

PRELIMINARY OFFICIAL STATEMENT

Dated May 13, 2021

NEW ISSUE - BOOK-ENTRY-ONLY

Ratings: S&P: “Applied For”(Insured)
(See “BOND INSURANCE,” “BOND INSURANCE
GENERAL RISKS,” and “OTHER PERTINENT
INFORMATION - Municipal Bond Ratings” herein)

Interest on the Bonds is not excludable from gross income for federal tax purposes under existing law. See “FEDERAL INCOME TAX TREATMENT OF THE BONDS” herein.

\$25,570,000*

CITY OF GREY FOREST, TEXAS

(A political subdivision of the State of Texas located in Bexar County, Texas)

**GAS SYSTEM REVENUE BONDS,
TAXABLE SERIES 2021**

Dated Date: May 1, 2021

Due: February 1, as shown on page -ii- herein

The City of Grey Forest, Texas Gas System Revenue Bonds, Taxable Series 2021 (the “Bonds”) are special obligations payable solely from the net revenues derived by the City of Grey Forest, Texas (the “City”) from its Grey Forest Utilities (“GFU”) Gas System (the “System”). The City, acting on behalf and for the benefit of GFU, is issuing the Bonds pursuant to the Constitution and the general laws of the State of Texas, including Chapter 1502, Texas Government Code, as amended, and an ordinance (the “Ordinance”) to be adopted by the City Council of the City (the “City Council”) on May 19, 2021. The Bonds, together with certain currently outstanding Prior Lien Obligations and any Additional Bonds hereafter issued, are payable solely from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the System. The Bonds do not constitute general obligations of the City, the State of Texas or any political subdivision of the State of Texas. The holder or owner of the Bonds shall never have the right to demand payment out of funds raised or to be raised from taxation.

Interest on the Bonds will accrue from the Date of Delivery (as defined herein) as shown above, will be payable on February 1 and August 1 of each year, commencing February 1, 2022, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository. Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Underwriters of the Bonds (“Beneficial Owners”) will not receive physical delivery of Bonds representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by UMB Bank, N.A., Austin, Texas, as the initial Paying Agent/Registrar, to Cede & Co., which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See “BOOK -ENTRY-ONLY SYSTEM” herein.)

Proceeds from the sale of the Bonds will be used purposes of (i) acquiring, purchasing, constructing, improving, extending, renovating, enlarging, equipping, and repairing, including the payment of contractual obligations of, GFU, (ii) funding the reserve requirement related to the Bonds and (iii) paying the costs of issuing the Bonds. (See “SOURCES AND USES OF FUNDS” and “THE BONDS - Use of Proceeds” herein.)



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. (See “BOND INSURANCE” herein.)

SEE MATURITY SCHEDULE, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS ON PAGE -ii- HEREOF

The Bonds are offered for delivery when, as and if issued and received by the Underwriters (as hereinafter defined) and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Austin and San Antonio, Texas (see “APPENDIX C - Form of Bond Counsel’s Opinion”). Certain legal matters will be passed upon for the Underwriters’ by their counsel McCall Parkhurst and Horton, L.L.P., San Antonio, Texas. It is expected that the Bonds will be available for delivery through DTC on June 16, 2021 (the “Date of Delivery”).

FHN Financial Capital Markets

Estrada Hinojosa

Stifel

* Preliminary, subject to change.

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

**MATURITY SCHEDULE, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS**

\$25,570,000

CITY OF GREY FOREST, TEXAS

(A political subdivision of the State of Texas located in Bexar County, Texas)

GAS SYSTEM REVENUE BONDS,

TAXABLE SERIES 2021

CUSIP NO. PREFIX⁽¹⁾:

<u>Maturity 2/1</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP No. Suffix⁽¹⁾</u>
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				

(Interest to accrue from Date of Delivery)

Redemption of the Bonds

The City reserves the right to redeem the Bonds maturing on February 1, 2029, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2028 or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. See “THE BONDS – Redemption Provisions of the Bonds” herein.

¹ CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Markets 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 Underwriters, the City, GFU or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF GREY FOREST, TEXAS
18502 Scenic Loop Road
Grey Forest, Texas 78023**

CITY COUNCIL

<u>Name</u>	<u>Position</u>	<u>Years of Service</u>	<u>Term Expires May</u>
Mitch Thornton	Mayor	1	2022
Kimberly Verity	Councilperson, Place 1	3	2021
Jennifer Nottingham	Councilperson, Place 2	19	2022
Geri Poss	Councilperson, Place 3	3	2021
Susan Darst	Councilperson, Place 4	5	2022
Sean Skaggs	Councilperson, Place 5	1	2021

CITY ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Length of Service With City</u>
Miguel Cantu	City Secretary	1
William "Jeff" English	CEO and General Manager of the System	18

CONSULTANTS AND ADVISORS

Garza/Gonzales & Associates San Antonio, Texas	Auditors
Norton Rose Fulbright US LLP Austin and San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

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Ms. Kelly Dawley, Assistant General Manager
Grey Forest Utilities
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kdawley@gfugas.com

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the “Rule”) and in effect on the date of this Preliminary Official Statement, this document constitutes an “official statement” of the City with respect to the Bonds that has been “deemed final” by the City as of its date except for the omission of no more than the information permitted by the Rule.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Bonds, other than as 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 either of the foregoing.

This Official Statement, which includes the cover page, and appendices hereto, does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

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

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 BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE THEREOF.

None of the City, GFU, the Underwriters, or the Financial Advisor makes 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 as described herein under the caption “BOOK-ENTRY-ONLY SYSTEM” or with respect to any information concerning the Insurer or its municipal bond guaranty policy as described herein (or incorporated by reference) under the captions “BOND INSURANCE,” “BOND INSURANCE GENERAL RISKS” and “APPENDIX F - Specimen Municipal Bond Insurance Policy.”

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

The agreements of the City and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement, nor any other statement made in connection with the offer or sale of the Bonds, is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “Bond Insurance” and “APPENDIX F - Specimen Municipal Bond Insurance Policy”.

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The cover page hereof, the appendices herein and any addenda, supplement or amendment hereto are part of this Official Statement.

OFFICIAL STATEMENT SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

THE ISSUER	City of Grey Forest, Texas (the “City”).
THE BONDS	<p>The Bonds are issued as “City of Grey Forest, Texas Gas System Revenue Bonds, Taxable Series 2021.” Semi-annual interest payments begin on February 1, 2022 and continue on each August 1 and February 1 thereafter until stated maturity or prior redemption. The Bonds are being issued in the principal amount of \$25,570,000*. Interest shall accrue from the date of initial delivery to the Underwriters.</p> <p>The Bonds will mature on the dates and pay interest at the rates indicated on the inside cover page hereof.</p>
DATED DATE.....	May 1, 2021.
REDEMPTION.....	Bonds stated to mature on February 1, 2029 are subject to optional redemption, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if less than all Bonds within a stated maturity are redeemed, selected by lot by the Paying Agent/Registrar) on February 1, 2028 or any date thereafter, at a price of par (100%) plus accrued interest to the date fixed for redemption. (See “THE BONDS - Redemption Provisions of the Bonds.”)
SECURITY FOR THE BONDS.....	The Bonds constitute special obligations of the City and, together with certain currently outstanding Prior Lien Obligations and any Additional Bonds hereafter issued, are payable solely from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the System. (See “THE BONDS - Security for Payment,” “BOND INSURANCE,” and “BOND INSURANCE GENERAL RISKS” herein.)
BOND INSURANCE	S&P Global Ratings (“S&P”) has assigned a rating of “AA” to the Bonds based solely upon the municipal bond insurance policy to be issued by the Build America Mutual Assurance Company (the “Bond Insurer”) on the date of initial delivery of the Bonds. An explanation of the significance of such rating may be obtained from S&P. (See “BOND INSURANCE” and “BOND INSURANCE GENERAL RISKS” herein.)
BOOK-ENTRY-ONLY SYSTEM	The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York relating to the method and timing of payment as to principal and interest of the Bonds and the method of transfer.
TAX EXEMPTION	Interest on the Bonds is not excludable from gross income for federal tax purposes under existing law. (See “FEDERAL INCOME TAX TREATMENT OF THE BONDS” herein.)
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for the purposes of (i) acquiring, purchasing, constructing, improving, extending, renovating, enlarging, equipping, and repairing, including the payment of contractual obligations of, GFU, (ii) funding the reserve requirement related to the Bonds and (iii) paying the costs of issuing the Bonds. (See “SOURCES AND USES OF FUNDS” and “THE BONDS - Use of Proceeds” herein.)
RATINGS	S&P has assigned a rating of “AA” to the Bonds based solely upon the municipal bond insurance policy to be issued by the Insurer on the date of initial delivery of the Bonds. The Issuer has applied for an underlying

	<p>bond rating for the Bonds. The outstanding Prior Lien Obligations are rated “BBB+” by S&P. An explanation of the significance of such ratings may be obtained from S&P. (See “BOND INSURANCE” and “OTHER PERTINENT INFORMATION - Municipal Bond Ratings” herein.)</p>
FUTURE BOND ISSUES	<p>The City does not anticipate issuing additional utility system revenue debt in the next three to five years.</p>
PAYMENT RECORD.....	<p>Except as set forth below, the City has never defaulted on the payment of its bonded indebtedness.</p> <p>In 1967, the City issued \$1,440,000 of Gas System Revenue Bonds (the “1967 Bonds”) for the purpose of providing a natural gas supply not only for the City but to the surrounding area. The 1967 Bonds were purchased by the U.S. Department of Housing and Urban Development (“HUD”). GFU encountered financial difficulty from its inception due to potential customers' failure to tie onto the System. The City restructured its bond payments with HUD in November 1977. This plan provided for additional annual payments of \$10,000 beginning June 1, 1980. This action resulted in the elimination of the arrearage by 1999.</p>
DELIVERY	<p>When issued, anticipated on or about June 16, 2021.</p>
LEGALITY.....	<p>The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, as Bond Counsel. See “APPENDIX D - Form of Opinion of Bond Counsel” herein.</p>

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**PRELIMINARY OFFICIAL STATEMENT
RELATED TO
\$25,570,000[‡]
CITY OF GREY FOREST, TEXAS
(A political subdivision of the State of Texas located in Bexar County, Texas)
GAS SYSTEM REVENUE BONDS,
TAXABLE SERIES 2021**

INTRODUCTION

This Official Statement, which includes the cover page, and the appendices hereto, provides certain information in connection with the issuance by the City of Grey Forest, Texas (the “City” or the “Issuer”) of its Gas System Revenue Bonds, Taxable Series 2021 (the “Bonds”) in the aggregate principal amount of \$25,570,000.* Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Bonds (the “Ordinance”) to be adopted by the City Council on May 19, 2021, except as otherwise indicated herein.

This Official Statement contains descriptions of the Bonds and certain other information about the City, Grey Forest Utilities (“GFU”) and the financial condition of these respective entities as applicable. 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 upon request from the City and, during the offering period, from the City’s Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed by the Underwriters with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the City’s undertaking to provide certain information on a continuing basis.

2021 WEATHER EVENT

General

From February 14, 2021 through February 19, 2021, the continental United States experienced a severe winter storm (the “2021 Event”). As a result of the 2021 Event, areas throughout Texas experienced widespread, record breaking cold.

Due to effects of the 2021 Event and a reduction in available gas supply, approximately 185 generating units in the Electric Reliability Council of Texas (“ERCOT”) grid tripped offline, and the grid lost roughly 46,000 MW of generation. In order to limit demand and protect the integrity of the grid, ERCOT implemented widespread and prolonged blackouts. As a result, approximately 4 million Texas residents were without power for significant stretches of the week.

Extended subfreezing temperatures caused water pipes to freeze and burst, and combined with the lack of power, eventually led to multiple water system failures across the State that impacted water availability generally and, in some instances, required the issuance of water boil notices. Initial reports indicated that roughly 14 million Texans were under boil water notices as of February 19, 2021.

On February 19, 2021, the President of the United States issued a Major Disaster Declaration for 77 counties in Texas, including Bexar County. The Texas Governor, on February 18, 2021, declared a new emergency item for the current

[‡] Preliminary, subject to change.

