books of the Paying Agent/Registrar on the Record Date (herein defined), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of such Owner. Principal will be paid to the Owners at maturity or redemption upon presentation and surrender of the Bonds to the Paying Agent/Registrar. 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 on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The City will initially use the Book-Entry Only System of The Depository Trust Company ("DTC"), New York, New York, in regard to the issuance, payment and transfer of the Bonds. Such system will affect the timing and method of payment of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein).

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, Chapters 1207, 1251 and 1331 Texas Government Code, as amended, an election held in the City on November 5, 2019, and an ordinance adopted by the City Council on June 23, 2020 (the "Ordinance").

Purpose

Proceeds from the sale of the Bonds will be used for (i) constructing, improving, extending, expanding and/or upgrading the City's surface and ground water systems, including for improvements to the City's water treatment plant, a new elevated water storage tank and water line upgrades, including the purchase or acquisition of any necessary rights-of-way and easements, design costs and other related costs (collectively, the "Project"), (ii) refunding a portion of the City's currently outstanding obligations, as described in Schedule I attached hereto (the "Refunded Obligations") for debt service savings and (iii) paying all or a portion of the legal, fiscal and engineering fees in connection with the Project and the costs of issuance related to the Bonds.

Refunded Obligations

The principal of and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Obligations, as applicable, from funds to be deposited pursuant to a certain Escrow

Agreement (the "Escrow Agreement") between the City and UMB Bank, N.A., Austin, Texas (the "Escrow Agent"). The Ordinance provides that from a portion of the proceeds of the sale of the Bonds received from the Underwriter, together with other funds of the City, the City will deposit with the Escrow Agent the cash necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective maturity dates and redemption dates, as applicable.

RBC Capital Markets, LLC, in its capacity as Financial Advisor to the City, will certify as to the sufficiency (such certification, the "Sufficiency Certificate") of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal and interest on the Refunded Obligations, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations. In certain instances, such cash may be invested in direct obligations of the United States which mature on or before any redemption date.

By the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations in accordance with applicable law and thereafter the City will have no further responsibility with respect to the payment of such Refunded Obligations including any subsequent insufficiency in the Escrow Fund. It is the opinion of Bond Counsel in reliance upon the Sufficiency Certificate that, as a result of such defeasance, the Refunded Obligations will no longer be payable from ad valorem taxes but will be payable solely from the cash held for such purpose by the Escrow Agent and that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the City.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel (see "LEGAL MATTERS" herein).

Security and Source of Payment

The Bonds constitute direct obligations of the City payable from an annual ad valorem tax levied against all taxable property within the City, within the limits prescribed by law (see "TAX RATE LIMITATIONS" below).

Optional Redemption

The City reserves the right, at its sole option, to redeem Bonds having stated maturities on or after August 1, 2030, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Notice of Redemption for the Bonds

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. The notice with respect to an optional redemption of Bonds may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the City retains the right to rescind such notice at any time prior to the scheduled redemption date if the City delivers a certificate of an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption will be of no effect if such moneys are not so deposited or if the notice is so rescinded. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions

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 Direct Participant or Indirect Participant to notify the beneficial owner, shall 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 City 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 account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

Defeasance of Bonds

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of 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, 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 ensure 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 authorized escrow agent, for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent, or other authorized escrow agent, 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.

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

Amendments

The City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, (2) extend any waiver of default to subsequent defaults, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (3) give any preference to any Bond over any other Bond, or (4) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

Record Date

The date for determining the person to whom the interest is payable on the Bonds on any interest payment date means the fifteenth (15th) day of the month next preceding the date that each interest payment is due (the "Record Date").

Special Record Date for Interest Payment

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

Limitation on Transfer of Bonds

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable by the registered owner of the uncalled balance of a Bond.

Mutilated, Destroyed, Lost, or Stolen Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be

delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfying to them that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

Payment Record

The City has never defaulted on the payment of its bonded indebtedness.

SOURCES AND USES OF BOND PROCEEDS

The following table shows the estimated sources and uses of the proceeds of the Bonds:

Sources:		
	Principal Amount of the Bonds	\$ 9,275,000.00
	Net Original Issue Premium on the Bonds	434,828.45
	City Contribution	<u>319,656.00</u>
	Total Sources of Funds	<u>\$10,029,484.45</u>
Uses:		
	Deposit to Construction Fund	\$ 7,000,000.00
	Deposit to Escrow Fund	2,846,545.08
	Costs of Issuance and Underwriter's Discount	<u>182,939.37</u>
	Total Uses of Funds	<u>\$10,029,484.45</u>

ENFORCEMENT OF REMEDIES

The Ordinance establishes specific events of default with respect to the Bonds. If the City (i) defaults in the payment of the principal, premium, if any, or interest on the Bonds, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund, or (iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the failure to perform which materially, adversely affects the rights of the holders including but not limited to their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for 30 days after the City has received written notice of such defaults, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions.

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

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

In *Tooke*, the Court noted the enactment in 2005 of sections 271.151- 160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers municipalities and relates to contracts entered into by municipalities for providing goods or services to municipalities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

As noted above, the Ordinance provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson I*”), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) (“*Wasson II*”, and together with *Wasson I*, “*Wasson*”), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the state’s immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

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 cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (“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 Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated industries. 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 each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will

not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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 City or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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 City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Information concerning DTC and DTC's book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Underwriter.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is UMB Bank, N.A., Austin, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Bonds. If the Paying Agent/Registrar is replaced by the City, the Paying Agent/Registrar, promptly upon the appointment of its successor, is required to deliver the registration records to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank, or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Bonds affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Paying Agent/Registrar.

Future Registration

In the event the use of the “Book-Entry-Only System” for the Bonds should be discontinued, printed physical Bonds will be delivered to the registered owners of the Bonds and thereafter such Bonds may be transferred, registered and assigned on the registration books only upon their presentation and surrender to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect to such registration and transfer. The Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the 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 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 owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 of principal amount for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer (see “BOOK-ENTRY-ONLY SYSTEM” herein).

AD VALOREM PROPERTY TAXATION

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (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 Burnet 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 (3) 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.

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. The same land may not be qualified as both agricultural and open-space land.

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 PROPERTY TAXATION – 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.

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 market 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 also 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.

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.

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.

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 reinvestment zones (“TIRZ”) within its boundaries. 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 “tax increment”. During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Tax Abatement Agreements

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

For a discussion of how the various exemptions described above are applied by the City, see “AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code” herein.

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

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

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

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. Taxpayers 65 years old or older, disabled veterans or an unmarried surviving spouse of a disabled veteran, are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1. 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.

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes.

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts.

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

City Application of Property Tax Code

The City does not grant a local option exemption of the market value of all residence homesteads.

The City does not grant a local option exemption of the market value of the residence homestead of persons 65 years of age or older.

The City does grant a local option freeze on taxes for persons 65 years of age or older or disabled persons.

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

The City does not tax Freeport Property.

The City does not tax Goods-in-Transit.

The City does not participate in a TIRZ.

The City does not offer tax abatements.

PENSION PLAN

All qualified employees of the City are members of the Texas Municipal Retirement System. Covered employees of the City contribute 5% of gross covered salary. The City's contribution is determined annually by actuarial study as a percent of gross covered payroll. For the calendar year 2019, the rate was 5.01%. For additional information, refer to the notes to the Combined Financial Statements for the year ended September 30, 2019, in Appendix C herein.

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (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 of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (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; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution as described in clause (8)(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 investing 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 Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits or; (ii) where the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) 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; (iv) 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 (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13), and 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) 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 (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) 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; (13) 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; (14) no-load money market mutual funds registered with and regulated by the 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 complies with SEC Rule 2a-7; and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio 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 in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

Investment Policies

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

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

Additional Provisions

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an 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 said ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy; (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization (i) is dependent on an analysis of the makeup of the City's entire portfolio, (ii) requires an

interpretation of subjective investment standards, or (iii) 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) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves or funds held for debt service in such mutual funds; (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.

See Table 12 in Appendix A for a description of the City's investments.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders 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, Bond Counsel 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 D - Form of Opinion of Bond Counsel).

In rendering its opinion, Bond Counsel will rely upon (a) the City's federal tax certificate and the Sufficiency Certificate of the City's financial advisor, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the City 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 is conditioned on compliance by the City with such requirements, and Bond Counsel 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 reliance on the aforementioned information, representations, and covenants. Bond Counsel's opinion is not a guarantee of a result. 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 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 City with respect to the Bonds or the property financed or refinanced with the proceeds of the Bonds. No assurances can be given as to whether or not 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 City 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 such initial owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the 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 accrual period and ratably within such accrual 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 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 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 earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profit's 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 IRS. 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(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Code. In furtherance of that designation, the City has covenanted to take such action that will assure, or to refrain from such action that will adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations."**

LITIGATION

In the opinion of various officials of the City, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the City in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the City.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they 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 or qualification provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. Section 271.051, Texas Local Government Code, further provides that the Bonds, when approved by the Attorney General of Texas, are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, trustees, and guardians and sinking funds of municipalities, counties, school districts, or other political corporations or subdivisions of the State, and are eligible to secure deposits of public funds of the State or a municipality, county, school district, or other political corporation or subdivision of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "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 at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriter with 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 of Texas to the effect that the Bonds are a valid and legally binding general obligations of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel to the effect that the Bonds, issued in compliance with the provisions of the Ordinance, are valid and legally binding general obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. In its capacity as Bond Counsel, such firm has reviewed the information relating to the Bonds and the Ordinance contained in this Official Statement under the captions "THE BONDS" (except under the subcaption "Payment Record"), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "LEGAL MATTERS", and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings"), and such firm is of the opinion that the information contained under such captions is a fair and accurate summary of the information purported to be shown and is correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds, will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, Austin, Texas.

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

RATING

S&P Global Ratings ("S&P") has assigned a rating of "AA-" to the Bonds.