Texas legislative session (in session until May 31, 2021) in which he requested the Legislature to mandate the winterization of Texas' power system and to ensure the necessary funding for winterization.

Impact to the System

As a result of the 2021 Weather Event, demand for natural gas by customers of the City's gas utility system, GFU was significantly above historical norms for February 2021. For its service area's gas distribution needs, the System experienced a roughly 50% increase in demand. With the increasing demand for natural gas, prices also increased, with gas prices reaching unprecedented levels. Gas purchases, that normally trade between \$2-\$4/MMBtu, traded throughout the 2021 Event above \$180 /MMBtu and, in some cases, up to \$500/MMBtu. The GFU's gas supply is currently secured through an agreement with Koch Energy Services ("Koch"). During the storm, about 91% of GFU's requirements were met through the Koch agreement and the remainder through market purchases--both at extremely high prices ranging up to \$400/MMBtu. GFU's total cost incurred during the severe weather event totaled approximately \$23 million, which was substantially above the \$450,000 budgeted for the month. GFU has paid the undisputed portion of the Koch February 2021 invoice, and on May 3, 2021, GFU submitted a formal dispute over the invoice it received from Koch that the invoice was factually inaccurate. The City and GFU cannot predict when the dispute will be resolved or what the final resolution of the dispute will be. The Bonds are being issued, in part, to pay for costs incurred by GFU during the 2021 Event and to pass those gas costs directly to the customers, as allowed in the GFU rate schedule, over an 8-year period. It is estimated that the average monthly increase will be approximately \$16.50/customer. See "APPENDIX A – Financial Information – Grey Forest Utilities" for more information about the System and its rates.

GFU is still under contract with Koch, but the purchase of gas is not required under the contract. Because Koch cannot offer a fixed monthly price, GFU now purchases gas from Enterprise Gas Marketing. The agreement with Enterprise Gas Marketing provides for the monthly price to be fixed on the first of each month.

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. In addition, certain local officials, including Bexar County, have also declared a local state of disaster. 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 issued a number of executive orders relating to COVID-19 preparedness and mitigation. However, on March 2, 2021, the Governor issued Executive Order GA-34, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 became effective on March 10, 2021. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

Further actions may be taken to slow the Pandemic which may reduce economic activity within the City on which the City collects taxes, charges, and fees. A reduction in the collection of utility system revenue may negatively impact GFU's operating budget and overall financial condition. In addition, the Pandemic has resulted in volatility of the

value of investments in pension funds. Any prolonged continuation of the Pandemic could further weaken asset values or slow or prevent their recovery, which could require increased City contributions to fund or pay retirement and other post-employment benefits in the future.

The full extent of the ongoing impact of COVID-19 on the City's and GFU's longer-term operational and financial performance will depend on future developments, many of which are outside of their control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The City and GFU continue to monitor the spread of COVID-19 and are working with local, state, and national agencies to address the potential impact of the Pandemic upon the City and GFU. While the potential impact of the Pandemic on the City and GFU cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's and GFU's operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the City or the collection of System Revenues. The financial and operating data contained herein are the latest available. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on System revenues, future assessed values of the City or the collection of City taxes, resulting from the declared emergency.

CONVENING OF THE TEXAS LEGISLATURE

On January 12, 2021, the 87th Texas Legislature convened in general session which is scheduled to adjourn on May 31, 2021. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the City, GFU, and the financial condition of each of these respective entities. The City makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed legislation for any developments applicable to the City and GFU.

THE BONDS

Authority for Issuance

The Bonds are being issued by the City under and pursuant to the provisions of the Constitution and the general laws of the State of Texas (the "State"), including Chapter 1502, as amended, Texas Government Code, and the Ordinance.

General Description

The Bonds are dated May 1, 2021 (the "Dated Date") and accrue interest from the Dated of Delivery, and such interest shall be payable on February 1 and August 1 in each year, commencing February 1, 2022, until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts and will bear interest at the rates set forth on the inside cover page of this Official Statement.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity or prior redemption, upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 principal for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to

Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

Use of Proceeds

Proceeds from the sale of the Bonds will be used for purposes of (i) acquiring, purchasing, constructing, improving, extending, renovating, enlarging, equipping, and repairing, including the payment of contractual obligations of, GFU, (ii) funding the reserve requirement related to the Bonds and (iii) paying the costs of issuing the Bonds.

Security for Payment

The Bonds constitute special obligations of the City and, together with certain currently outstanding Prior Lien Obligations and any Additional Bonds hereafter issued, are payable solely from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the System (as defined in the Ordinance). Net Revenues of the System are defined in the Ordinance to be “Gross Revenues of the System, with respect to any period, after deducting the System’s Maintenance and Operating Expenses during such period.”

Maintenance and Operating Expenses are defined in the Ordinance to be all current expenses of operating and maintaining the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair obligations payable from Net Revenues shall be deducted in determining Net Revenues. Depreciation charges shall not be considered Maintenance and Operating Expenses. See “Selected Provisions of the Ordinance” in APPENDIX E.

The owners of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation. The Ordinance does not create a lien or mortgage on properties of the System, except for the Net Revenues. See “THE BONDS - Defaults and Remedies” and “APPENDIX E - Selected Provisions of the Ordinance - Security for the Bonds.”

Redemption Provisions of the Bonds

The City reserves the right to redeem the Bonds maturing on February 1, 2029, at the option of the City, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2028 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption.

Selection of Bonds for Redemption

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

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books relating to the Bonds kept by the Paying Agent/Registrar (the “Security Register”) at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Bonds, or the portion of the principal amount thereof to be redeemed, shall

become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Ordinance, such Bond (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bond (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bond shall not be deemed to be Outstanding.

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will mail any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, 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 held 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 the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Reserve Fund

Reserve Fund. Subject to the springing covenant provisions described below, the Ordinance reaffirms the establishment and maintenance of a Reserve Fund for the payment of the principal of and interest on the Bonds Similarly Secured (which includes the Bonds) when money in the Bond Fund maintained for such purposes is insufficient on any payment date. The amount to be accumulated and maintained as a reserve amount (the "Required Reserve") in such Fund shall be equal to the Average Annual Debt Service Requirement of the Bonds Similarly Secured (calculated on a Fiscal Year basis as of the date the last series of Bonds Similarly Secured Outstanding was delivered). The City currently has \$ _____ on deposit in the Reserve Fund. Upon the issuance of the Bonds, the Required Reserve shall be \$ _____ and Bond proceeds in the amount of \$ _____ shall be deposited into the Reserve Fund. After the Required Reserve has been accumulated, monthly deposits to such Fund may be terminated; provided, however, should a deficiency thereafter exist (other than as a result of the issuance of Additional Bonds) in the Required Reserve, the City shall resume monthly deposits to the Reserve Fund calculated to cure the deficiency within 12 months from the date the deficiency occurred. See "APPENDIX E - Selected Provisions of the Ordinance."

Under the Ordinance (and the City ordinances authorizing the other currently-outstanding Bonds Similarly Secured), the City is permitted to fund all or part of the Required Reserve by purchasing an insurance policy that will unconditionally obligate the insurance company to pay all or the applicable part of the Required Reserve covered by such policy.

Springing Reserve Fund Covenant. When the Bonds and the Prior Lien Obligations dated September 1, 2005, are no longer remain Outstanding, the following provisions shall apply to the City's obligation to fund the Reserve Fund in the amount of the Required Reserve:

The City's obligation to fund the Reserve Fund in an amount equal to the Required Reserve shall be suspended for so long as the Net Earnings for each Fiscal Year are equal to at least 140% of the average annual debt services requirements of all Bonds Similarly Secured at such time outstanding. The term "Net Earnings" means the Gross Revenues after deduction of Maintenance and Operating Expenses, but not deducting depreciation or expenditures which, under standard accounting practices, should be charged to capital expenditures. In the event that the Net Earnings for any Fiscal Year are less than 140% of the average annual debt service requirements of all Bonds Similarly

Secured at such time outstanding, the City will be required to commence making the deposits to the Reserve Fund, as provided above, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve or (ii) the Net Earnings in each of two consecutive Fiscal Years for the Fiscal Year have been equal to not less than 140% of the average annual debt service requirements of all Bonds Similarly Secured at such time outstanding.

If this springing covenant is triggered when the Bonds and the Prior Lien Obligations dated September 1, 2005, are no longer Outstanding, or the requisite consents are obtained from the holders of the Bonds and these Prior Lien Obligations, the City shall transfer immediately all cash and investments on deposit in the Reserve Fund to the System Fund.

Rate Covenant

The City has covenanted in the Ordinance that it will at all times maintain rates and charges for facilities and services afforded by the System provided, and supplied by the System to the City and all other consumers which will be reasonable and nondiscriminatory and which will produce income and revenues sufficient (i) to pay all expenses of maintenance and operation of the System, (ii) to produce Net Revenues sufficient to pay the principal of and interest on the Bonds Similarly Secured outstanding, and to establish and maintain all funds and accounts created for the payment and security of the Bonds Similarly Secured, and (iii) to pay any other legally incurred indebtedness payable from the Net Revenues of the System and/or secured by a lien on the System (including, but not limited to, any Junior Lien Obligations or Inferior Lien Obligations hereafter issued by the City, all as provided in the ordinances authorizing the issuance of any such obligations). The City's rate covenant is consistent with and supported by the relevant Texas statute concerning rate setting for municipally-owned utilities such as GFU. See "APPENDIX E - Selected Provisions of the Ordinance."

Selected Provisions of the Ordinance

The Ordinance authorizing the issuance of the Bonds provides, among other things, for the following:

- (1) The Bonds Similarly Secured are payable from and secured by a first lien on and a pledge of the Net Revenues of the System.
- (2) All income and revenues derived from the operation and ownership of the System is required to be deposited into a System Fund. The first priority on money expended from the System Fund is the payment of all the reasonable expenses of maintenance and operations of the System. The second priority on money expended from the System Fund is the payment of debt service requirements of the Bonds Similarly Secured (including the Bonds) in equal monthly payments to meet the annual principal payment and the semi-annual payments of interest as they come due and the payment of the amounts to be deposited, if any, into the Reserve Fund maintained for the Bonds Similarly Secured to accumulate the Required Reserve. The third priority on money expended from the System Fund is to the payment of other obligations or indebtedness payable from and secured by a lien on and pledge of the Net Revenues of the System that is junior and inferior to the lien and pledge securing the payment of the Bonds Similarly Secured, including any Junior Lien Obligations or other obligations or indebtedness payable from and secured by a lien on and pledge of the Net Revenues of the System that is subordinate and inferior to the lien and pledge securing the payment of the Bonds Similarly Secured, including any Inferior Lien Obligations. The fourth priority on money expended from the System Fund is to make deposits into the "Replacement and Extension Fund" until such time as there is on deposit in said Fund the sum of \$35,000.00, provided that when the Prior Lien Obligations dated September 1, 2005 are no longer Outstanding, the City shall deposit all money on deposit in the Replacement and Extension Fund into the Interest and Sinking Fund and the Replacement and Extension Fund shall be closed. Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used by the City for any purpose now or hereafter permitted by law, including a transfer to the City's general fund as permitted by Chapter 1502, as amended, Texas Government Code.
- (3) Among the conditions required to be satisfied for the issuance of additional parity revenue bonds is the requirement that the Net Earnings of the System for the previous fiscal year equal 1.40 times the Average Annual Debt Service Requirements of the Bonds Similarly Secured then Outstanding, including the proposed Additional Bonds.

(4) While the Bonds are Outstanding, rates and charges will be established, revised and modified to provide revenues sufficient to pay the costs of operation and maintenance of the System, and to pay the principal and interest of all of the Bonds Similarly Secured, and subordinate gas system revenue obligations and to maintain the Reserve Fund as provided in their authorizing ordinances.

(5) Insurance coverage on property of the System is to be maintained of a kind and in an amount normally carried by private companies operating a similar business or businesses.

See APPENDIX E attached hereto for selected portions of the Ordinance and a more detailed description of covenants, agreements and provisions pertaining to the Bonds and with respect to GFU.

Additional Bonds, Junior Lien Obligations and Inferior Lien Obligations

The City reserves the right to issue “Additional Bonds,” “Junior Lien Obligations” and “Inferior Lien Obligations” without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law as stated in the Ordinance or otherwise. Additional Bonds, when issued, together with the Bonds Similarly Secured, shall be payable from and secured solely by a first and prior lien on and pledge of the Net Revenues derived from the operation of the System. Junior Lien Obligations, when issued, shall be secured by a junior and inferior lien on and pledge of the Net Revenues of the System. Inferior Lien Obligations, when issued, shall be secured by a subordinate and inferior lien on and pledge of the Net Revenues. See “APPENDIX E - Selected Provisions of the Ordinance.”

Legality

The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the Bonds. A form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

Delivery

When issued; anticipated on or about June 16, 2021.

Payment Record

Except as set forth below, the City has never defaulted on the payment of its bonded indebtedness.

In 1967, the City issued \$1,440,000 of Gas System Revenue Bonds (the “1967 Bonds”) for the purpose of providing a natural gas supply not only for the City but to the surrounding area. The 1967 Bonds were purchased by the U.S. Department of Housing and Urban Development (“HUD”). GFU encountered financial difficulty from its inception due to potential customers' failure to tie onto the System. The City restructured its bond payments with HUD in November 1977. This plan provided for additional annual payments of \$10,000 beginning June 1, 1980. This action resulted in the elimination of the arrearage by 1999.

Future Bond Issues

The City does not anticipate issuing additional gas system revenue debt in the next three to five years.

Defeasance

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Ordinance when payment of the principal of and interest on such Bond to its stated maturity date or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar, or an authorized escrow agent, (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment

of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Government Obligations. The foregoing deposits shall be certified by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified institution as specified in the Ordinance.

The Ordinance provides that "Government Obligations" 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, on the date the governing body of the City authorizes the defeasance, 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 on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Bonds. City officials are authorized to restrict such eligible securities as deemed appropriate. The City has additionally reserved the right in the Ordinance, subject to satisfying the requires of (1) and (2) above, to substitute other Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the City money in excess of the amount required for the defeasance. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding for any purpose, including the application of any limitation on indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the City to initiate proceedings to take any other action amending the terms of the Bonds are extinguished.

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, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of all of the registered owners of the Bonds then outstanding, 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, or in any other way modify the terms of payment of the principal of, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, or waiver.

Default and Remedies

If the City defaults in the payment of principal or interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or Ordinance and the City's obligations are not uncertain or disputed. The

issuance of a writ of mandamus is controlled by equitable principles, and with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court (the “Court”) ruled in *Tooke v. City of Mexia* 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the “Proprietary-Governmental Dichotomy”). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State’s sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“Wasson”) the Court addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’” and protecting such municipalities “via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources”. While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018, clarifying 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 when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship.

Notwithstanding the foregoing case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. 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, such as the Net Revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

Perfection of Security for the Bonds

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Net Revenues, and such pledge is therefore, valid, effective and perfected. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Net Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City agrees in the Ordinance to take such measures as it determines are reasonable and necessary to enable a filing to perfect a security interest in said pledge to occur.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. If the Bonds are not held in the Book-Entry-Only System, interest on the Bonds will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date (see "REGISTRATION, TRANSFER AND EXCHANGE - Record Date" herein) or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner, and principal of the Bonds will be paid to the registered owner at stated maturity or prior redemption upon presentation to the Paying Agent/Registrar.

Successor Paying Agent/Registrar

The City covenants that until the Bonds are paid it will at all times maintain and provide a Paying Agent/Registrar. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

The record date ("Record Date") for determining the person entitled to the payment of interest on a Bond is the fifteenth day of the month next preceding each interest payment date.

If the date for the payment of the principal or interest on the Bonds is a Saturday, a Sunday, a legal holiday or a day on which banking institutions in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment is the next succeeding day which is not such a day and payment on such date will have the same force and effect as if made on the original date payment was due.

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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) must be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

In the event the Book-Entry-Only System shall be discontinued, printed bonds will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States

registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and at the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same 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 satisfactory to establish to the City and the Paying Agent/Registrar 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 Bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

The following describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor and the Underwriters 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 other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds) or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a S&P Global Ratings rating of “AA+”. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission (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 certificates representing their ownership interests in Bonds, except in the event that use of the Book- Entry-Only system for the Bonds is discontinued.

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

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

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

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, 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. Payment of the redemption price and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC (or its nominee), 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, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC’s Book-Entry-Only System has been obtained from sources that the City believes to be reliable, but none of the City, GFU the Financial Advisors, or the Underwriters take responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under the caption “REGISTRATION, TRANSFER AND EXCHANGE” above.

SOURCES AND USES OF FUNDS

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

<u>Sources</u>	
Principal	\$
[Net] Premium on the Bonds	
Total Sources	\$
<u>Uses</u>	
Deposit to Project Fund	\$
Deposit to Bond Fund	
Deposit to Reserve Fund	
Underwriters’ Discount	
Cost of Issuance (including bond insurance premium)	
Contingency	
Total Uses	\$

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$485.4 million, \$160.7 million and \$324.7 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at

www.buildamerica.com/videos. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the City, GFU or the Underwriters for the Bonds, and the City, GFU and Underwriters assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise

BOND INSURANCE GENERAL RISKS

General

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

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from and secured only by the Net Revenues and the System as further described under "THE BONDS – Security for Payment". In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

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

The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the City, GFU, the Underwriters,

or the City's Financial Advisor have made an independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

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

INVESTMENT POLICIES

The City and GFU invest its investable funds in investments authorized by State law and in accordance with investment policies approved and reviewed annually by the City Council of the City and the Board on behalf of GFU. Both State law and the City's investment policies are subject to change.

Legal Investments

Under State law and subject to certain limitations, the City and GFU are authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The City and GFU may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the City may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the City may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the City is not required to liquidate the investment unless it no longer carries a required rating, in which case the City is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

Current Investments*

As of December 31, 2020 with regards to GFU, the carrying value of bank deposits was \$7,586,779 and the bank balance was \$7,669,921. As of year-end, and throughout the year, the bank deposits were secured by FDIC insurance or pledged collateral held by the System's agent bank in GFU's name. All GFU investments are valued at fair value, in accordance with GASB Statement No. 31.

TABLE 1

GFU's cash and investments as of December 31, 2020 are shown below:

<u>By Investment Type</u>	<u>Fair Value</u>
Certificates of Deposit	\$3,182,830
TexPool	1,395,728
Cash Deposits	3,008,221
Total Investments	<u>7,586,779</u>
<u>By Classification Type</u>	
Unrestricted:	
Cash Deposits	\$2,008,306
Certificates of Deposit	3,036,060
TexPool	1,395,728
	<u>6,440,064</u>
Restricted:	
Cash Deposits	\$1,146,715
Total Restricted Investments	<u>1,146,715</u>
Total Cash and Investments	<u>7,586,779</u>

Source: GFU's Draft Annual Financial Report for Fiscal Year End December 31, 2020.

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

PENSION FUND AND OTHER POST-EMPLOYMENT BENEFITS

As a component unit of the City, GFU participates in the City pension. The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Information regarding GFU's pension plan and other post-employment benefits can be found within Notes VII and VIII to APPENDIX C to the Official Statement. GFU's current net pension liability is \$2.04 million, with an OPEB liability of \$120,000.

FEDERAL INCOME TAX TREATMENT OF THE BONDS

General

The following is a general summary of United States federal income tax consequences of the purchase and ownership of the Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular

*Unaudited

investor in the Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Bonds as "capital assets" within the meaning of section 1221 of the Code and acquire such Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Bonds who are United States persons within the meaning of section 7701(a)(30) of the Code ("United States persons") and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and the discussion below is not binding on the IRS.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS.

Stated Interest on the Bonds

The stated interest on the Bonds will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when paid or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Disposition of the Bonds

A beneficial owner of the Bonds will generally recognize gain or loss on the sale or exchange of a Bond equal to the difference between the sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Bond. Generally, the beneficial owner's adjusted tax basis in a Bond will be the beneficial owner's initial cost, increased by any original issue discount previously included in the beneficial owner's income to the date of disposition and reduced by any amortized bond premium. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Bond.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" with respect to current or accrued interest on the Bonds or with respect to proceeds received from a disposition of the Bonds. This withholding applies if such beneficial owner of the Bonds: (i) fails to furnish to the payor such beneficial owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Bonds. Beneficial owners of the Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the current rate of 30% (subject to change) on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest income of such beneficial owners of the Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial

owner; (ii) such interest is treated as not effectively connected with the beneficial owner's United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge or reason to know that such person is a United States person.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Series 2012B Bond for U.S. federal income tax purposes.

Medicare Contribution Tax

Pursuant to Section 1411 of the Code, as amended by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (i) net investment income (defined as gross income from interest, dividends, net game from disposition of property not used in a trade or business, and certain other listed items of gross income), or (ii) the excess of "modified adjusted gross income" of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Bonds should consult with their tax advisor concerning this additional tax, as it may apply to interest earned on the Bonds as well as gain on the sale of a Bond.

All holders of the Bonds should consult their own tax advisers with respect to the tax consequences of the new legislation described above and its application to the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City acting by and through GFU (who has accepted responsibility by resolution adopted on May 19, 2021) has made the following agreements 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, GFU, on behalf of the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB. The information provided to the MSRB through EMMA is available free of charge at www.emma.msrb.org.

Annual Reports

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City and GFU must keep fiscal records in accordance with generally accepted accounting principles, must have financial accounts and records audited by a certified public accountant and must maintain each audit report within 180 days after the close of the City's fiscal year. The City's and GFU's fiscal records and audit reports are available for public inspection during the regular business hours, and the City and GFU are required to provide a copy of the City's and GFU's audit reports to any bondholder or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Services Commission.

GFU on behalf of the City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated with respect to GFU includes all quantitative financial information and operating data of the general type included in Table 1 of the Official Statement and Tables 1 through 4 of APPENDIX A to the Official Statement, and in APPENDIX C to the Official Statement. GFU on behalf of the City will update and provide this information within six months after the end of each of GFU's fiscal years ending in and after 2020.

The City, or GFU acting on behalf of the City, may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12. The updated information will include audited financial statements, if GFU commissions an audit and the audit is completed by the required time. If audited financial statements are not provided with annual information, GFU, on behalf of the City, will provide unaudited financial statements at such time and later provide audited financial statements when and if the audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the City and GFU may be required to employ from time to time pursuant to state law or regulation.

GFU's current fiscal year end is December 31. Accordingly, it must provide updated information by the last day of June in each year, unless it changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB.

Notice of Certain Events

GFU, on behalf of the City will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City or GFU, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or GFU or the sale of all or substantially all of their respective assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the City or GFU, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any Financial Obligation of the City or GFU, 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 Financial Obligation of the City or GFU; any of which reflect financial difficulties. In the Ordinance, the City will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. Neither the Bonds nor the Ordinance make any provision for liquidity enhancement. In addition, GFU on behalf of the City, will provide timely notice of any failure to provide information, data, or financial statements in accordance with the agreement described above under "Annual Reports". GFU on behalf of the City will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the City or GFU in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City or GFU, 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 or GFU, and (b) the City or GFU 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.

Availability of Information from MSRB

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. Access to such filings will be provided, without charge to the general public, by the MSRB.

Limitations and Amendments

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

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Bonds. The City may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. 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

During the past five years, the City has not entered into a continuing disclosure agreement in accordance with the Rule.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the unqualified approval of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP ("Bond Counsel"). Though it represents the Financial Advisor and Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement except as hereinafter noted and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in their capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (except under the subcaptions "Use of Proceeds", "Delivery", "Payment Record", "Future Bond Issues", "Default and Remedies", and "Perfection of Security for the Bonds" as to which no opinion is expressed), "REGISTRATION, TRANSFER, AND EXCHANGE", "FEDERAL INCOME TAX TREATMENT OF THE BONDS", "CONTINUING DISCLOSURE OF INFORMATION" (except matters discussed under the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed), and information under the captions "LEGAL MATTERS", (except for the last two sentences of the first paragraph thereof) "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", and the subcaption "Registration and Qualification of Bonds for Sale" under the heading "OTHER PERTINENT INFORMATION", and the information set forth in "APPENDIX E - Selected Provisions of the

Ordinance”, in this Official Statement, and such firm is of the opinion that the information relating to the Bonds, the Ordinance and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and the legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fees to be paid to Bond Counsel 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 definitive bonds in the event of discontinuance of the Book-Entry-Only System. Certain matters will be passed on for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The fees of counsel to the Underwriters are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the 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.