The rating of the Bonds by S&P reflects only the views of said company at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Financial Information

The City will provide this updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in Appendix A of this Official Statement in Tables 1 and 3 through 12, and in Appendix C. The City will update and provide the information in Appendix A within twelve months after the end of each fiscal year, commencing in 2020. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The City will provide audited financial statements within twelve months after the end of each fiscal year, commencing in 2020, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements of the type described above by the required time and will provide audited financial statements when and if such audited financial statements become available. Any financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the City may be required to employ from time to time pursuant to Texas law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must make available updated financial and operating data, and its financial statements by the end of September in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change. The City will provide the updated information to the MSRB in an electronic format, which will be available to the general public without charge via the MSRB's Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Notice of Occurrence of Certain Events

The City also will 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 (10) 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 or 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; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee or change of name of the trustee, if material; (15) incurrence of a "Financial Obligation" of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such 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 any such Financial Obligation of the City, any of which reflect financial difficulties. Neither the Bonds nor the Ordinance make any provision for liquidity enhancement, credit enhancement, a trustee, or require the funding of debt service reserves.

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under the 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, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Notice of Failure to Timely File

The City also will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the provisions described above.

Availability of Information

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

Limitations and Amendments

The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement. No default by the City with respect to its continuing disclosure agreement shall constitute a breach of or default under the Ordinance for purposes of any other provision of the Ordinance. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws. The City's undertakings and agreements are subject to appropriation of necessary funds and to applicable legal restrictions.

The City's continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as 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 authorizes such an amendment) of the outstanding Bonds 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. The City may also amend or repeal the provisions of the continuing disclosure agreement 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 the Bonds in the primary offering of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

In the past five years, the City has not had any prior continuing disclosure undertakings pursuant to the Rule.

AUTHENTICITY OF FINANCIAL INFORMATION

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at the initial offering prices to the public as shown on page ii, less an underwriting discount of \$61,516.94. The Underwriter’s obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing the Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

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

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as the Financial Advisor to the City in connection with the issuance of the Bonds. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

FORWARD LOOKING STATEMENTS

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

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

USE OF INFORMATION IN OFFICIAL STATEMENT

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

The Ordinance also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriter in accordance with the provisions of the Rule.

CITY OF GRANITE SHOALS, TEXAS

/s/ Carl J. Brugger

Mayor
City of Granite Shoals, Texas

ATTEST:

/s/ Elaine Simpson

City Secretary
City of Granite Shoals, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

	<u>Maturity Date</u>	<u>Current Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
Combination Tax and Limited Revenue Certificate of Obligation, Series 2010	08/01/2021	5.92%	\$ 45,000	08/07/2020	100.00%
	08/01/2022	5.92	45,000	08/07/2020	100.00%
	08/01/2023	5.92	50,000	08/07/2020	100.00%
	08/01/2024	5.92	50,000	08/07/2020	100.00%
	08/01/2025	5.92	55,000	08/07/2020	100.00%
	08/01/2026	5.92	50,000	08/07/2020	100.00%
	08/01/2027	5.92	60,000	08/07/2020	100.00%
	08/01/2028	5.92	<u>65,000</u>	08/07/2020	100.00%
			\$ 430,000		
General Obligation Bond, Series 2018	08/01/2021	2.34%	\$ 320,000	08/07/2020	100.00%
	08/01/2022	2.53	325,000	08/07/2020	100.00%
	08/01/2023	2.64	335,000	08/07/2020	100.00%
	08/01/2024	2.78	345,000	08/07/2020	100.00%
	08/01/2025	2.91	350,000	08/07/2020	100.00%
	08/01/2026	3.01	365,000	08/07/2020	100.00%
	08/01/2027	3.09	<u>375,000</u>	08/07/2020	100.00%
			\$2,415,000		

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APPENDIX A
FINANCIAL INFORMATION REGARDING
THE CITY OF GRANITE SHOALS, TEXAS

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**FINANCIAL INFORMATION REGARDING
THE CITY OF GRANITE SHOALS, TEXAS**

Table 1-Valuations, Exemptions and Tax Supported Debt

2019/20 Market Valuation Established by Burnet County Appraisal District	\$ <u>692,761,638</u>
Less: Exemptions/Reductions at 100% Market Value	
Veterans Exemption	\$ 5,650,576
10% Lost to Cap Adjustment	13,853,096
Homestead Exemption	5,660,819
Productivity Loss/Other	6,000,680
Frozen Value Loss	<u>52,164,732</u>
Total	\$ 83,329,903
 2019/20 Net Taxable Assessed Valuation	 <u>\$ 609,431,735</u>

City Funded Debt Payable from Ad Valorem Taxes (As of June 1, 2020):

Combination Tax and Limited Revenue Certificates of Obligation, Series 2008	\$ 2,750,000
Combination Tax and Limited Revenue Certificates of Obligation, Series 2010	40,000 ⁽¹⁾
General Obligation Refunding Bonds, Series 2014	4,617,000
General Obligation Refunding Bonds, Series 2018	310,000 ⁽¹⁾
Limited Tax Notes, Series 2019	280,000
The Bonds	<u>9,275,000</u>
Total General Obligation Debt Payable From Ad Valorem Taxes	<u>\$ 17,272,000</u>

⁽¹⁾ Net of the Refunded Obligations.

Interest and Sinking Fund Balance as of September 30, 2019	\$ 411,372
Ratio Total General Obligation Debt to Taxable Assessed Valuation	2.83%
Estimated Population	5,111
Per Capita Total General Obligation Funded Debt	\$ 3,379
Per Capita Taxable Assessed Valuation	\$ 119,239

Table 2 - Estimated Overlapping Debt Statement

<u>Taxing Body</u>	<u>Amount</u>	<u>As of</u>	<u>Percentage Overlapping</u>	<u>Amount Overlapping</u>
Burnet County	\$ 21,835,000	06/01/2020	8.94%	\$ 1,952,049
Marble Falls ISD	101,665,000	06/01/2020	13.58%	<u>13,806,107</u>
Total Overlapping Debt				\$ 15,758,156
 City of Granite Shoals	 \$ 17,272,000 ⁽¹⁾	 06/01/2020	 100.00%	 <u>\$ 17,272,000 ⁽¹⁾</u>
Total Direct and Overlapping Debt				<u>\$ 33,030,156</u>
Ratio Direct and Overlapping Debt to Net Taxable Assessed Valuation				5.42%
Ratio Direct and Overlapping Debt to Market Valuation				4.77%
Per Capita Direct and Overlapping Debt				\$6,463

⁽¹⁾ Net of the Refunded Obligations. Includes the Bonds.

Table 3 - Taxable Assessed Valuation by Category ⁽¹⁾

Category	Taxable Appraised Value for Fiscal Year Ended September 30:					
	2020		2019		2018	
	Value	% of Total	Value	% of Total	Value	% of Total
Real, Residential, Single Family	\$ 619,072,727	89.36%	\$ 554,955,243	90.29%	\$ 452,828,481	90.11%
Real Residential, Multi-Family	292,121	0.04%	293,681	0.05%	239,181	0.05%
Real, Vacant Lots/Tracts	38,512,590	5.56%	29,619,627	4.82%	26,421,307	5.26%
Real, Acreage (Land Only)	6,094,259	0.88%	6,087,735	0.99%	2,313,188	0.46%
Real, Farm and Ranch Improvements	1,080,662	0.16%	1,277,306	0.21%	1,302,340	0.26%
Real, Commercial and Industrial	13,071,332	1.89%	10,864,026	1.77%	9,605,189	1.91%
Real, Minerals and Oil	1,342	0.00%	1,342	0.00%	1,342	0.00%
Real, Tangible Personal, Utilities	1,983,855	0.29%	1,938,591	0.32%	2,028,801	0.40%
Tangible Personal, Commercial	5,593,159	0.81%	5,086,871	0.83%	4,275,236	0.85%
Tangible Personal, Industrial	516,381	0.07%	538,157	0.09%	631,971	0.13%
Mobile Homes	6,510,849	0.94%	3,945,154	0.64%	2,885,149	0.57%
Real Inventory	32,361	0.00%	27,539	0.00%	21,359	0.00%
Intangible	-	0.00%	-	0.00%	-	0.00%
Special Inventory	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 692,761,638	100.00%	\$ 614,635,272	100.00%	\$ 502,553,544	100.00%
Less: Total Exemptions/ Reductions	83,329,903		63,927,403		47,106,548	
Taxable Assessed Value	<u>\$ 609,431,735</u>		<u>\$ 550,707,869</u>		<u>\$ 455,446,996</u>	

⁽¹⁾ Obtained from property tax reports provided by the Burnet County Appraisal District and the State of Texas Comptroller of Public Accounts.

Table 4 - City Sales Tax History

Fiscal Year Ending 9/30	Sales Tax Collections	% of Ad Valorem Tax Levy	Equivalent Ad Valorem Tax Rate
2015	\$ 170,592	8.07%	\$ 0.04194
2016	251,524	11.29%	0.05879
2017	307,514	12.83%	0.07022
2018	321,268	12.53%	0.07054
2019	349,860	10.66%	0.06353
2020 ⁽¹⁾	124,087	3.40%	0.02036

⁽¹⁾ Unaudited, as of May 31, 2020.

Note: The City currently levies a total Local Sales and Use Tax of 2% within the City, comprised of (i) a 1% sales and use tax the proceeds of which are deposited to the City's general fund and (ii) a 1% sales and use tax the proceeds of which are dedicated to the maintenance and repair of City streets. The proceeds of such local sales and uses taxes are not pledged to the payment of the Bonds. Collections and enforcements are effected through the office of the Texas Comptroller of Public Accounts who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6¼%).