LITIGATION

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public 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. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER PERTINENT INFORMATION - Municipal Bond Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with 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.

OTHER PERTINENT INFORMATION

Authenticity of Financial Data and Other Information

The financial data and other information contained herein have been obtained from the City’s records, audited financial statements and other sources that 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.

Municipal Bond Ratings

S&P has assigned a rating of “AA” to the Bonds based solely upon the municipal bond insurance policy to be issued by the Bond Insurer on the date of initial delivery of the Bonds. The Issuer has applied for an underlying bond rating for the Bonds. The outstanding Prior Lien Obligations are rated “BBB+” by S&P.

An explanation of the significance of such ratings may be obtained from S&P. The rating of the Bonds by S&P reflects only the view of the company at the time the rating is given, and the City makes no representation as to the appropriateness of such rating. There is no assurance that the rating will continue for any given period of time, or that such 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 such rating may have an adverse effect on the market price of the Bonds.

Registration and Qualification of Bonds for Sale

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

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Underwriters’ written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

Forward-Looking Statements Disclaimer

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

It is important to note that the City’s actual results could differ materially from those discussed in such forward-looking statements.

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

Financial Advisor

SAMCO Capital Markets, Inc. (the “Financial Advisor”) is employed as the Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the City for the investment of bond proceeds or other funds of the City upon the request of the City. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

Underwriters

FHN Financial Capital Markets, as the authorized representative of a group of underwriters (the “Underwriters”), has agreed to purchase the Bonds from the City for \$_____ (representing the principal amount of the Bonds set forth on the inside cover page of this Official Statement, plus a [net] reoffering premium of \$_____, less an underwriting discount of \$_____). The obligation of the Underwriters to purchase the Bonds is subject to certain conditions contained in a bond purchase contract between the City and the Underwriters. The Underwriters are obligated to purchase, and the City’s obligation is to deliver, all of the Bonds if any of the Bonds are purchased and such purchase is also subject to various other conditions.

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the description and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of circumstances under which they are made, not misleading; (c) insofar as the description and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and that the City has no reason to believe that they are untrue in any material respect; and (d) except as disclosed in this Official Statement, there has been no material adverse change in the financial condition of GFU since December 31, 2019, the date of the last audited financial statements of GFU.

Information from External Sources

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

Authorization of the 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 will be approved by the City Council of the City for distribution in accordance with provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c-12, as amended.

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

CITY OF GREY FOREST, TEXAS

/s/ _____
Mayor

ATTEST:

/s/ _____
City Secretary

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APPENDIX A

Financial Information - Grey Forest Utilities

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GREY FOREST UTILITIES

THE SYSTEM

History of the System

The City of Grey Forest Municipal Gas Utility (the “System” or “GFU”) was founded by the City in 1967 as a city agency to operate a natural gas system serving the City and surrounding areas, and was partially funded with a small U.S. Department of Housing and Urban Development (“HUD”) loan and grant to initially serve the citizens of Grey Forest. Because the original connection to the local Intra-State Pipeline at the time was located several miles away from the City, new customers were connected to the distribution system sitting between the pipeline connection and the destination in the City. Those customers live in both the City of San Antonio, Texas and the City of Leon Valley, Texas, and some lived at the time in the unincorporated area of Bexar County, Texas. As the San Antonio Metropolitan Area grew north, the System became an integral part of the residential development by being the only gas provider in the area.

Gas Customers

By the year 2000 GFU was serving about 5,500 customers and had a service area of about 250 square miles. It served customers and new developments primarily located in the northwest area of the San Antonio Metropolitan Area. As of March 2021, GFU serves approximately 17,700 customers and a service area of about 850 square miles. The utility serves residential, small and large commercial, institutional, and industrial consumers. The residential customers comprise about 90 percent of the annual sales and about the same amount in annual revenues. Gas customers pay a two-part rate. First, they pay the cost of the gas acquired for delivery to their meter, and second, they pay a cost of gas service which covers the service provided by the utility on the customers’ behalf. The utility provides the first 50 feet of distribution line to a home and meter connected to the system. Large commercial customers pay the cost of meters sized for their use.

Management & Operations

Pursuant to an ordinance passed by the City Council of Grey Forest (the “Utility Ordinance”), the complete management control of the System during the time that any Prior Lien Obligations or Additional Bonds are outstanding is vested in the Board of Trustees of the System. The Mayor of the City is one member of the Board of Trustees and the remaining four members shall serve for four-year terms and two of the members must be residents of the City. All vacancies to the Board of Trustees shall be selected by the City Council of the City from a list of not more than three names submitted by the Board of Trustees. In the Utility Ordinance, the Board of Trustees recognizes that while any Prior Lien Obligations or Additional Bonds are outstanding that the management and operation of the System must be conducted in a manner that complies with the provisions of the ordinance authorizing issuance of the currently outstanding Prior Lien Obligations.

The utility is managed by a CEO/General Manager with 41 years of experience in natural gas system operations and gas supply management. The CEO reports to a 5-member Board of Trustees who are appointed to 4-year terms by the City Council. The Trustees select the utility CEO, and they also select their Board Chairman and other trustee officers. The trustees operate the utility independently from the city operations on every level except gas rates which are approved by the City Council. GFU is staffed with approximately 32 employees.

The Utility Ordinance also provides for the annual accounting of the revenues and expenses relating to the System and provides that within ninety (90) days after the close of each fiscal year that the Board of Trustees shall transfer to the general fund of the City any revenues of the System in excess of those required to provide an adequate amount of working and expansion capital for the System and to fully fund, establish, and maintain the funds created and established in the ordinance authorizing issuance of the Bonds, the currently outstanding Prior Lien Obligations or any Additional Bonds hereafter issued by the City.

BOARD OF TRUSTEES

Name	Position	Years of Service	Term Expires
Arnold Briones	1	8	9/30/2024
Ron Reinhard	2	10	9/30/2025
Harry Drought	3	37	9/30/2026
Pat Tiner	4	9	9/30/2027
Mitch Thornton	5	1	N/A

As Mayor of the City, Mr. Thornton serves on the Board.

SYSTEM ADMINISTRATION

Name	Position	Length of Service With City
William "Jeff" English	General Manager	18
Kelly Dawley	Assistant General Manager	11

Gas Supply

Gas is supplied to the distribution system through long-term firm and interruptible pipeline capacity transportation contracts with Enterprise Pipeline. Physical gas supply is purchased from a range of suppliers including Koch Energy Services, West Texas Gas and Enterprise Energy Marketing. Total gas load requirements vary from about 2,000 MMBtus per day in the summer to approximately 12,000 MMBtus in the winter with peak to approximately 22,000 MMBtus per day during sustained cold winter periods. GFU is obligated to pay only for gas delivered at a cost based on a benchmark price adjusted daily in proportion to a published industry index. Following the 2021 Event, GFU's contract with Enterprise Gas Marketing was modified to allow GFU to purchase gas at a price to be fixed on the first of each month. The cost of gas for a given month is passed directly through to the utility customers.

Gas Distribution

GFU has two gate stations located on the Enterprise Pipeline. One of those stations is located adjacent to IH-10 near the City of Boerne, Texas, and the other is on the west side of the distribution system near the intersection of Highways 471 and 211 on Culebra Road. These gas stations serve the distribution system via 400 miles of high-pressure steel wrapped and coated pipe, and about 410 miles of polyethylene mains ranging in size up to about 8 inches in diameter. The steel pipe and related infrastructure in the distribution system is 100% under cathodic protection and is extremely well maintained. The utility operates both high- and low-pressure regulator stations. The utility is inspected by the Texas Railroad Commission for the annually required federal safety inspection. GFU is the only utility in Texas to obtain a perfect safety score four years in a row. The utility installs from 5 to 10 miles of new and upgraded mains each year and connects approximately 575 new customers per year.

License Agreement

Pursuant to the authority provided by Section 181.026, Texas Utilities Code, among other applicable laws, the City has executed a license agreement (the "License Agreement") with the City of San Antonio, Texas, dated July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City is permitted to provide, construct, operate and maintain certain natural gas lines within the boundaries of the City of San Antonio which it originally established in 1967, to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement. The City pays the City of San Antonio a quarterly license fee of 3% of the gross revenues it receives from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the

Licensed Area (which comprises approximately 50% of the System’s natural gas service area), the System is in direct competition with the City of San Antonio, acting by and through City Public Service, as a supplier of natural gas.

System Improvements

GFU recently completed a 5-year plan of system upgrades to loop and interconnect several remote sections of the utility to improve pressure and reliability. The system pressure was increased to accommodate recent expansion and customer additions and to provide for long term growth. New regulator stations were installed to replace older stations and upgrades were completed throughout the distribution system. GFU has recently launched another system maintenance and upgrade plan and a plan for expansion into several areas of projected high growth in the future. The utility operates about 16 vehicles and they are dual fueled with gasoline and compressed natural gas (“CNG”) and operates their own CNG station for the purpose of fueling their vehicles at a significant fuel cost savings against gasoline and diesel fuel.

**GAS SYSTEM REVENUE DEBT STATEMENT
(As of April 30, 2021)**

Gas System Revenue Bonds:	
Gas System Revenue Bonds, Series 2005	\$ 1,485,000
Gas System Revenue Refunding Bonds, Series 2020	8,170,000
The Bonds	<u>25,570,000*</u>
Total Gas System Revenue Bonds Outstanding	<u>\$35,225,000*</u>

*Preliminary, subject to change.

**GAS SYSTEM FUND BALANCES
(As of December 31, 2020)**

Interest and Sinking Fund	\$ 747,409
Reserve Fund	503,830
Replacement and Extension Fund	<u>35,000</u>
Total Fund Balances	<u>\$1,286,239</u>

The Utility’s Required Reserve Fund Balance is \$1,101,886. Until the Required Reserve Fund Balance is reached the Utility is required to make monthly deposits of \$5,246.15 into the Reserve Fund. Upon the issuance of the Bonds, the Required Reserve will be \$_____. At closing, the Utility will fully fund the Required Reserve with Bond Proceeds and monthly deposits will no longer be required.

REVENUE DEBT SERVICE REQUIREMENTS

FYE (12/31)	Current Total Debt Service	The Bonds*			Combined Debt Service*
		Principal	Interest ⁽¹⁾	Total	
2021	\$ 1,600,968				\$ 1,600,968
2022	1,595,380	\$ 3,045,000	\$ 370,699	\$ 3,415,699	5,011,079
2023	1,598,763	3,110,000	303,355	3,413,355	5,012,118
2024	1,601,412	3,130,000	284,625	3,414,625	5,016,037
2025	1,593,450	3,160,000	257,870	3,417,870	5,011,320
2026	635,747	3,195,000	(49,496)	3,145,504	3,781,251
2027	633,517	3,245,000	170,544	3,415,544	4,049,061
2028	631,227	3,305,000	109,100	3,414,100	4,045,327
2029	633,846	3,380,000	38,025	3,418,025	4,051,871
2030	631,374	-	-	-	631,374
2031	633,812	-	-	-	633,812
Total	\$ 11,789,494	\$ 25,570,000	\$ 1,484,722	\$ 27,054,722	\$ 38,844,215

* Preliminary, subject to change.

⁽¹⁾ Interest calculated at an assumed rate for illustrative purposes only.

PRINCIPAL REPAYMENT SCHEDULE

FYE (12/31)	Currently Outstanding Obligations	The Bonds Repayment Schedule*	Combined Principal Repayment Schedule*	Obligations Remaining Outstanding End of Year*	Percent of Principal Retired*
	Principal				
2021	\$ 1,425,000		\$ 1,425,000	\$ 35,225,000	4%
2022	1,455,000	\$ 3,045,000	4,500,000	30,725,000	13%
2023	1,485,000	3,110,000	4,595,000	26,130,000	15%
2024	1,515,000	3,130,000	4,645,000	21,485,000	18%
2025	1,535,000	3,160,000	4,695,000	16,790,000	22%
2026	595,000	3,195,000	3,790,000	13,000,000	23%
2027	600,000	3,245,000	3,845,000	9,155,000	30%
2028	605,000	3,305,000	3,910,000	5,245,000	43%
2029	615,000	3,380,000	3,995,000	1,250,000	76%
2030	620,000	-	620,000	630,000	50%
2031	630,000	-	630,000	-	100%
Total	\$ 11,080,000	\$ 25,570,000	\$ 36,650,000		

* Preliminary, subject to change.

GAS SYSTEM PLANT IN OPERATION

(As of December 31, 2020)

(Table 1)

	12/31/2020	12/31/2019
Utility Plant in Service	\$ 82,643,204	\$ 77,597,848
Equipment, Buildings and Other	<u>3,762,035</u>	<u>3,505,532</u>
Total	\$ 86,405,239	\$ 81,103,380
Less: Accumulated Depreciation	\$ (23,032,143)	\$ (21,280,046)
Net Property, Plant and Equipment	\$ 63,373,096	\$ 59,823,334

Source: 2020 draft audit and 2019 Audit.

GAS SYSTEM OPERATING STATEMENT

(Table 2)

	12/31/2020 ⁽¹⁾	12/31/2019	12/31/2018	12/31/2017	12/31/2016
Revenues:					
Gas Sales	\$ 12,402,855	\$ 13,863,799	\$ 14,074,145	\$ 12,119,671	\$ 11,990,377
Interest, Fees and Other	<u>143,730</u>	<u>25,536</u>	<u>341,549</u>	<u>141,001</u>	<u>183,355</u>
Total Revenues	\$ 12,546,585	\$ 13,889,335	\$ 14,415,694	\$ 12,260,672	\$ 12,173,732
Expenses:					
Gas Purchased	\$ 3,717,252	\$ 4,718,359	\$ 5,786,284	\$ 4,029,920	\$ 4,149,961
Other Operating Expenses ⁽²⁾	<u>2,702,933</u>	<u>2,759,463</u>	<u>2,158,863</u>	<u>2,683,495</u>	<u>2,081,834</u>
Total Expenses	\$ 6,420,185	\$ 7,477,822	\$ 7,945,147	\$ 6,713,415	\$ 6,231,795
Net Available for Debt Service	\$ 6,126,400	\$ 6,411,513	\$ 6,470,547	\$ 5,547,257	\$ 5,941,937
Annual Debt Service	\$ 1,433,140	\$ 629,110	\$ 671,955	\$ 668,698	\$ 668,944
Coverage of Annual Debt Service	4.27x	10.19x	9.63x	8.30x	8.88x
Customer Count (Gas):	17,700	17,210	16,000	15,650	14,500

⁽¹⁾ Fiscal Year Ending December 31, 2020 financials based upon draft audited financials.

⁽²⁾ Excludes Depreciation and Amortization.

TOP TEN GAS USERS

(Table 3)

The System has decided not to disclose the top 10 users viewing the information as proprietary. However, in Fiscal Year 2020 approximately 90% of total System revenues were generated from residential and small retail customers.

**GAS RATES
(Table 4)**

**Rates
Effective February 24, 2009**

The following uniform monthly rates shall be charged and collected from each consumer of gas used each month.

CLASS A - RESIDENTIAL AND SMALL COMMERCIAL

This rate is applicable for all residential consumers and for all non-residential consumers that do not exceed an annual gas use of 10,000 CCF.

RATE	
For Service:	
\$3.00	Monthly Service Availability Fee, Plus
For Gas Purchased:	
\$6.500	Minimum Bill for Gas Purchased which includes
\$0.840	Per 100 cubic feet (CCF) for the first 10 CCF, PLUS:
\$0.574	Per 100 cubic feet for all gas metered over 10 CCF, PLUS

Plus, adjustments for the cost of gas as provided for below.

CLASS A2 - RESIDENTIAL AND SMALL COMMERCIAL

This rate is applicable for all residential consumers and for all non-residential consumers who have the capability of using alternative or competitive fuels.

RATE	
For Service:	
\$7.92	Monthly Service Availability Fee, Plus
For Gas Purchased:	
\$0.43	Per 100 cubic feet (CCF)

Plus, adjustments for the cost of gas as provided for below.

CLASS B - LARGE COMMERCIAL

This rate is applicable for all non-residential consumers that have a minimum annual gas use of 10,000 CCF. If the use for the first month's bill for a new consumer exceeds 900 CCF, the consumer shall be classified as Class B unless the annualized use drops to less than 10,000 CCF or unless estimates or fuel use history show annual consumption greater than 10,000 CCF. All non-residential consumers' gas use will be reviewed annually at intervals between 12 and 24 months to determine their rate category.

RATE	
\$0.547	Per 100 Cubic Feet for all gas metered, PLUS:
Plus, adjustments for the cost of gas as provided for below.	

CLASS B2 - LARGE COMMERCIAL

This rate is applicable for all non residential consumers that have a minimum annual gas use of 7,000 CCF and a maximum annual use of 18,000 CCF who have the capability of using alternative or competitive fuels. If the use for the first month's bill for a new consumer exceeds 600 CCF the consumer shall be classified as Class B2 unless the annualized use drops to less than 7,000 CCF or unless estimates or fuel use history show annual consumption greater

than 7,000 CCF. All non-residential consumer's gas use will be reviewed at intervals between 12 and 24 months to determine their rate category.

RATE
\$0.34 Per 100 Cubic Feet for all gas metered, PLUS:

Plus, adjustments for the cost of gas as provided for below.

CLASS B3 - LARGE COMMERCIAL

This rate is applicable for all non-residential consumers that have a minimum annual gas use of 18,000 CCF who have the capability of using alternative or competitive fuels. If the use for the first month's bill for a new consumer exceeds 1,500 CCF, the consumer shall be classified as Class B3 unless the annualized use drops to less than 18,000 CCF or unless estimates or fuel use history show annual consumption greater than 18,000 CCF. All nonresidential consumer's gas use will be reviewed at intervals between 12 and 24 months to determine their rate category.

RATE
\$0.327 Per 100 Cubic Feet for all gas metered, PLUS;

Plus, adjustments for the cost of gas as provided for below.

CLASS C - GAS FOR RESALE METERING, ODORIZING AND REGULATING

RATE
This rate is applicable for gas owned by a reseller
RATE

\$0.1845 Per MMBtu. Such rate may be increased or decreased by the mutual consent of both parties.

Plus, adjustments for the cost of gas as provided for below.

CLASS D - INDUSTRIAL

This rate is applicable for gas used for industrial purposes. To qualify for a Class D rate, the consumer must use a minimum of 2,000 MMBtu per month.

RATE
Industrial rates will be determined upon application by contract.

CLASS E - SCHOOLS

This rate is applicable for gas used for educational institutions.

RATE
Unless otherwise determined by contract, the school rates will be the Class A, Class A2, Class B, Class B2, or Class B3 rate above, as applicable.

CLASS F - THIRD PARTY DAMAGE RESULTING IN LOSS OF GAS

This rate is applicable for gas lost from the GFU Natural Gas System resulting from third party damage. Lost gas shall be calculated using accepted industry standard formulas.

RATE

This gas will be billed at the highest Class A incremental billing rate, PLUS: an adjustment the actual cost of gas purchase as provided for Section 1 below.

SECTION 1 (d): COST OF GAS ADJUSTMENT (COGA) means an adjustment for the actual cost of natural gas for residential, small commercial, large commercial, and schools. The COGA will be plus or minus an amount which reflects the difference in the unit cost factor for the current month above or below a unit cost of \$0.187 per CCF, except that any discounts negotiated between FFU's supplier(s) and individual consumers shall be applied to the COGA for that customer. The unit gas cost factor for the current month shall include, but is not limited to: an adjustment to reflect offsetting credits or additions to gas costs resulting from taxes or transportation costs, accounting cost, gas acquisition cost, billing record corrections or other out-of-period adjustments to gas cost, required payments to governmental entities or for municipal purposes, purchases corrected for distribution system losses and other permitted costs associates with the utility.

PROJECTION OF INCOME, EXPENSES, NET AVAILABLE FOR DEBT SERVICE AND COVERAGE OF DEBT SERVICE REQUIREMENTS ⁽¹⁾

		Revenue and Expenses										Debt Service		
FYE (12/31)	Customer Count	System Revenue	Increase due		Total Revenues	Less: O&M Expenses	Net Available for Debt Service	Existing Debt Service	Plus: Debt Service on the		Combined Debt Service*	Coverage Factor*		
			Through Costs	to Pass					Bonds ⁽²⁾					
2021	17700	\$ 13,889,335	\$ 2,916,666	\$ 16,806,001	\$ 7,477,822	\$ 9,328,179	\$ 1,600,968			\$ 1,600,968	5.83X			
2022	17700	\$ 13,889,335	3,500,000	\$ 17,389,335	7,477,822	\$ 9,911,513	1,595,380	\$ 3,415,699		5,011,079	1.98X			
2023	17700	\$ 13,889,335	3,500,000	\$ 17,389,335	7,477,822	\$ 9,911,513	1,598,763	3,413,355		5,012,118	1.98X			
2024	17700	\$ 13,889,335	3,500,000	\$ 17,389,335	7,477,822	\$ 9,911,513	1,601,412	3,414,625		5,016,037	1.98X			
2025	17700	\$ 13,889,335	3,500,000	\$ 17,389,335	7,477,822	\$ 9,911,513	1,593,450	3,417,870		5,011,320	1.98X			
2026	17700	\$ 13,889,335	3,500,000	\$ 17,389,335	7,477,822	\$ 9,911,513	635,747	3,145,504		3,781,251	2.62X			
2027	17700	\$ 13,889,335	3,500,000	\$ 17,389,335	7,477,822	\$ 9,911,513	633,517	3,415,544		4,049,061	2.45X			
2028	17700	\$ 13,889,335	3,500,000	\$ 17,389,335	7,477,822	\$ 9,911,513	631,227	3,414,100		4,045,327	2.45X			
2029	17700	\$ 13,889,335	3,500,000	\$ 17,389,335	7,477,822	\$ 9,911,513	633,846	3,418,025		4,051,871	2.45X			
2030	17700	\$ 13,889,335		\$ 13,889,335	7,477,822	\$ 6,411,513	631,374	-		631,374	10.15X			
2031	17700	\$ 13,889,335		\$ 13,889,335	7,477,822	\$ 6,411,513	633,812	-		633,812	10.12X			
Total							\$ 11,789,494	\$ 27,054,722		\$ 38,844,215				

⁽¹⁾ Revenue and expenditure assumptions are based on audited 2019 financials and adjusted to reflect the pass through Cost of Gas Adjustment to cover the Bonds implemented by GFU as a result of the 2021 Weather Event. 2021 Increase is anticipated based upon 10 months of collections

⁽²⁾ Preliminary, subject to change.

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APPENDIX B

General Information Regarding the City of Grey Forest and Bexar County, Texas

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APPENDIX B

General Information Regarding the City of Grey Forest and Bexar County, Texas

LOCATION AND POPULATION . . . The City of Grey Forest, Texas (the “City”) is a residential community located along Scenic Loop Road north of State Highway 16 and its intersection with Loop 1604. The City is located northwest of San Antonio, Texas, the City holds the advantages of close proximities to the two major theme parks, Six Flags Fiesta Texas and Sea World, as well as to other major attractions and eating establishments. The 2010 Census population of the City was 483. The 2021 estimated population is 650.

GOVERNMENT . . . The City a Type A municipal corporation governed by a Mayor and a five-member City Council elected for two year terms.