Table 5 - Valuation and Tax Supported Debt History

Fiscal Year Ended 9/30	Taxable Assessed Valuation	Percent Increase Over Prior Year	Tax Supported Debt at End of Year	Ratio of Debt to Assessed Valuation
2016	\$ 427,868,759	5.18%	\$ 9,438,000	2.21%
2017	437,955,135	2.36%	8,927,000	2.04%
2018	455,446,996	3.99%	11,393,000	2.50%
2019	550,707,869	20.92%	10,842,000	1.97%
2020	609,431,735	10.66%	19,183,000 ⁽¹⁾	3.15%

⁽¹⁾ Net of the Refunded Obligations. Includes the Bonds.

Table 6 - Tax Rate, Levy and Collection History

Fiscal Year Ending 9/30	General Fund	Interest and Sinking Fund	Total Tax Rate	Total Tax Levy	% Total Collections
2015	\$ 0.29870	\$ 0.22110	\$ 0.51980	\$ 2,114,480	101.77%
2016	0.29200	0.22870	0.52070	2,227,913	100.57%
2017	0.32850	0.21870	0.54720	2,396,491	101.68%
2018	0.34828	0.21485	0.56313	2,564,759	101.26%
2019	0.34828	0.24772	0.59600	3,282,219	100.51%
2020	0.35150	0.24772	0.59922	3,651,837	97.31% ⁽¹⁾

⁽¹⁾ Unaudited, as of May 31, 2020.

Table 7 - Other Obligations*Capital and Operating Leases*

	Ended	
	<u>9/30</u>	<u>Amount</u>
2020	\$	111,385
2021		78,517
2022		49,085
2023		48,118
2024		52,150
2025		<u>51,075</u>
	\$	390,330

Source: City's Certified Annual Financial Report for the Fiscal Year Ended September 30, 2019.

Table 8 - Ten Largest Taxpayers

<u>Name of Taxpayer</u>	2019/20	Percent
	<u>TAV</u>	<u>of Total</u>
KLB2 LP	\$ 2,601,421	0.43%
Hollowell, John & Paula	2,283,606	0.37%
Grand Marabella II LLC	2,117,782	0.35%
Cunningham Family Trust	2,071,965	0.34%
Burdick Holdings LLC	2,030,011	0.33%
J&R Kidd Interests Ltd	1,949,786	0.32%
Watkins Hope	1,806,747	0.30%
M&C Fonseca Construction Co.	1,653,805	0.27%
Annis, Phillip	1,623,724	0.27%
Russ, Donalds & Leslie	<u>1,572,568</u>	<u>0.26%</u>
	\$ 19,711,415	3.23%

Table 9 - Outstanding Limited Tax General Obligation Debt Service Requirements

Fiscal Year Ended	Current Outstanding Debt Service ⁽¹⁾	The Bonds			Less: Self-Supporting Debt Service	Total Current Outstanding Debt Service
		Principal	Interest	Total		
2020	\$ 1,314,389				\$ 110,251	\$ 1,204,138
2021	859,405	\$ 470,000	\$ 238,039	\$ 708,039	110,053	1,457,391
2022	859,553	490,000	220,569	710,569	109,085	1,461,036
2023	858,767	510,000	200,969	710,969	108,118	1,461,618
2024	863,048	520,000	190,769	710,769	112,150	1,461,667
2025	861,256	525,000	180,369	705,369	111,075	1,455,549
2026	808,497	545,000	169,869	714,869	60,000	1,463,366
2027	811,848	550,000	158,969	708,969	60,000	1,460,816
2028	393,975	370,000	136,969	506,969	60,000	840,944
2029	393,738	380,000	122,169	502,169	60,000	835,906
2030	394,175	395,000	106,969	501,969	60,000	836,144
2031	393,255	410,000	95,119	505,119	60,000	838,374
2032	394,010	420,000	82,819	502,819	60,000	836,829
2033	393,375	430,000	74,419	504,419	60,000	837,794
2034	393,383	440,000	65,819	505,819	60,000	839,201
2035	-	445,000	57,019	502,019	60,000	442,019
2036	-	455,000	48,119	503,119	60,000	443,119
2037	-	465,000	39,019	504,019	60,000	444,019
2038	-	475,000	29,719	504,719	60,000	444,719
2039	-	485,000	20,219	505,219	60,000	445,219
2040	-	495,000	10,519	505,519	60,000	445,519
TOTAL	\$ 9,992,671	\$ 9,275,000	\$ 2,248,445	\$ 11,523,445	\$ 1,560,731	\$ 19,955,385

⁽¹⁾ Net of the Refunded Obligations.

Authorized but Unissued General Obligation Bonds

After the issuance of the Bonds, the City will have no voter-authorized but unissued debt.

Table 10- Tax Adequacy for General Obligations

2019/20 Taxable Assessed Valuation	\$ 609,431,735
Maximum Net Debt Service for the Fiscal Year Ending September 30, 2021	\$ 1,463,366
Indicated Interest and Sinking Fund Tax Rate	\$ 0.24640
Indicated Interest and Sinking Fund Tax Levy	\$ 1,501,640
Estimated 96% Tax Collections	\$ 1,441,574
City's Interest and Sinking Fund Balance as of September 30, 2019	\$ 411,372

Table 11 - General Fund Revenues and Expenditures

**CITY OF GRANITE SHOALS, TEXAS
GENERAL FUND REVENUE AND EXPENDITURE HISTORY**

	Fiscal Years Ended September 30:				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:					
Property Taxes	\$ 1,926,964	\$ 1,601,779	\$ 1,455,862	\$ 1,255,494	\$ 1,218,234
Sales Tax	174,930	160,634	153,757	215,592	136,533
Franchise and Local Taxes	178,192	155,247	143,130	158,910	154,557
Intergovernmental	299,909	308,217	290,759	274,321	248,143
Charge for Services	171,183	359,984	374,134	370,647	322,019
License and Permits	177,825	117,274	101,406	80,595	64,078
Fines and Forfeitures	84,356	107,724	97,679	83,575	122,462
Sanitation Sales	-	-	-	-	594,419
Investment Income	55,958	18,301	7,076	4,885	3,357
Contributions and Donations	-	-	-	-	-
Other Revenue	72,393	48,866	81,023	65,279	67,928
Total Revenues	<u>\$ 3,141,710</u>	<u>\$ 2,878,026</u>	<u>\$ 2,704,826</u>	<u>\$ 2,509,298</u>	<u>\$ 2,931,730</u>
Expenditures:					
General Government	\$ 828,341	\$ 875,546	\$ 864,914	\$ 807,551	\$ 849,771
Public Safety	1,811,013	1,482,173	1,278,609	1,318,418	1,335,549
Streets and Parks	483,986	393,702	492,395	507,641	365,933
Animal Control	5,271	71,759	81,656	67,543	63,983
Code Compliance	-	136,620	136,408	136,198	123,598
Sanitation	-	-	-	-	494,625
Debt Service	16,205	-	9,767	19,578	19,578
Capital Outlay	134,110	11,308	28,074	153,563	140,637
Total Expenditures	<u>\$ 3,278,926</u>	<u>\$ 2,971,108</u>	<u>\$ 2,891,823</u>	<u>\$ 3,010,492</u>	<u>\$ 3,393,674</u>
Excess/(Deficiency) of Revenues Over Expenditures	\$ (137,216)	\$ (93,082)	\$ (186,997)	\$ (501,194)	\$ (461,944)
Other Financing Sources	290,040	534,355	442,971	561,000	711,215
Other Financing (Uses)	(41,360)	-	-	(46,098)	-
Beginning Fund Balance	1,252,190	810,917	554,943	541,231	291,960
Prior Period Adjustment	-	-	-	4	-
Ending Fund Balance - Sept. 30	<u>\$ 1,363,654</u>	<u>\$ 1,252,190</u>	<u>\$ 810,917</u>	<u>\$ 554,943</u>	<u>\$ 541,231</u>

Source: City's Certified Annual Financial Reports for the Fiscal Years Ended September 30, 2015 - 2019.

Table 12 - Current Investments (as of September 30, 2019)

<u>Investment Description</u>	<u>Total Invested</u>	<u>Percent</u>
External Investment Pools	\$ 2,649,844	97.24%
CDs	75,319	2.76%
Total	<u>\$ 2,725,163</u>	<u>100.00%</u>

Source: City's Certified Annual Financial Report for the Fiscal Year Ended September 30, 2019.

APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF GRANITE SHOALS AND
BURNET COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING THE CITY OF GRANITE SHOALS
AND BURNET COUNTY, TEXAS**

THE CITY

The City, incorporated in 1966 and operating as a home rule city, is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State. The City operates with a City Council comprised of the Mayor and six Councilmembers. The term of office is two years with the terms of the Mayor and three of the Councilmembers' terms expiring in even-numbered years and the terms of the other three Councilmembers expiring in odd-numbered years. The City is a residential community on Lake Lyndon B. Johnson located approximately 6 miles west of Marble Falls and 55 miles west of the City of Austin, the State's capitol. The area is popular for lake cottages. Residents commute to Marble Falls for employment. A granite quarry is located nearby.

BURNET COUNTY

Burnet County is a central Texas County traversed by U.S. Highways 183 and 281, State Highways 29 and 71 and six farm-to-market roads. Lake LBJ, Lake Buchanan, Lake Marble Falls, and a portion of Lake Travis make the county a popular water sports recreational area.

EDUCATION

The City is served by the Marble Falls Independent School District (the "District"). The District has two High Schools, one Middle School, and four Elementary Schools. The estimated 2019-20 enrollment is expected to be 4,354.

HISTORICAL EMPLOYMENT DATA, BURNET COUNTY

	<u>2020⁽¹⁾</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Labor Force	20,624	23,570	22,921	22,274	21,986
Employed	18,788	22,930	22,264	21,567	21,226
Unemployed	1,836	640	657	707	760
Percent of Labor Force Unemployed	8.9%	2.7%	2.9%	3.2%	3.5%

Source: Texas Workforce Commission.

⁽¹⁾As of April 2020.

COMPARATIVE UNEMPLOYMENT RATES

	<u>2020⁽¹⁾</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Burnet County	8.9%	2.7%	2.9%	3.2%	3.5%
State of Texas	13.0	3.5	3.8	4.3	4.6
United States of America	14.4	3.7	3.9	4.4	4.9

Source: Texas Workforce Commission.

⁽¹⁾ As of April 2020

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APPENDIX C

**EXCERPTS FROM THE
CITY OF GRANITE SHOALS, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2019**

The information contained in this APPENDIX consists of excerpts from the City of Granite Shoals, Texas Annual Financial Report for the Year Ended September 30, 2019, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information

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2019

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2019

**CITY OF
GRANITE SHOALS, TEXAS**

2221 N. Phillips Ranch Rd. | Granite Shoals, TX 78654
830.598.2424 | www.graniteshoals.org

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ANNUAL FINANCIAL REPORT

of the

City of Granite Shoals, Texas

**For the Year Ended
September 30, 2019**

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City of Granite Shoals, Texas

TABLE OF CONTENTS

September 30, 2019

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	7

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	18
Statement of Activities	20

Fund Financial Statements

Governmental Funds:

Balance Sheet	22
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental Funds	25
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29

Proprietary Funds:

Statement of Net Position	30
Statement of Revenues, Expenses, and Changes in Fund Net Position	33
Statement of Cash Flows	34

Notes to Financial Statements	37
--------------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund	73
Schedule of Changes in Net Pension Liability and Related Ratios	74
Schedule of Employer Contributions to Pension Plan	76
Schedule of Changes in OPEB Liability and Related Ratios	79

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

Combining Balance Sheet – Nonmajor Governmental Funds	82
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	84
Combining Statement of Net Position – Nonmajor Proprietary Funds	86
Combining Statement of Revenues, Expenditures, and Changes in Net Position - Nonmajor Proprietary Funds	87
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual – Debt Service Fund	89



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Granite Shoals, Texas:

Report on the Financial Statements

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 Granite Shoals, Texas (the "City"), as of and for the year ended September 30, 2019, 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

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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, 2019 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the general fund budgetary comparison information, the schedule of changes in net pension liabilities and related ratios, the schedule of employer contributions to pension plan, and schedule of changes in the other postemployment benefits liability and related ratios, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Granite Shoals, Texas's basic financial statements. The combining and individual nonmajor fund financial statements and debt service fund budget comparison are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, slightly stylized font.

Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
April 17, 2020

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*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Granite Shoals, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2019

As management of the City of Granite Shoals, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

Financial Highlights

- The City's total combined net position was \$9,497,820 at September 30, 2019. Of this, \$3,039,701 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$2,466,919, a decrease of \$1,390,191.
- As of the end of the year, the unassigned fund balance of the general fund was \$1,363,654 or 42% of total general fund expenditures.
- The City had an overall increase in net position of \$801,026.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

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

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

City of Granite Shoals, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2019

are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in a separate section of the report.

City of Granite Shoals, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2019

The City adopts an annual appropriated budget for its general and debt service funds. A budgetary comparison statement has been provided for each fund to demonstrate compliance with their respective budget.

Proprietary Funds

The City's proprietary funds are all enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water operations, utility equipment reserve and the meter reader project. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements 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, utility equipment reserve and the meter reader project funds, of which only the water fund is considered to be a major fund of the City.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The required RSI includes a budgetary comparison schedule for the general fund and debt service fund, schedule of changes in the net pension liability and related ratios and schedule of employer contributions for the Texas Municipal Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Granite Shoals, assets exceed liabilities by \$9,497,820 as of September 30, 2019, in the primary government.

The largest portion of the City's net position, \$5,766,800, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to

City of Granite Shoals, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2019

provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

The following table reflects the condensed Statement of Net Position:

	2019			2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 3,033,778	\$ 2,225,942	\$ 5,259,720	\$ 4,887,945	\$ 1,204,628	\$ 6,092,573
Capital assets, net	8,168,962	8,729,667	16,898,629	7,363,521	8,887,659	16,251,180
Total Assets	11,202,740	10,955,609	22,158,349	12,251,466	10,092,287	22,343,753
Deferred Outflows of Resources	129,367	30,345	159,712	71,382	16,743	88,125
Other liabilities	965,572	990,350	1,955,922	966,753	459,382	1,426,135
Long-term liabilities	6,024,550	4,751,511	10,776,061	6,882,469	5,358,759	12,241,228
Total Liabilities	6,990,122	5,741,861	12,731,983	7,849,222	5,818,141	13,667,363
Deferred Inflows of Resources	71,489	16,769	88,258	54,854	12,867	67,721
Net Position:						
Net investment						
in capital assets	2,060,755	3,706,045	5,766,800	2,446,842	3,562,872	6,009,714
Restricted	691,319	-	691,319	793,087	-	793,087
Unrestricted	1,518,422	1,521,279	3,039,701	1,178,843	715,150	1,893,993
Total Net Position	\$ 4,270,496	\$ 5,227,324	\$ 9,497,820	\$ 4,418,772	\$ 4,278,022	\$ 8,696,794

City of Granite Shoals, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2019

Statement of Activities:

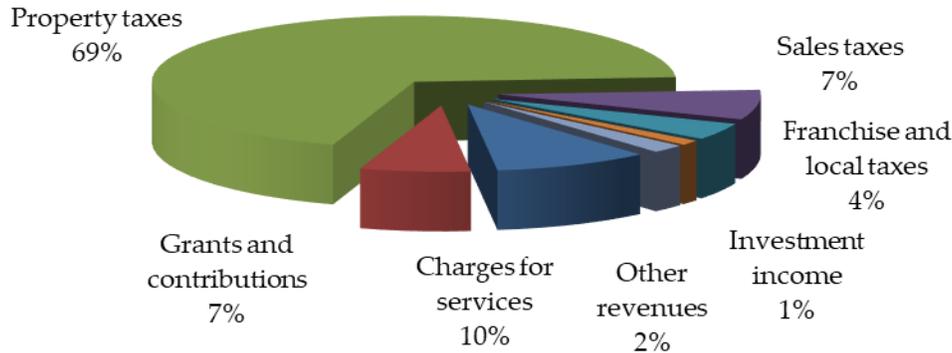
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2019			For the Year Ended September 30, 2018		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 460,102	\$ 2,674,942	\$ 3,135,044	\$ 619,713	\$ 2,406,167	\$ 3,025,880
Grants and contributions	326,358	25,813	352,171	313,201	231,525	544,726
General revenues:						
Property taxes	3,308,440	-	3,308,440	2,596,959	-	2,596,959
Sales taxes	349,860	-	349,860	321,268	-	321,268
Franchise and local taxes	199,264	-	199,264	174,882	-	174,882
Investment income	59,195	2,910	62,105	25,315	5,553	30,868
Other revenues	98,788	74,074	172,862	103,543	47,810	151,353
Total Revenues	4,802,007	2,777,739	7,579,746	4,154,881	2,691,055	6,845,936
Expenses						
General government	922,685	-	922,685	975,579	-	975,579
Public safety	1,966,404	-	1,966,404	1,765,646	-	1,765,646
Streets and parks	1,330,967	-	1,330,967	525,486	-	525,486
Animal control	6,302	-	6,302	69,409	-	69,409
Tourism	46,298	-	46,298	4,396	-	4,396
Interest and fiscal charges	252,544	169,489	422,033	278,487	178,989	457,476
Utility	-	2,084,031	2,084,031	-	2,168,241	2,168,241
Total Expenses	4,525,200	2,253,520	6,778,720	3,619,003	2,347,230	5,966,233
Change in Net Position						
Before Transfers	276,807	524,219	801,026	535,878	343,825	879,703
Transfers	(425,083)	425,083	-	26,364	(26,364)	-
Total	(425,083)	425,083	-	26,364	(26,364)	-
Change in Net Position	(148,276)	949,302	801,026	562,242	317,461	879,703
Beginning Net Position	4,418,772	4,278,022	8,696,794	3,856,530	3,960,561	7,817,091
Ending Net Position	\$ 4,270,496	\$ 5,227,324	\$ 9,497,820	\$ 4,418,772	\$ 4,278,022	\$ 8,696,794

City of Granite Shoals, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2019

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

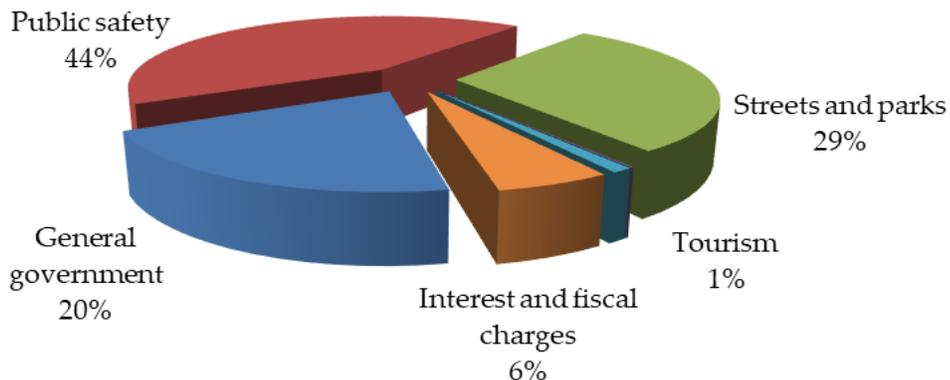
Governmental Activities - Revenues



For the year ended September 30, 2019, revenues from governmental activities totaled \$4,802,007. Property tax and charges for services are the City's largest revenue sources. Property tax increased by \$711,481 or 27% when compared to 2018 due to an increase in overall assessed property values and an increase in the property tax rate. Sales taxes and franchise and local taxes increased by \$28,592 or 9% and \$24,382 or 14%, respectively, due to efforts to promote local businesses and economic growth. Investment income increased by \$33,880 due to increased interest-bearing accounts. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