EDUCATIONAL FACILITIES . . . The City is within the Northside Independent School District (the “District”). The District has three primary schools, one middle school and one high school within the City’s Limits. Established in 1949, the District includes property in Bexar, Medina and Bandera Counties. The District contains an area of 316.49 square miles located in Bexar, Medina and Bandera Counties. The District primarily lies in the northwest quadrant of Bexar County and is traversed by Interstate Highway 10, a portion of U.S. Highway 90, Bandera Road and Culebra Road. Loop 410, a major expressway loop (the “Inner Loop”) encircling San Antonio, runs through the southern and southwestern portions of the District. The “Outer Loop”, Highway 1604, also runs through a portion of the District. The District has a 2015 estimated population of 608,000.

Fourteen new schools have opened in the District in the last six years, and six more are planned to open in the next four years. The District is the largest of the 15 school districts in Bexar County and the 4th largest in the State. The District continues to be the “destination” district in San Antonio for many families seeking a quality school system.

BEXAR COUNTY . . . The County was organized in 1836 as one of the original counties of the Republic of Texas and is now the fourth most populous of the 254 counties in the State. The County has an area of approximately 1,248 square miles and is located in south central Texas and is a component of the San Antonio-New Braunfels MSA. The principal city within the County is San Antonio, which is the county seat.

The diversified economic base of the County is composed of financial services, healthcare, agriculture, manufacturing, construction, military, and tourism. The County’s proximity to Mexico provides favorable conditions for international business relations with the country in the areas of agriculture, tourism, manufacturing, wholesale and retail markets. Industry ranges from the manufacturing of apparel, food products, aircraft, electronics and pharmaceuticals to iron and steel products and oil well equipment. San Antonio is a major insurance center in the southwest, serving as the headquarters for several insurance companies, including United Services Automobile Association.

LABOR FORCE STATISTICS FOR BEXAR COUNTY⁽¹⁾

	2021 ⁽²⁾	2020 ⁽³⁾	2019 ⁽³⁾	2018 ⁽³⁾	2017 ⁽³⁾
Civilian Labor Force	952,997	958,667	949,380	936,251	924,257
Total Employed	886,055	895,338	919,763	905,106	891,563
Total Unemployed	66,942	63,329	29,617	31,145	32,694
Unemployment Rate	7.0%	6.6%	3.1%	3.3%	3.5%
% Unemployed (Texas)	7.5%	7.1%	3.5%	3.8%	4.3%
% Unemployed (U.S.)	6.6%	6.5%	3.7%	3.9%	4.4%

⁽¹⁾ Source: Texas Employment Commission.

⁽²⁾ As of February 2021.

⁽³⁾ Actual annual statistics.

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APPENDIX C

Excerpts from the Grey Forest Utilities Audited Financial Statement for the Year Ended December 31, 2019

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The City of Grey Forest, Texas – Gas Utility Fund
A Component Unit of the City of Grey Forest, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the City of Grey Forest, Texas – Gas Utility Fund (GFU), a component unit of the City of Grey Forest, Texas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the GFU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to GFU'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 GFU's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of GFU, as of December 31, 2019 and 2018, and the respective changes in financial position, and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

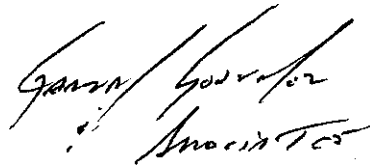
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Changes in Net Pension Liability, the Schedule of Employer Contributions, and the Schedule of Changes in Total Other Post-Employment Benefits (OPEB) Liabilities and Related Ratios, as listed in the table of contents, 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 GFU's basic financial statements. The Budgetary Comparison Schedule and Detail of Costs and Other General Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Information, as listed in the table of contents, 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 Budgetary Comparison Schedule and Detail of Costs and Other General Expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2020, on our consideration of GFU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the GFU's internal control over financial reporting and compliance.



Gary G. Gorman
Auditor

April 17, 2020

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018

The Management's Discussion and Analysis is intended to provide a narrative overview of Grey Forest Utilities' (GFU) financial activities for the years ended December 31, 2019 and 2018 with comparatives for the year ended 2017. The information should be used in conjunction with the accompanying basic financial statements.

Grey Forest Utilities (GFU) is a component unit of the City of Grey Forest, Texas. GFU is a government entity that operates as a proprietary fund. Proprietary fund accounting is performed on the accrual basis, just as a normal business would use. GFU provides gas services to the City of Grey Forest, Texas as well as the surrounding areas.

Financial Highlights

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Total Assets & Deferred Outflows	\$ 72,391,748	\$ 68,409,728	\$ 3,982,020
Net Capital Assets	59,823,334	56,786,924	3,036,410
Total Liabilities	16,207,418	15,720,434	486,984
Gas Sales	13,863,799	14,075,145	(211,346)
Gas Purchases	4,718,359	5,786,284	(1,067,925)
Change in Net Position	3,609,851	3,811,758	(201,907)
Active Meters	16,256	15,784	472

- During 2018 GFU issued \$10,000,000 in Revenue and Refunding Bonds, Series 2018 for improvements to the system, to refund certain outstanding obligations of \$4,373,550, and pay the costs of issuance. As a result, cash and cash equivalents increased by \$6,746,259.
- Net operating income for 2019 was \$4,771,476 compared to \$4,916,198 in 2018, a decrease of \$144,722, or 2.9%
- The change in net position was \$3,609,851 in 2019 compared to \$3,811,758 in 2018, a decrease of \$201,907, or 5.3%.

Overview of the Financial Statements

The basic financial statements consist of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The financial information is reported similar to private sector businesses. The Statement of Net Position defines GFU's financial position and operating performance. It presents all of the assets, liabilities, and deferred inflows and outflows. It identifies investments in capital assets, net of related debt. It provides the foundation for measuring the activity and liquidity of GFU. The Statement of Revenues, Expenses and Changes in Net Position assesses GFU's profitability. The Statement of Cash Flows provides detailed information about the cash effects of the operating, investing and financing activities of GFU.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018

Financial Analysis

The company's financial position for the last three years is presented in Table One, the Condensed Statement of Net Position.

Table One
City of Grey Forest, Texas – Gas Utility Fund
Condensed Statement of Net Position
December 31,

	2019	2018	2017
Capital assets, net	\$ 59,823,334	\$ 56,786,924	\$ 52,785,136
Deferred outflows	1,236,156	585,864	735,312
Current and other assts	\$ 11,332,258	11,036,940	4,057,427
Total assets	<u>72,391,748</u>	<u>68,409,728</u>	<u>57,577,875</u>
Bonds payable, less current portion	\$ 10,928,846	\$ 12,100,000	\$ 2,480,000
Notes payable, less current portion	-	-	750,000
Net pension liability	2,708,666	1,584,445	2,035,939
OPEB liability	92,286	94,556	80,854
Deferred inflows	137,706	252,521	43,991
Current and other liabilities	2,477,620	1,941,433	3,562,076
Total liabilities & deferrred inflows	<u>16,345,124</u>	<u>15,972,955</u>	<u>8,952,860</u>
Net position	<u>56,046,624</u>	<u>52,436,773</u>	<u>48,625,015</u>
Liabilities and net position	<u>\$ 72,391,748</u>	<u>\$ 68,409,728</u>	<u>\$ 57,577,875</u>

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

MANAGEMENT’S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018

Liquidity is a critical measure for all entities. Liquidity measures the company’s ability to meet current operating needs with current operating income. One measure of liquidity is a simple comparison of current assets to current liabilities.

The current ratio is another measure of the entity’s liquidity. The current ratio quantifies the efficiency of an operating cycle. It measures the company’s ability to turn its product into cash. A higher current ratio indicates a greater ability to pay these obligations. A ratio under one (1.00) suggests that an entity would be unable to pay its obligations as they come due. Below is a chart depicting the current ratios for 2019, 2018 and 2017.

<u>Current Ratio</u>	
2019	4.57
2018	5.68
2017	1.13

The Condensed Statement of Revenues, Expenses, and Changes in Net Position are displayed in Table Two. This statement is more commonly referred to as the Profit and Loss Statement. The table shows the overall profitability of the company over a three-year period. The Company’s change in net position (profitability) increased in 2018 and slightly decreased in the current year. While both sales and meters decreased, several other factors affected profitability. These factors were: 1) an increase in interest expense due to the newly issued Bonds, 2) higher labor costs, and 3) increases in depreciation due to the expanding distribution system. The net operating activity, which is a measure the company’s daily operation, decreased by \$50,729.

Table Two
City of Grey Forest, Texas – Gas Utility Fund
Condensed Statement of Revenues, Expenses and Changes in Net Position
December 31,

	<u>2019</u>		<u>2018</u>		<u>2017</u>
Operating revenues	\$ 13,889,335	\$	14,416,694	\$	12,260,672
Operating expenses	<u>9,117,859</u>		<u>9,500,496</u>		<u>8,223,227</u>
Net operating income	<u>4,771,476</u>		<u>4,916,198</u>		<u>4,037,445</u>
Non-operating revenues(expenses)	<u>(1,161,625)</u>		<u>(1,104,440)</u>		<u>(918,167)</u>
Change in net position	<u>3,609,851</u>		<u>3,811,758</u>		<u>3,119,278</u>
Beginning net position (restated)	<u>52,436,773</u>		<u>48,625,015</u>		<u>45,505,737</u>
Ending net position	<u>\$ 56,046,624</u>	\$	<u>52,436,773</u>	\$	<u>48,625,015</u>

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

MANAGEMENT’S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018

Capital Assets

GFU’s investment in capital assets, net of accumulated depreciation, totaled \$59,823,334 for 2019 and \$56,786,924 for 2018. The bulk of this increase was due to the systems distribution system. Total additions were \$4,676,447 in 2019, \$5,551,389 in 2018, and \$4,789,805 in 2017. Additions were primarily for mains, lines, and meters as a result of improvements to the distribution system. Depreciation expense for 2019 was \$1,634,288, compared to \$1,549,601 in 2018, and \$1,428,958 in 2017.

Table Three
City of Grey Forest, Texas – Gas Utility Fund
Summary of Capital Assets, Net of Accumulated Depreciation
December 31,

	2019	2018	2017
Land and land rights	\$ 33,084	\$ 33,084	\$ 33,084
Land improvements	84,356	93,500	106,645
Building - storage	4,616	6,924	10,306
Buildings – Board	23,131	24,700	29,183
Building improvements	78,020	83,633	89,602
Distribution systems	-	2,290	29,772
Office equipment	85,452	52,145	79,981
Power equipment	499,492	585,107	471,235
Mains/Lines/Meters	59,015,183	55,905,541	51,935,328
Total capital assets, net of depreciation	<u>\$ 59,823,334</u>	<u>\$ 56,786,924</u>	<u>\$ 52,785,136</u>

Long-term Debt

In fiscal year 2018, GFU issued \$10,000,000 in Revenue and Refunding Bonds, Series 2018 for improvements to the system, to refund outstanding obligations of \$4,373,550, and pay the costs of issuance. The bonds were issued, net of discount, for \$9,950,000. Interest expense, net of capitalized interest, was \$443,664, \$215,539, and \$202,396 for 2019, 2018, and 2017, respectively.

GFU participates in the Texas Municipal Retirement System (TMRS) defined benefit pension plan and records a liability for its proportionate share of the total plan liability less plan assets. The net pension liability increased in 2019 by \$1,124,221, or 71%, decreased in 2018 by \$451,494, or 22.2%, and decreased in 2017 by \$319,260, or 13.6%. The change in the net pension liability is a result of an actuarial study which consider changes in assumptions, rates, terms, earnings, etc.