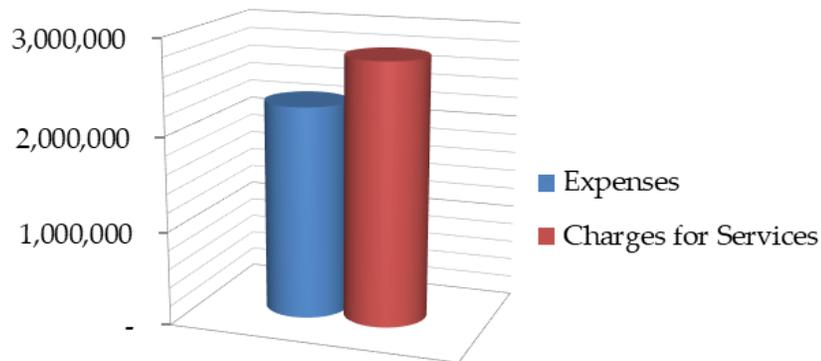
For the year ended September 30, 2019, expenses for governmental activities totaled \$4,525,200. This represents an increase of \$906,197 from the prior year. The City's largest functional expense is public safety of \$1,966,404, which increased by \$200,758 or 11% from the prior year. The increase was primarily related to personnel costs. Streets and parks expenses increased by \$805,481. This increase is

City of Granite Shoals, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2019

primarily due to the City's street repairs and maintenance initiative and nonrecurring park improvements in the previous year. Animal control decreased by \$63,107 or 91%, due to a decrease in personnel costs. Tourism expenses increased by \$41,902 due to the cost of new efforts hosting local events in order to draw in visitors to the city. Interest and fiscal charges decreased by \$25,943 or 9% due to the payoff of note payable balances, in addition to nonrecurring debt issuance costs in the previous year. All other expenses remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2019, charges for services by business-type activities totaled \$2,674,942, an increase of \$268,775 or 11% from the previous year. This change is primarily a result of increased utility rates.

Total operating expenses decreased by \$84,210 or 4% during the year, which is considered consistent with the prior year. All other business-type expenses were relatively consistent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of 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 the City's net resources available for spending at the end of the year.

City of Granite Shoals, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2019

As of the end of the year the general fund reflected a total fund balance of \$1,363,654, which is entirely unassigned. The general fund increased by \$111,464 primarily as a result of transfers in from other funds.

The debt service fund had an ending fund balance of \$411,372 at year end, an increase of \$14,673 from the prior year. Total principal and interest payments made during the year were \$696,287 and \$269,222, respectively.

The capital projects fund had an ending fund balance of \$414,320, a decrease of \$1,397,513 from the prior year. The change was due to the utilization of bond funds issued in the prior year. The remaining funds will be used on ongoing capital projects.

There was an overall decrease in governmental fund balance of \$1,390,191 from the prior year. The decrease was primarily attributable to the utilization of bond funds issued in the previous year for ongoing capital projects tracked within the capital projects fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive revenue variance of \$78,575 offset by a negative expenditure variance of \$239,479 for the year. Other financing sources (uses) had an overall positive budget variance of \$163,304. There was a total positive net budget variance of \$2,400. General fund expenditures and transfers out exceeded appropriations in the current year by \$239,479 and \$41,360, respectively.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$8,168,962 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$8,729,667 in a variety of capital assets and infrastructure, net of accumulated depreciation.

City of Granite Shoals, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2019

Major capital asset events during the current year include the following:

- Street investments totaling \$723,755 for Phillips Ranch Road, Prairie Creek Road and Valley View Lane.
- Street improvements of \$225,622.
- Street equipment totaling \$121,933.
- Water system equipment totaling \$202,479.

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds and notes outstanding of \$11,335,701. The City issued notes payable of \$280,000 in the current year. During the year, the City made payments on the long-term debt of \$997,596. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Granite Shoals and improving services provided to their public citizens. The City is budgeting to maintain services in the upcoming year. The City does not anticipate significant changes from fiscal year ending September 30, 2019. Due to the impact of COVID19, the City expects a minor decrease in sales tax in fiscal year 2020.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Granite Shoals' finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Finance Director, 2221 N. Phillips Ranch Road, Granite Shoals, Texas 78654.

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FINANCIAL STATEMENTS

City of Granite Shoals, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 2,751,172	\$ 1,463,185	\$ 4,214,357
Investments	75,319	-	75,319
Restricted cash - deposits	-	353,277	353,277
Receivables, net	207,287	408,047	615,334
Prepaid items	-	1,433	1,433
Total Current Assets	3,033,778	2,225,942	5,259,720
Capital assets:			
Non-depreciable	3,946,178	19,802	3,965,980
Net depreciable capital assets	4,222,784	8,709,865	12,932,649
Total Noncurrent Assets	8,168,962	8,729,667	16,898,629
Total Assets	11,202,740	10,955,609	22,158,349
<u>Deferred Outflows of Resources</u>			
Pension contributions	53,252	12,491	65,743
Pension changes in assumption	9,266	2,173	11,439
Pension investment returns	66,318	15,556	81,874
OPEB contributions	531	125	656
Total Deferred Outflows of Resources	129,367	30,345	159,712

City of Granite Shoals, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2019

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	425,477	293,050	718,527
Customer deposits	-	353,277	353,277
Accrued interest payable	35,059	25,009	60,068
Long-term debt - current	439,374	307,157	746,531
Compensated absences - current	65,662	11,857	77,519
Total Current Liabilities	965,572	990,350	1,955,922
Noncurrent liabilities:			
Long-term debt - noncurrent	5,872,849	4,716,321	10,589,170
Compensated absences - noncurrent	7,296	1,317	8,613
Net pension liability	98,068	23,004	121,072
OPEB liability	46,337	10,869	57,206
Total Noncurrent Liabilities	6,024,550	4,751,511	10,776,061
Total Liabilities	6,990,122	5,741,861	12,731,983
<u>Deferred Inflows of Resources</u>			
Pension difference in experience	67,525	15,839	83,364
OPEB difference in experience	3,675	862	4,537
OPEB change in assumption	289	68	357
Total Deferred Inflows of Resources	71,489	16,769	88,258
<u>Net Position</u>			
Net investment in capital assets	2,060,755	3,706,045	5,766,800
Restricted for:			
Streets and parks	176,592	-	176,592
Tourism	78,914	-	78,914
Municipal court	24,441	-	24,441
Debt service	411,372	-	411,372
Unrestricted	1,518,422	1,521,279	3,039,701
Total Net Position	\$ 4,270,496	\$ 5,227,324	\$ 9,497,820

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 922,685	\$ 191,644	\$ 326,358
Public safety	1,966,404	90,633	-
Streets and parks	1,330,967	177,825	-
Animal control	6,302	-	-
Tourism	46,298	-	-
Interest and fiscal charges	252,544	-	-
Total Governmental Activities	4,525,200	460,102	326,358
Business-Type Activities			
Water	1,662,489	2,020,179	-
Solid Waste	591,031	657,981	-
Nonmajor proprietary funds	-	96,669	-
Total Business-Type Activities	2,253,520	2,774,829	-
Total Primary Government	\$ 6,778,720	\$ 3,234,931	\$ 326,358

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local taxes
- Investment income
- Other revenues
- Gain (loss) on sale of capital assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (404,683)	\$ -	\$ (404,683)
(1,875,771)	-	(1,875,771)
(1,153,142)	-	(1,153,142)
(6,302)	-	(6,302)
(46,298)	-	(46,298)
(252,544)	-	(252,544)
<u>(3,738,740)</u>	<u>-</u>	<u>(3,738,740)</u>
-	357,690	357,690
-	66,950	66,950
-	96,669	96,669
<u>-</u>	<u>521,309</u>	<u>521,309</u>
<u>(3,738,740)</u>	<u>521,309</u>	<u>(3,217,431)</u>
3,308,440	-	3,308,440
349,860	-	349,860
199,264	-	199,264
59,195	2,910	62,105
98,748	-	98,748
40	-	40
(425,083)	425,083	-
<u>3,590,464</u>	<u>427,993</u>	<u>4,018,457</u>
(148,276)	949,302	801,026
4,418,772	4,278,022	8,696,794
<u>\$ 4,270,496</u>	<u>\$ 5,227,324</u>	<u>\$ 9,497,820</u>

City of Granite Shoals, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2019

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 1,437,827	\$ 429,637	\$ 411,373	\$ 472,335
Investments	75,319	-	-	-
Receivables, net	108,939	-	64,572	33,776
Due from other funds	16,058	-	-	-
Total Assets	\$ 1,638,143	\$ 429,637	\$ 475,945	\$ 506,111
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 197,680	\$ 15,317	\$ -	\$ 212,480
Due to other funds	-	-	-	16,058
Total Liabilities	197,680	15,317	-	228,538
<u>Deferred Inflows of Resources</u>				
Unavailable revenue:				
Property tax	76,809	-	64,573	-
Total Deferred Inflows of Resources	76,809	-	64,573	-
<u>Fund Balances</u>				
Restricted for:				
Streets and parks	-	-	-	176,592
Tourism	-	-	-	78,914
Capital projects	-	414,320	-	-
Municipal court	-	-	-	24,441
Debt service	-	-	411,372	-
Unassigned	1,363,654	-	-	(2,374)
Total Fund Balances	1,363,654	414,320	411,372	277,573
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,638,143	\$ 612,000	\$ 475,945	\$ 506,111

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 2,751,172
75,319
207,287
16,058

\$ 3,049,836

\$ 425,477
16,058

441,535

141,382

141,382

176,592
78,914
414,320
24,441
411,372
1,361,280

2,466,919

\$ 3,049,836

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City of Granite Shoals, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2019

Fund Balances - Total Governmental Funds \$ 2,466,919

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	3,946,178
Capital assets - net depreciable	4,222,784

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Property tax receivable	141,382
-------------------------	---------

Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/expenditures) until then.

Pension contributions	53,252
Pension difference in experience	(67,525)
Pension changes in assumption	9,266
Pension investment returns	66,318
OPEB contributions	531
OPEB difference in experience	(3,675)
OPEB change in assumption	(289)

Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.

Accrued interest	(35,059)
Compensated absences	(72,958)
Long-term debt	(6,312,223)
Net pension liability	(98,068)
OPEB liability	(46,337)

Net Position of Governmental Activities \$ 4,270,496

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2019

	General	Capital Projects	Debt Service	Nonmajor Governmental Funds
Revenues				
Property tax	\$ 1,926,964	\$ -	\$ 1,372,117	\$ -
Sales tax	174,930	-	-	174,930
Franchise and local taxes	178,192	-	-	21,072
Intergovernmental	299,909	-	-	7,180
Charges for services	171,183	-	-	20,461
License and permits	177,825	-	-	-
Fines and forfeitures	84,356	-	-	6,277
Investment income	55,958	1,076	1,788	373
Contributions and donations	-	-	-	19,269
Other revenue	72,393	-	-	26,355
Total Revenues	3,141,710	1,076	1,373,905	275,917
Expenditures				
Current:				
General government	828,341	-	-	-
Public safety	1,811,013	-	-	12,544
Streets and parks	483,986	-	-	301,434
Animal control	5,271	-	-	-
Tourism	-	-	-	80,754
Debt Service:				
Principal	-	-	696,287	-
Interest and fiscal charges	-	-	269,222	-
Debt issuance costs	16,205	-	-	-
Capital outlay	134,110	1,398,589	-	-
Total Expenditures	3,278,926	1,398,589	965,509	394,732
Excess (Deficiency) of Revenues Over (Under) Expenditures	(137,216)	(1,397,513)	408,396	(118,815)
Other Financing Sources (Uses)				
Transfers in	10,000	-	-	-
Transfers (out)	(41,360)	-	(393,723)	-
Proceeds from debt issuance	280,000	-	-	-
Gain (loss) on sale of capital assets	40	-	-	-
Total	248,680	-	(393,723)	-
Net Change in Fund Balances	111,464	(1,397,513)	14,673	(118,815)
Beginning fund balances	1,252,190	1,811,833	396,699	396,388
Ending Fund Balances	\$ 1,363,654	\$ 414,320	\$ 411,372	\$ 277,573

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 3,299,081
349,860
199,264
307,089
191,644
177,825
90,633
59,195
19,269
98,748

4,792,608

828,341
1,823,557
785,420
5,271
80,754

696,287
269,222
16,205
1,532,699

6,037,756

(1,245,148)

10,000
(435,083)
280,000
40

(145,043)

(1,390,191)

3,857,110

\$ 2,466,919

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City of Granite Shoals, Texas
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

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

Net changes in fund balances - total governmental funds	\$ (1,390,191)
---	----------------

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.

Capital outlay	1,105,766
Depreciation expense	(300,325)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	9,359
--	-------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(7,661)
Accrued interest	32,883
Pension expense	(9,704)
OPEB expense	(4,690)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt	(280,000)
Principal payments	696,287

Change in Net Position of Governmental Activities	\$ (148,276)
--	---------------------

See Notes to Financial Statements.

City of Granite Shoals, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
PROPRIETARY FUNDS
September 30, 2019

	<u>Water</u>	<u>Solid Waste</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total</u>
<u>Assets</u>				
<u>Current Assets</u>				
Cash and cash equivalents	\$ 1,088,381	\$ 127,774	\$ 247,030	\$ 1,463,185
Restricted cash - deposits	353,277	-	-	353,277
Receivables, net	301,408	106,639	-	408,047
Prepaid items	1,433	-	-	1,433
Total Current Assets	1,744,499	234,413	247,030	2,225,942
<u>Noncurrent Assets</u>				
Capital assets:				
Non-depreciable	19,802	-	-	19,802
Net depreciable capital assets	8,709,865	-	-	8,709,865
Total Noncurrent Assets	8,729,667	-	-	8,729,667
Total Assets	10,474,166	234,413	247,030	10,955,609
<u>Deferred Outflows of Resources</u>				
Pension contributions	12,491	-	-	12,491
Pension changes in assumption	2,173	-	-	2,173
Pension investment returns	15,556	-	-	15,556
OPEB contributions	125	-	-	125
Total Deferred Outflows of Resources	30,345	-	-	30,345

City of Granite Shoals, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
PROPRIETARY FUNDS
September 30, 2019

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accounts payable and accrued liabilities	200,858	92,192	-	293,050
Customer deposits	353,277	-	-	353,277
Accrued interest payable	25,009	-	-	25,009
Long-term debt - current	307,157	-	-	307,157
Compensated absences - current	11,857	-	-	11,857
Total Current Liabilities	898,158	92,192	-	990,350
<u>Noncurrent Liabilities</u>				
Long-term debt - noncurrent	4,716,321	-	-	4,716,321
Compensated absences - noncurrent	1,317	-	-	1,317
OPEB liability	10,869	-	-	10,869
Net pension liability	23,004	-	-	23,004
Total Liabilities	5,649,669	92,192	-	5,741,861
<u>Deferred Inflows of Resources</u>				
Pension difference in experience	15,839	-	-	15,839
OPEB difference in experience	862	-	-	862
OPEB changes in assumption	68	-	-	68
Total Deferred Inflows of	16,769	-	-	16,769
<u>Net Position</u>				
Net investment in capital assets	3,706,045	-	-	3,706,045
Unrestricted	1,132,028	142,221	247,030	1,521,279
Total Net Position	\$ 4,838,073	\$ 142,221	\$ 247,030	\$ 5,227,324

See Notes to Financial Statements.

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City of Granite Shoals, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2019

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<u>Operating Revenues</u>				
Charges for services	\$ 1,920,292	\$ 657,981	\$ 96,669	\$ 2,674,942
Grant revenue	25,813	-	-	25,813
Other revenue	74,074	-	-	74,074
Total Operating Revenues	2,020,179	657,981	96,669	2,774,829
<u>Operating Expenses</u>				
Salaries and wages	337,363	14,332	-	351,695
Employee benefits	103,631	3,967	-	107,598
Professional services	56,178	550,803	-	606,981
Other operating expenses	467,695	21,929	-	489,624
Supplies	83,748	-	-	83,748
Water purchase	64,950	-	-	64,950
Depreciation	379,435	-	-	379,435
Total Operating Expenses	1,493,000	591,031	-	2,084,031
Operating Income (Loss)	527,179	66,950	96,669	690,798
<u>Nonoperating Revenues (Expenses)</u>				
Investment earnings	2,874	-	36	2,910
Interest expense	(169,489)	-	-	(169,489)
Total Nonoperating Revenues (Expenses)	(166,615)	-	36	(166,579)
Income (Loss) Before Transfers	360,564	66,950	96,705	524,219
Transfers in	435,083	-	-	435,083
Transfers (out)	-	(10,000)	-	(10,000)
Change in Net Position	795,647	56,950	96,705	949,302
Beginning net position	4,042,426	85,271	150,325	4,278,022
Ending Net Position	\$ 4,838,073	\$ 142,221	\$ 247,030	\$ 5,227,324

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2019

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 1,965,616	\$ 658,005	\$ 96,669	\$ 2,720,290
Payments to suppliers	(618,553)	(542,197)	-	(1,160,750)
Payments to employees	(333,988)	(14,332)	-	(348,320)
Net Cash Provided by Operating Activities	1,013,075	101,476	96,669	1,211,220
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfer in	435,083	-	-	435,083
Transfer (out)	-	(10,000)	-	(10,000)
Net Cash Provided (Used) by Noncapital Financing Activities	435,083	(10,000)	-	425,083
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	(221,442)	-	-	(221,442)
Principal paid on debt	(301,309)	-	-	(301,309)
Interest paid on debt	(170,767)	-	-	(170,767)
Net Cash (Used) by Capital and Related Financing Activities	(693,518)	-	-	(693,518)
<u>Cash Flows from Investing Activities</u>				
Interest on investments	2,874	-	36	2,910
Net Cash Provided by Investing Activities	2,874	-	36	2,910
Increase (Decrease) in Cash and Cash Equivalents	757,514	91,476	96,705	945,695
Beginning cash and cash equivalents	684,144	36,298	150,325	870,767
Ending Cash and Cash Equivalents	\$ 1,441,658	\$ 127,774	\$ 247,030	\$ 1,816,462

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2019

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<u>Reconciliation of Operating</u>				
<u>Income (Loss) to Net Cash Provided by</u>				
<u>Operating Activities</u>				
Operating Income (Loss)	\$ 527,179	\$ 66,950	\$ 96,669	\$ 690,798
Adjustments to reconcile operating income (loss) to net cash provided:				
Depreciation	379,435	-	-	379,435
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(74,410)	24	-	(74,386)
Prepaid expenses	(1,233)	-	-	(1,233)
Deferred Outflows of Resources:				
Pension contributions	(264)	-	-	(264)
Pension changes in assumption	1,499	-	-	1,499
Pension investment returns	(23,759)	-	-	(23,759)
OPEB contributions	(28)	-	-	(28)
Deferred Inflows of Resources:				
Pension difference in experience	11,175	-	-	11,175
OPEB difference in experience	862	-	-	862
OPEB changes in assumption	815	-	-	815
Increase (Decrease) in:				
Accounts payable and accrued liabilities	158,882	34,502	-	193,384
Customer deposits	19,847	-	-	19,847
OPEB liability	(550)	-	-	(550)
Net pension liability	13,625	-	-	13,625
Net Cash Provided by Operating				
Activities	\$ 1,013,075	\$ 101,476	\$ 96,669	\$ 1,211,220

See Notes to Financial Statements.

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City of Granite Shoals, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide 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 nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The City of Granite Shoals, Texas, was incorporated on May 9, 1966. The City operates under a "Council-Manager" government. Pursuant to its provisions and subject only to its limitations imposed by the State Constitution and by the City's charter, all powers of the City shall be vested in an elective Council composed of six Council Members and a Mayor, collectively known as the City Council. The City Council enacts local legislation, adopts budgets, determines policies, and appoints the City Manager, who in turn is responsible to the City Council for the execution of laws and the administration of the government of the City. The Mayor is the presiding officer of the City Council. The City provides the following services: public safety, highways, streets, sanitation and water, recreation, public improvements, planning and zoning, general administrative, and other services as authorized by its code of ordinances and its citizens.