GFU also participates in the TMRS Supplemental Death Benefits fund which is an Other Post Employment Benefit (OPEB). GASB Statement 75 was adopted in 2018. The OPEB liability was reported as \$92,286 for 2019, \$94,556 for 2018, and \$80,854 for 2017.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018

Table Four
City of Grey Forest, Texas – Gas Utility Fund
Summary of Long-term Debt
December 31,

	2019	2018	(Restated) 2017
Bonds payable	\$ 12,150,000	\$ 12,465,000	\$ 3,035,000
Unamortized discount on bonds	(46,154)	(50,000)	-
Notes & LOC payable	-	-	2,958,341
Net pension liability	2,708,666	1,584,445	2,035,939
OPEB liability	92,286	94,556	80,854
Total long-term liabilities	\$ 14,904,798	\$ 14,094,001	\$ 8,110,134

Debt instruments outstanding were as follows:

Table Five
City of Grey Forest, Texas – Gas Utility Fund
Summary of Debt Instruments Outstanding
December 31,

	Original Amount	Rate	2019	2018	2017
2009 Gas System Revenue Bonds	\$ 265,000	4.25%	\$ -	\$ -	\$ 265,000
2005 Gas System Revenue Bonds	\$ 5,050,000	3.68%	2,150,000	2,465,000	2,770,000
2018 Gas System Revenue and Refunding Bonds, net of discount	\$ 10,000,000	3.70%	9,953,846	9,950,000	-
Total Bonds			12,103,846	12,415,000	3,035,000
Line of Credit	\$ 600,000	3.00%	-	-	258,341
Line of Credit	\$ 1,200,000	3.00%	-	-	1,200,000
Line of Credit	\$ 3,000,000	3.00%	-	-	1,500,000
Total Notes			-	-	2,958,341
			\$12,103,846	\$12,415,000	\$ 5,993,341

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018

Economic Factors and Budget

The budget for the fiscal year ending December 31, 2019 and 2018 were presented and approved by the Board of Directors of GFU. The budget reflected increasing revenues as the customer base continued to grow. Variable expenses were projected to rise accordingly. Operating expenses were not expected to increase at the same rate as management implemented more efficient policies. There are on-going capital projects in process designed to keep pace with the growing customer base.

The greater San Antonio area continues to grow. Much of its growth is in the west and north sides of the town. Grey Forest Utilities serves these areas.

Request for Information

Requests for information may be addresses to Grey Forest Utilities, 14570 Bandera Road, Helotes, Texas 78023-3700. The utility's phone number is 210-695-8781.

Basic Financial Statements

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

STATEMENTS OF NET POSITION

December 31, 2019 and 2018

	2019	2018
ASSETS		
Capital assets		
Utility plant in service	\$ 77,597,848	\$ 73,047,641
Equipment, buildings and other	3,505,532	3,379,292
Total capital assets	81,103,380	76,426,933
Less: accumulated depreciation	21,280,046	19,640,009
Net capital assets	59,823,334	56,786,924
Restricted assets:		
Cash and cash equivalents	916,762	811,375
Current assets		
Cash and cash equivalents-unrestricted	7,663,029	7,763,063
Accounts receivable-customer	2,350,337	2,151,899
Inventory	298,183	206,656
Other current assets	103,947	103,947
Total current assets	10,415,496	10,225,565
Total assets	71,155,592	67,823,864
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows -pension	1,231,130	578,707
Deferred outflows - OPEB	5,026	7,157
Total deferred outflows of resources	1,236,156	585,864
Total assets and deferred outflows of resources	\$ 72,391,748	\$ 68,409,728
LIABILITIES AND NET POSITION		
Noncurrent Liabilities:		
Bonds payable, net of discount	\$ 10,928,846	\$ 12,100,000
Net pension liability	2,708,666	1,584,445
OPEB liability	92,286	94,556
Total noncurrent liabilities	13,729,798	13,779,001
Net position:		
Net investment in capital assets	47,719,488	44,371,924
Restricted for debt service	726,202	736,750
Unrestricted	7,600,934	7,328,099
Total net position	56,046,624	52,436,773
Current liabilities:		
Accounts payable and accrued liabilities	897,154	1,510,401
Customer service deposits	214,906	41,407
Payable from restricted assets:		
Accrued interest payable	190,560	74,625
Current portion of debt	1,175,000	315,000
Total current liabilities	2,477,620	1,941,433
DEFERRED INFLOW OF RESOURCES		
Deferred inflows - pension	130,141	252,521
Deferred Inflows - OPEB	7,565	-
Total deferred inflows of resources	137,706	252,521
Total liabilities, net position and deferred inflows of resources	\$ 72,391,748	\$ 68,409,728

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

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Gas sales	\$ 13,863,799	\$ 14,075,145
Other fees and charges	25,536	341,549
Total operating revenues	13,889,335	14,416,694
Operating expenses		
Gas purchases	4,718,359	5,786,284
Other operating and general expenses	2,759,463	2,158,863
Depreciation and amortization	1,640,037	1,555,349
Total operating expenses	9,117,859	9,500,496
Net operating income	4,771,476	4,916,198
NON-OPERATING REVENUES (EXPENSES)		
Interest income	70,933	26,665
Interest expense	(443,664)	(215,539)
Bond issue costs	-	(164,237)
Transfers to City of Grey Forest	(788,894)	(751,329)
Total non-operating revenues (expenses)	(1,161,625)	(1,104,440)
Change in net position	3,609,851	3,811,758
Net position at beginning of year	52,436,773	48,625,015
Net position at end of year	\$ 56,046,624	\$ 52,436,773

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

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received from customers	\$ 13,690,897	\$ 14,096,567
Payments to suppliers for goods and services	(6,520,901)	(5,691,372)
Payments to employees	(1,131,362)	(1,511,963)
Net cash provided (used) by operating activities	6,038,634	6,893,232
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers to the City of Grey Forest	(788,894)	(751,329)
Net cash provided (used) by non-capital financing activities	(788,894)	(751,329)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on revolving lines of credit	-	(5,651,571)
Proceeds from revolving lines of credit	-	2,693,230
Principal payments on bonds	(315,000)	(570,000)
Proceeds from issuance of bonds	-	9,950,000
Bond issue costs	-	(104,500)
Interest paid on debt	(323,874)	(188,080)
Acquisition and construction of capital assets	(4,676,446)	(5,551,388)
Net cash provided (used) by capital & related financing activities	(5,315,320)	577,691
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	70,933	26,665
Net cash provided (used) by investing activities	70,933	26,665
Net increase (decrease) in cash and cash equivalents	5,353	6,746,259
Cash and cash equivalents at beginning of the year	8,574,438	1,828,179
Cash and cash equivalents - end of the year	\$ 8,579,791	\$ 8,574,438
<u>Reconciliation to Statement of Net Position</u>		
Cash and Cash Equivalents - Restricted	\$ 916,762	\$ 811,375
Cash and Cash Equivalents - Unrestricted	7,663,029	7,763,063
Total cash and cash equivalents	\$ 8,579,791	\$ 8,574,438
RECONCILIATION OF UTILITY OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	4,771,476	4,916,198
Depreciation	1,634,288	1,549,601
Amortization	5,739	5,748
Net (increase) decrease in accounts receivable	(198,438)	(320,127)
Net (increase) decrease in inventory	(91,527)	21,387
Net (increase) decrease in deferred outflows - pension	(652,423)	156,605
Net (increase) decrease in deferred outflows - OPEB	2,131	(7,157)
Net increase (decrease) in accounts payable and accrued liabilities	(439,748)	800,239
Net increase (decrease) in net pension liability	1,124,221	(451,494)
Net increase (decrease) in net OPEB liability	(2,270)	13,702
Net increase (decrease) in deferred inflows - pension	(122,380)	208,530
Net increase (decrease) in deferred outflows - pension	7,565	-
Net cash provided (used) by operating activities	\$ 6,038,634	\$ 6,893,232

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

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

I. Summary of Significant Accounting Policies

The City of Grey Forest, Texas – Gas Utilities Fund (or “GFU”) is a municipally owned utility and is a component unit of the City of Grey Forest, Texas. The management and control of GFU’s gas system rests with GFU’s Board of Trustees (“Board”), pursuant to State law and by Charter of the City of Grey Forest, Texas.

GFU’s financial statements are presented in accordance with generally accepted accounting principles (GAAP) for business-type activities of governmental entities. In addition, GFU complies with the uniform system of accounts for Class A Gas Utilities under the National Association of Regulatory Utility Commissioners (NARUC).

A. Financial Reporting Entity

GASB Statement No. 61 The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and 34 was issued in November 2010. It provides specific criteria for evaluating whether legally separate entities should be included as component units of the primary government.

GFU meets the criteria under GASB Statement No. 61 and is considered a component unit of the City of Grey Forest, Texas.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

GFU reports financial information using accounting methods applicable to similar businesses in the private sector on the accrual basis of accounting. The measurement focus is based on the determination of operating income, changes in net assets, financial position, and cash flows. Revenues are recognized when earned and expenses are recorded when a liability is incurred.

Proprietary funds, like GFU, distinguish operating revenues and expenses from non-operating revenues and expenses. Operating activities result from providing services in connection with GFU’s principal ongoing operations. GFU’s primary operating revenue includes the delivery of natural gas to homes and businesses. Operating expenses include the cost of sales and services, general and administrative expenses and depreciation expense. Non-operating revenues and expenses are all other activities not meeting the above definitions. GFU does not hold fiduciary funds, accordingly, fiduciary activities are not included in these financial statements.

C. Assets, Liabilities and Net Assets

Deposits and Investments

For the purposes of the statement of cash flows GFU considers cash and cash equivalents to be, cash in demand accounts, and investment purchases with maturities of three months or less. GFU’s policy is to use restricted resources first followed by unrestricted resources as they are needed.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

I. Summary of Significant Accounting Policies (Continued)

GFU must comply with Texas law governing and regulating the types of investments eligible for public funds, including but not limited to, the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code. GFU has not adopted an investment policy.

All investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short-term” refers to investments which have a remaining term of one year or less. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes. Nonnegotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts.

Under Texas law, GFU is authorized to invest in a variety of investment vehicles that are either guaranteed or backed by Texas and U.S. government securities.

Approved investments are:

- Direct obligations of the United States including Treasury Bills, Treasury Notes, and Treasury Bonds;
- Obligations of the State of Texas including its agencies, counties, cities and other political subdivisions rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States; and
- Direct obligations of the following United States agencies and instrumentalities: Federal National Mortgage Association, Federal Farm Credit Bank, Federal Home Loan Bank, Student Loan Marketing Association and the Federal Home Loan Mortgage Corporation; and
- Certificates of Deposit or Money Market Accounts if issued by a state or national bank domiciled in the State of Texas. These funds must be guaranteed or insured by the FDIC, and/or secured by eligible collateral.

Local government investment pools are also an approved investment vehicle. An investment pool shall invest the funds from entities in authorized investments permitted by the Public Funds Investment Act. The Board has authorized Texas Local Government Investment Pool (TexPool).

TexPool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public fund investment pools and permit eligible governmental entities to join their funds in authorized investments.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

I. Summary of Significant Accounting Policies (Continued)

To comply with Texas governmental statutes, investment pools must be continuously rated no lower than AAA, AAA-m, or an equivalent rating by a nationally recognized rating agency with a weighted average maturity no greater than 90 days. A public fund investment pool created to function as a money market mutual fund, must mark its portfolio to market daily, and to the extent reasonably possible, stabilize at a \$1.00 Net Asset Value (“NAV”); the ratio of the market value to book value of the fund must be maintained between 0.995 and 1.009. Financial information for TexPool can be accessed on the internet (<http://www.texpool.com>).

Receivables

The accounts receivable consists of billed but not collected utility services. Amounts owed by such customers are unsecured. Any accounts that exceed sixty days past due are disconnected unless special arrangements with GFU’s management is made. No allowance for uncollectible accounts is maintained as any uncollectible accounts receivable are written off at the time they become uncollectible. Annual uncollectible account write-offs are an insignificant amount. Customer accounts receivable at December 31, 2019 and December 31, 2018 were \$2,350,337 and \$2,151,899, respectively.

Inventory

Inventory is valued at the lower of cost or market, except for obsolete items. Any obsolete items have been written down to estimated salvage value. Inventory consists of parts and maintenance items within the gas department.

Other Assets

Other assets consist of prepayments and deposits.

Restricted and Unrestricted Assets

Certain proceeds and resources of GFU’s revenue bonds are classified as restricted assets on the Statements of Net Position and their use is limited by applicable bond covenants. These monies are maintained in separate bank accounts. All other assets are considered unrestricted.