The City is an independent political subdivision of the State of Texas governed by an elected council and is considered a primary government for financial reporting purposes as its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

C. Basis of Presentation – Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government's funds, including its blended component units. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund

The general fund is the main operating fund of the City and is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, health and welfare and sanitation.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation debt and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

Capital Projects Fund

The capital projects fund is used to account for the expenditures of resources accumulated from general obligation bonds, tax notes, related interest earnings, and other sources for capital improvement projects.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The government reports the following major enterprise fund:

Water Fund

The water fund is used to account for the City's water utility operations. Activities of the fund include administration, operations and maintenance of the water 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. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Solid Waste Fund

The solid waste fund is used to account for the City's sanitation service operations. Activities of the fund include administration, professional collection and disposal of garbage, and billing and collection activities. All costs are financed through charges to solid waste customers with rates reviewed regularly and adjusted if necessary to ensure fund integrity.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

Additionally, the government reports the following fund types:

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund. These funds consist of the economic development fund and police forfeitures fund.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on the financial statements and relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. Proprietary fund equity consists of net position. Proprietary fund-type

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

All governmental funds and component units are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

F. Assets, Liabilities, Deferred Inflows/Outflows, and Net Position/Fund Balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for “money market investments” and “2a7-like pools.” Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools’ share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value Measurement

The City has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as “due to/from component unit/primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles	5 years
Machinery and equipment	5 to 7 years
Water system	20 to 40 years
Buildings and improvements	30 years
Infrastructure	20 to 40 years

7. Deferred Outflows/Inflows of Resources

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

An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and fines and forfeitures. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumption used within the pension actuarial valuation model.

8. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance.

Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

11. Compensated Absences

The City maintains formal programs for vacation and sick leave. Eligible employees are granted vacation pay benefits in varying amounts to specified maximums depending on tenure with the City. The City's personnel policy permits its eligible employees to accumulate earned but unused vacation pay benefits.

Upon separation from the City, employees will be paid for their accrued and unused vacation pay benefits earned in the year.

Sick leave accrues to eligible employees to specified maximums, including the maximum number of hours that can be carried over from the previous year. Unused sick leave will be canceled upon termination of employment, and the employee will not be compensated for it.

The estimated amount of accrued vacation benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it upon maturity. Amounts of accrued vacation pay benefits that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

12. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, capital leases, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

13. Pensions

For purposes of measuring the net pension liability (asset), 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.

14. Other Postemployment Benefits ("OPEB")

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 water fund are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds. Reconciling items have been presented on the balance sheet of governmental funds in the basic financial statements

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

is first issued, whereas these amounts are deferred and amortized in the statement of activities.”
A reconciliation has been presented in the basic financial statements.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, water, and special revenue funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the fund level. No funds can be transferred or added to a budgeted fund without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

As of September 30, 2019, the general fund’s total expenditures and transfers out exceeded appropriations at the legal level of control in the amount of \$239,479 and \$41,360, respectively. The debt service fund’s total expenditures exceeded appropriations at the legal level of control in the amount of \$7,047.

A. Deficit Fund Equity

The court technology fund had a deficit fund balance of \$2,374, as of September 30, 2019. This deficit will be replenished in the subsequent periods.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2019, the primary government had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity (Years)</u>
External investment pools	\$ 2,649,844	0.09
Certificates of deposit	75,319	1.18
Total fair value	<u>\$ 2,725,163</u>	
Portfolio weighted average maturity		0.40

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or 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 investment policy requires funds on bank deposit at the depository bank to be collateralized by securities with a collective market value (market value of the principal and accrued interest) of at least 102%. As of September 30, 2019, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. At September 30, 2019, the fair value of the position in TexPool approximates fair value of the shares. There are no limitation or restrictions on withdraws.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

B. Receivables

The following comprise receivable balances of the primary government at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
Property taxes	\$ 76,809	\$ 64,572	\$ -	\$ -	\$ -	\$ 141,381
Sales tax	32,130	-	-	-	32,130	64,260
Accounts	-	-	313,187	106,639	1,646	421,472
Allowance	-	-	(11,779)	-	-	(11,779)
	<u>\$ 108,939</u>	<u>\$ 64,572</u>	<u>\$ 301,408</u>	<u>\$ 106,639</u>	<u>\$ 33,776</u>	<u>\$ 615,334</u>

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,725,805	\$ -	\$ -	\$ 1,725,805
Construction in progress	1,101,868	723,755	-	1,825,623
Mineral rights	394,750	-	-	394,750
Total capital assets not being depreciated	<u>3,222,423</u>	<u>723,755</u>	<u>-</u>	<u>3,946,178</u>
Capital assets, being depreciated:				
Buildings and improvements	4,059,300	-	-	4,059,300
Improvements & infrastructure	1,281,975	225,622	-	1,507,597
Machinery & equipment	2,106,474	156,389	(63,169)	2,199,694
Total capital assets being depreciated	<u>7,447,749</u>	<u>382,011</u>	<u>(63,169)</u>	<u>7,766,591</u>
Less accumulated depreciation				
Buildings and improvements	1,105,166	103,744	-	1,208,910
Improvements & infrastructure	458,986	59,981	-	518,967
Machinery & equipment	1,742,499	136,600	(63,169)	1,815,930
Total accumulated depreciation	<u>3,306,651</u>	<u>300,325</u>	<u>(63,169)</u>	<u>3,543,807</u>
Net capital assets being depreciated	<u>4,141,098</u>	<u>81,686</u>	<u>-</u>	<u>4,222,784</u>
Total Net Capital Assets	<u><u>\$ 7,363,521</u></u>	<u><u>\$ 805,441</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,168,962</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 91,897
Public safety	131,554
Streets and parks	76,657
Animal control	217
Total Governmental Activities Depreciation Expense	<u><u>\$ 300,325</u></u>

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 19,802	\$ -	\$ -	\$ 19,802
Total capital assets not being depreciated	<u>19,802</u>	<u>-</u>	<u>-</u>	<u>19,802</u>
Capital assets, being depreciated:				
Buildings	19,589	-	-	19,589
Improvements and infrastructure	11,844,563	18,965	-	11,863,528
Machinery and equipment	836,864	202,477	-	1,039,341
Total capital assets being depreciated	<u>12,701,016</u>	<u>221,442</u>	<u>-</u>	<u>12,922,458</u>
Less accumulated depreciation				
Buildings	6,166	2,595	-	8,761
Improvements and infrastructure	3,659,594	321,117	-	3,980,711
Machinery and equipment	167,398	55,723	-	223,121
Total accumulated depreciation	<u>3,833,158</u>	<u>379,435</u>	<u>-</u>	<u>4,212,593</u>
Net capital assets being depreciated	<u>8,867,858</u>	<u>(157,993)</u>	<u>-</u>	<u>8,709,865</u>
Total Net Capital Assets	<u><u>\$ 8,887,660</u></u>	<u><u>\$ (157,993)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,729,667</u></u>

Depreciation was charged to business-type functions as follows:

Water fund	\$ 379,435
Total Business-type Activities Depreciation Expense	<u><u>\$ 379,435</u></u>

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

D. Long-term Debt

The following is a summary of changes in the City's total long-term liabilities for the year ended. In general, the City uses the debt service fund to liquidate certain governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
Certificates of Obligation	\$ 3,540,000	\$ -	\$ (320,000)	\$ 3,220,000	\$ 335,000
General Obligation Refunding Bonds	3,000,000	-	(275,000)	2,725,000	310,000
Total Bonds Payable	<u>6,540,000</u>	<u>-</u>	<u>(595,000)</u>	<u>5,945,000</u>	<u>335,000</u>
Other liabilities:					
Notes payable	188,510	280,000	(101,287)	367,223	104,374
Total Governmental Activities	<u>\$ 6,728,510</u>	<u>\$ 280,000</u>	<u>\$ (696,287)</u>	<u>\$ 6,312,223</u>	<u>\$ 439,374</u>
Long-term liabilities due in more than one year				<u>\$ 5,872,849</u>	
Business-Type Activities:					
General Obligation Refunding Bonds	\$ 4,853,000	\$ -	\$ (236,000)	\$ 4,617,000	\$ 244,000
Total Bonds Payable	<u>4,853,000</u>	<u>-</u>	<u>(236,000)</u>	<u>4,617,000</u>	<u>244,000</u>
Other liabilities:					
Notes payable	471,787	-	(65,309)	406,478	63,157
Total Business-Type Activities	<u>\$ 5,324,787</u>	<u>\$ -</u>	<u>\$ (301,309)</u>	<u>\$ 5,023,478</u>	<u>\$ 307,157</u>
Long-term liabilities due in more than one year				<u>\$ 4,716,321</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

On March 21, 2018, the City issued General Obligation Bond, Series 2018, in the amount of \$3,000,000 at an interest rate varying from 2.06% to 3.09%, with a maturity date of August 1, 2029.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

Long-term debt at year end was comprised of the following debt issues:

	Governmental Activities	Business - Type Activities	Total
General Obligation Refunding Bonds:			
\$5,725,000 General Obligation Refunding Bonds, Series 2014, due in installments through 2034, interest at 3.25%	\$ -	\$ 4,617,000	\$ 4,617,000
\$3,000,000 Certificates of Obligation, Series 2018, due in annual installments through 2027, interest at 2.80%	2,725,000	-	2,725,000
Total General Obligation Refunding Bonds	\$ 2,725,000	\$ 4,617,000	\$ 7,342,000
Certificates of Obligation:			
\$5,000,000 Certificates of Obligation, Series 2008, due in annual installments through 2027, interest at 4.49%	\$ 2,750,000	\$ -	\$ 2,750,000
\$750,000 Certificates of Obligation, Series 2010, due in annual installments through 2028, interest at 5.92%	470,000	-	470,000
Total Certificates of Obligation	\$ 3,220,000	\$ -	\$ 3,220,000
Notes Payable			
\$109,826 Note Payable, BB&T Governmental Finance, due in installments through 2021, interest at 2.21%	\$ 55,095	\$ -	\$ 55,095
\$629,690 Note Payable, Spirit of Texas Bank, due in installments through 2025, interest at 2.81%	-	406,478	406,478
\$125,341 Note Payable, BB&T Governmental Finance, due in installments through 2020, interest at 1.69%	32,128	-	32,128
\$280,000 Note Payable, BB&T Governmental Finance, due in installments through 2025, interest at 2.15%	280,000	-	280,000
Total Notes Payable	\$ 367,223	\$ 406,478	\$ 773,701
Total Debt	\$ 6,312,223	\$ 5,023,478	\$ 11,335,701

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

The annual requirements to amortize total government-wide debt issues outstanding at year ending were as follows:

Year ending September 30,	General Obligation Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2020	\$ 310,000	\$ 73,787	\$ 335,000	\$ 143,450
2021	320,000	66,905	350,000	136,030
2022	325,000	59,417	365,000	119,635
2023	335,000	51,194	385,000	102,567
2024	345,000	42,350	400,000	84,526
2025	350,000	32,759	420,000	65,811
2026	365,000	22,574	440,000	46,122
2027	375,000	11,588	460,000	25,460
2028	-	-	65,000	3,900
Total	\$ 2,725,000	\$ 360,572	\$ 3,220,000	\$ 727,500

Governmental Activities		
Year ending September 30,	Notes Payable	
	Principal	Interest
2020	\$ 104,374	\$ 7,011
2021	72,849	5,668
2022	45,000	4,085
2023	45,000	3,118
2024	50,000	2,150
2025	50,000	1,075
Total	\$ 367,223	\$ 23,107

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	General Obligation			
	Refunding Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2020	\$ 244,000	\$ 150,053	\$ 63,157	\$ 11,442
2021	252,000	142,123	64,935	9,665
2022	260,000	133,933	66,762	7,838
2023	268,000	125,483	68,641	5,959
2024	277,000	116,773	70,572	4,028
2025	286,000	107,770	72,411	2,042
2026	295,000	98,475	-	-
2027	305,000	88,888	-	-
2028	315,000	78,975	-	-
2029	325,000	68,738	-	-
2030	336,000	58,175	-	-
2031	346,000	47,255	-	-
2032	358,000	36,010	-	-
2033	369,000	24,375	-	-
2034	381,000	12,383	-	-
Total	\$ 4,617,000	\$ 1,289,405	\$ 406,478	\$ 40,974

E. Compensated Absences

The following summarizes the changes in the compensated absences balances of the primary government during the year. In general, the City uses the general and utility funds to liquidate governmental and business-type activities compensated absences, respectively.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Compensated absences	\$ 65,297	\$ 69,095	\$ (61,434)	\$ 72,958	\$ 65,662
Total Governmental Activities	\$ 65,297	\$ 69,095	\$ (61,434)	\$ 72,958	\$ 65,662
Other long-term liabilities due in more than one year				\$ 7,296	
Business-Type Activities:					
Compensated absences	\$ 13,174	\$ 15,534	\$ (15,534)	\$ 13,174	\$ 11,857
Total Business-Type Activities	\$ 13,174	\$ 15,534	\$ (15,534)	\$ 13,174	\$ 11,857
Other long-term liabilities due in more than one year				\$ 1,317	

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

F. Customer Deposits

The City had customer deposits of \$353,277 in the water fund as of year end. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued and all outstanding utility expenses are paid.

G. Interfund Transactions

Interfund balances resulted from the timing difference between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be paid in the subsequent year.

Transfers between the primary government funds during the 2019 year were as follows:

Transfers In:	Transfers Out:			Total
	General	Debt Service	Solid Waste	
General	\$ -	\$ -	\$ 10,000	\$ 10,000
Water & Sewer	41,360	393,723	-	435,083
Total	\$ 41,360	\$ 393,723	\$ 10,000	\$ 445,083

Amounts transferred between funds relate to amounts collected by the governmental and enterprise funds for various capital expenditures and principal and interest payments.

The compositions of interfund balances as of the year ended September 30, 2019 were as follows:

Due to:	Due from:		Total
	Hotel Tax Fund	Court Tech. Fund	
General Fund	\$ 13,683	\$ 2,375	\$ 16,058
Total	\$ 13,683	\$ 2,375	\$ 16,058

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

H. Fund Equity

The City records fund balance restrictions at the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures. The following is a list of restricted fund balances:

	Restricted
Streets and parks	\$ 176,592
Tourism	78,914
Capital projects	414,320
Municipal court	24,441 *
Debt service	411,372
Total	\$ 1,105,639

*Restricted by enabling legislation

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with more than 2,800 other entities in the Texas Municipal League Intergovernmental Risk Pools. The Pool was designed and created to provide insurance coverage that meets the needs of local governments at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums.

The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

The City uses a number of approaches to decrease risks and protect against losses to the City, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge

The City owns and operates motor vehicles and may provide such vehicle to employees for business use during the course and scope of their employment. The City is insured as to its own property losses, and the liability of loss to others.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

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

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does not anticipate that it will have an arbitrage liability and reviews the estimate for this potential liability annually. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Granite Shoals, Texas participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

2. Benefits Provided

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

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

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

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

	<u>Plan Year 2018</u>	<u>Plan Year 2017</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	26
Active employees	<u>32</u>
Total	<u>68</u>

3. Contributions

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

Employees for the City of Granite Shoals, Texas were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Granite Shoals, Texas were 5.03% and 5.01% in calendar years 2018 and 2019, respectively. The City's contributions to

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

TMRS for the year ended September 30, 2019, were \$86,226, and were equal to the required contributions.

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2018 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 for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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 are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

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

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	<u>5.0%</u>	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.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

Sensitivity of the Net Pension Liability (Asset) 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 (asset) 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 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 376,543	\$ 121,072	\$ (89,358)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/17	\$ 1,619,173	\$ 1,569,812	\$ 49,361
Changes for the year:			
Service cost	162,310	-	162,310
Interest	111,795	-	111,795
Difference between expected and actual experience	(81,355)	-	(81,355)
Changes of assumptions	-	-	-
Contributions – employer	-	84,723	(84,723)
Contributions – employee	-	84,360	(84,360)
Net investment income	-	(47,088)	47,088
Benefit payments, including refunds of emp. contributions	(88,217)	(88,217)	-
Administrative expense	-	(909)	909
Other changes	-	(47)	47
Net changes	104,533	32,822	71,711
Balance at 12/31/18	\$ 1,723,706	\$ 1,602,634	\$ 121,072

Pension Plan Fiduciary Net Position

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

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

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

For the year ended September 30, 2019, the City recognized pension expense of \$93,250.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Contributions subsequent to the measurement date	\$ 65,743	\$ -
Difference in experience	-	(83,364)
Changes in actuarial assumptions	11,439	-
Pension investment returns	81,874	-
Total	\$ 159,056	\$ (83,364)

The City reported \$65,743 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year	
2019	\$ 10,770
2020	(8,189)
2021	(7,364)
2022	14,732
2023	-
Total	\$ 9,949

Other Postemployment Benefits

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.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

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

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

Employees covered by benefit terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	5
Active employees	32
Total	43

The City's contributions to the TMRS SDBF for the years ended 2019, 2018 and 2017 were \$819, \$676 and \$680, respectively, which equaled the required contributions each year.

Three-Year Contribution Information

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2017	0.04%	0.04%	100.0%
2018	0.04%	0.04%	100.0%
2019	0.05%	0.05%	100.0%

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2018, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	3.71%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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 are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.71%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.71%) or 1-percentage-point higher (4.71%) than the current rate:

1% Decrease 2.71%	Current Single Rate Assumption 3.71%	1% Increase 4.71%
\$ 68,633	\$ 57,206	\$ 48,447

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/17	\$ 60,098
Changes for the year:	
Service Cost	5,230
Interest	2,065
Difference between expected and actual experience	(5,268)
Changes of assumptions	(4,244)
Benefit payments	(675)
Net changes	(2,892)
Balance at 12/31/18	\$ 57,206

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$6,608.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Contributions subsequent to the measurement date	\$ 656	\$ -
Difference in experience	-	(4,537)
Changes in actuarial assumptions	-	(357)
Total	\$ 656	\$ (4,894)

The City reported \$656 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2020.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019

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

Year ended December 31:	
2019	\$ (687)
2020	(687)
2021	(687)
2022	(687)
2023	(687)
Thereafter	(1,459)
	<u>\$ (4,894)</u>

E. Subsequent Events

There were no material subsequent events through April 17, 2020, the date the financial statements were issued.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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*[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 GRANITE SHOALS, TEXAS
GENERAL OBLIGATION AND REFUNDING BONDS,
SERIES 2020
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$9,275,000**

AS BOND COUNSEL FOR THE CITY OF GRANITE SHOALS, TEXAS (the "City") in connection with the issuance of the bonds described above (the "Bonds"), we have examined the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds and in the ordinance of the City adopted on June 23, 2020 authorizing the issuance of the Bonds (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, certified copies of the pertinent proceedings of the City, and other pertinent documents authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (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; that the Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the City; and that ad valorem taxes sufficient to provide for the payment of the interest on and the principal of the Bonds have been levied and pledged for such purpose, within the limits prescribed by law, on taxable property within the City.

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



IN EXPRESSING the aforementioned opinions, we have relied on the sufficiency certificate of the City's financial advisor and on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed and refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the City 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.

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, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

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 a 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 City as the taxpayer. We observe that the City 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.

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, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.



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 City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering our opinions 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. 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 City, 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 City as to the current outstanding indebtedness of the City and the assessed valuation of taxable property within the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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.

Respectfully,

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Capital
Markets