Net Pension Liability

GFU follows Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*; and, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB Statement No. 68, as amended and clarified by GASB Statement No. 71 requires state and local government employers to display the actuarially determined net pension liability in its financial statements. GFU adopted these statements in prior years. The required disclosures for the pension plan in accordance with GASB Statement No. 68 are included in Note VII.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

I. Summary of Significant Accounting Policies (Continued)

The fiduciary net position of the Texas Municipal Retirement System has been determined using the flow of economic resources measurement focus and full accrual basis of accounting, in accordance with GASB 68 and is the same as the basis used by the plan. This accrual basis was also used for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deduction from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

In fiscal year 2018, GFU adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires state and local government agencies to report the actuarially determined net other postemployment benefit liability in its financial statements. The primary objective of the Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The scope of the statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The disclosures for the OPEB plan required in accordance with GASB 75 are included in section VIII.

The fiduciary net position of the Texas Municipal Retirement System of Texas (TMRS) Supplemental Death Benefit Plan (SDBF) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting in accordance with GASB 75 and is the same basis used by the Plan. This includes for purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflow of resources related to the post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is an unfunded, pay-as-you-go plan.

Capital Assets

Capital assets, including self-constructed ones, are valued at historical cost or estimated historical cost if actual historical costs are not available.

Self-constructed capital assets include labor, materials and other non-labor costs directly attributable to the capital activity. Overhead costs that contribute to the capital program are allocated to capital projects. Additions to the distribution systems are generally self-constructed.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

I. Summary of Significant Accounting Policies (Continued)

Depreciation is calculated using the straight-line method and is based on estimated useful lives of three to fifty years. A half-year convention is used, whereby depreciation on assets acquired in the first six months are treated as having been placed in service at the midpoint of that period and likewise for the assets acquired in the second half of the year. Depreciation of fixed assets is charged as an expense against the operations of the departments. Accumulated depreciation is reported on the statement of net position.

<u>Assets</u>	<u>Years</u>
Structures	33-50
Electrical distribution/transmission facilities	13-33
Water pumping/treatment/transmission facilities	25-50
Wastewater pumping/treatment/transmission/distribution	25-40
Vehicles	5
Computer equipment	3
General equipment	10

Customer Deposits

GFU recognizes a liability for amount deposited with it by customers as a security for the payment of future bills.

Compensated Absences

GFU's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave for those employees under the presently adopted rules of TMRS.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports deferred outflows below assets as a separate section. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future(s) period and so will not be recognized as an outflow of resources (expense/expenditure) until then. GFU reports deferred outflows of resources related to its pension and OPEB plans.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources, represent 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. GFU reports deferred inflow related to its pension and OPEB plans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

I. Summary of Significant Accounting Policies (Continued)

These amounts result from contributions made by GFU to TMRS, its defined benefit pension/OPEB plan, after the measurement date of the net pension liability as well as changes in the net pension liability not yet reflected in pension expense. Changes in the net pension liability not yet reflected in pension expense include differences between projected and actual earnings on pension plan investments, expected and actual experience with regard to economic or demographic factors, and changes in assumptions about future economic or demographics factors. Differences between projected and actual earnings (investment gains/losses) are recognized in pension expense over a period of five years; while, other changes are recognized in pension expense using a systematic and rational manner over the average remaining service life for all active, inactive, and retired members.

Long Term Obligations

Long-term debt and other long-term obligations are reported as liabilities on the statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of the financial statement elements and disclosure of contingent amounts at the financial statement date, and reported amounts of related revenues and expenses if any, for the reporting period. Actual results may differ from management's estimates.

Effect of Recent Accounting Standards on Current Period Financial Statements

GASB has approved Statement No. 87 leases; Statement No. 88 certain disclosures related to debt, including Direct Borrowing, and Direct Placement; Statement No. 89 Accounting for Interest Cost Incurred before the end of a construction period and Statement 90 Majority Equity Interests, Statement No. 91 Conduit Debt Obligations, Statement No. 92 Omnibus 2020, and Statement No. 93 Replacement of Interbank Offered Rates. When these statements become effective, application of these standards may require restated portions of these financial statements.

Fair Value of Investments

GASB Statement No. 72, Fair Value Measurement and Application, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. GASB Statement No. 40 requires a determination as to whether GFU was exposed to the following specific investment risks at year end, and if so, the reporting of certain related disclosures:

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

II. Deposits and Investments

GFU's cash and cash equivalents as of December 31, 2018 are shown below:

By Investment Type	Fair Value	Weighted Average Maturity (Days)	Percent of Portfolio	Rating S&P
Certificate of Deposit	\$ 3,146,800	N/A	71%	N/A
TexPool	1,299,140	36	29%	AAA
Total Investments	4,445,940		100%	
Cash Deposits	4,133,851			
Total Cash and Cash Equivalents	<u>\$ 8,579,791</u>			
By Classification Type				
<i>Unrestricted</i>				
Cash Deposits	\$ 3,217,605			
Certificates of Deposit	3,146,800			
Texpool	1,298,624			
Total Unrestricted Cash	<u>7,663,029</u>			
<i>Restricted:</i>				
Cash Deposits	916,246			
Texpool	516			
Total restricted cash	<u>916,762</u>			
Total Cash and Cash Equivalents	<u>\$ 8,579,791</u>			

As of December 31, 2019, the carrying value of bank deposits was \$7,280,651 and the bank balance was \$7,745,846. As of year-end, and throughout the year, the bank deposits were secured by FDIC insurance or pledged collateral held by GFU's agent bank in GFU's name. All GFU investments are valued at fair value, in accordance with GASB Statement No. 31. In accordance with GASB 72 and GASB 79 GFUs investments in TexPool are reported at amortized cost, which approximates fair value. Investments in non-participating Certificates of Deposit are not required to be categorized under GASB 72. The certificates of deposit have original maturities of 30 days to 1 year.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

II. Deposits and Investments (Continued)

GFU's cash and cash equivalents as of December 31, 2018 are shown below:

By Investment Type	Fair Value	Weighted Average Maturity (Days)	Percent of Portfolio	Rating S&P
Certificate of Deposit	\$ 146,800	N/A	11%	N/A
TexPool	1,189,046	32	89%	AAA
Total	1,335,846		100%	
Cash Deposits	7,238,592			
Total Cash and Cash Equivalents	<u>\$ 8,574,438</u>			
 By Classification Type				
<i>Unrestricted</i>				
Cash Deposits	\$ 6,427,217			
Certificates of Deposit	146,800			
Texpool	1,189,046			
Total Unrestricted Cash	<u>7,763,063</u>			
 <i>Restricted:</i>				
Cash deposits	810,871			
Texpool	504			
Total restricted cash and cash equivalents	<u>811,375</u>			
Total Cash and Cash Equivalents	<u>\$ 8,574,438</u>			

As of December 31, 2018, cash and cash equivalents were \$8,574,438. Cash balances of \$2,822,167 were not covered by FDIC Insurance or pledged collateral held by GFU's agent bank in GFU's name.

Investments

GASB Statement No. 40 requires a determination as to whether GFU was exposed to the following specific investment risks at year end, and if so, the reporting of certain related disclosures:

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. State law places no limit on the amount GFU may invest in any one issuer

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

II. Deposits and Investments (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. State law dictates that in order to maintain eligibility to receive funds and invest funds on behalf of GFU, an investment pool must be continuously rated no lower than AAA, AAAM, or at an equivalent rating by at least one nationally recognized statistical rating organization (NRSRO). State law authorizes investments in obligations guaranteed by the U.S. government and does not require that these investments be rated. GFU's policy is to comply with state law. All of GFU's investments meet the State's requirements.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in GFU's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, GFU will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law requires settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. All safekeeping receipts for investment instruments are held in GFU's name, and all securities are registered in the name of the City of Grey Forest – Gas Utilities Fund.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GFU manages interest rate risk by investing in shorter term certificates of deposits and approved investment pools.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

III. Capital Assets

Capital asset activity for the fiscal year ended December 31, 2019 is as follows:

	Beginning Balance 1/1/19	Additions	Deletions	Ending Balance 12/31/19
Capital Assets, Not Being Depreciated:				
Land and land rights	\$ 33,084	\$ -	\$ -	\$ 33,084
Total capital assets, not being depreciated	33,084	-	-	33,084
Capital assets, being depreciated:				
Land improvement	172,384	-	-	172,384
Building – storage	42,822	-	-	42,822
Building – board	87,466	-	-	87,466
Building improvements	353,366	-	-	353,366
Distribution systems	1,375,168	-	-	1,375,168
Office equipment	750,317	56,972	-	807,289
Power equipment	1,957,046	69,268	-	2,026,314
Pay station	15,892	-	-	15,892
Mains/Lines/Meters	71,639,388	4,550,207	-	76,189,595
Total capital assets, being depreciated	76,393,849	4,676,447	-	81,070,296
Total capital assets	76,426,933	4,676,447	-	81,103,380
Less accumulated depreciation for:				
Land improvement	78,884	9,144	-	88,028
Building – storage	35,898	2,308	-	38,206
Building – board	62,766	1,569	-	64,335
Building improvements	269,733	5,613	-	275,346
Distribution systems	1,372,878	2,290	-	1,375,168
Office equipment	698,171	23,666	-	721,837
Power equipment	1,371,939	154,883	-	1,526,822
Pay station	12,990	252	-	13,242
Mains/Lines/Meters	15,736,750	1,440,312	-	17,177,062
Total accumulated depreciation	19,640,010	1,640,037	-	21,280,046
Total capital assets, being depreciated, net	56,753,840	3,036,410	-	59,790,250
Total capital assets, net	\$ 56,786,924	\$ 3,036,410	\$ -	\$ 59,823,334

Capitalized interest totaled \$89,455 for fiscal year 2019.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

III. Capital Assets (Continued)

Capital asset activity for the fiscal year ended December 31, 2018 is as follows:

	Beginning Balance 1/1/18	Additions	Deletions	Ending Balance 12/31/18
Capital Assets, Not Being Depreciated:				
Land and land rights	\$ 33,084	\$ -	\$ -	\$ 33,084
Total capital assets, not being depreciated	33,084	-	-	33,084
Capital assets, being depreciated:				
Land improvement	172,384	-	-	172,384
Building – storage	42,822	-	-	42,822
Building – board	87,466	-	-	87,466
Building improvements	353,366	-	-	353,366
Distribution systems	1,375,168	-	-	1,375,168
Office equipment	749,490	827	-	750,317
Power equipment	1,696,327	260,719	-	1,957,046
Pay station	15,892	-	-	15,892
Mains/Lines/Meters	66,349,545	5,289,843	-	71,639,388
Total capital assets, being depreciated	70,842,460	5,551,389	-	76,393,849
Total capital assets	70,875,544	5,551,389	-	76,426,933
Less accumulated depreciation for:				
Land improvement	65,739	13,145	-	78,884
Building – storage	32,516	3,381	-	35,898
Building – board	58,283	4,483	-	62,766
Building improvements	263,764	5,969	-	269,733
Distribution systems	1,345,396	27,482	-	1,372,878
Office equipment	672,663	25,508	-	698,171
Power equipment	1,225,092	146,847	-	1,371,939
Pay station	12,738	252	-	12,990
Mains/Lines/Meters	14,414,217	1,322,534	-	15,736,751
Total accumulated depreciation	18,090,408	1,549,601	-	19,640,009
Total capital assets, being depreciated, net	52,752,052	4,001,788	-	56,753,840
Total capital assets, net	\$ 52,785,136	\$ 4,001,788	\$ -	\$ 56,786,924

Capitalized interest totaled \$76,735 for fiscal year 2018.

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For the Year Ended December 31, 2019 and 2018

IV. Long-term Debt

Bonds payable activity for fiscal year 2019 is as follows:

Bonds	Original Amount	Maturity Date	Coupon Rate	Amount Due at 12/31/18	New	Retired	Amount Due at 12/31/19	Bond (Discount)	Amount Due Within One Year
05BD Series	5,050,000	2025	3.68%	2,465,000	-	315,000	2,150,000	-	325,000
18BD Series	<u>10,000,000</u>	2031	3.70%	<u>10,000,000</u>	-	-	<u>10,000,000</u>	<u>(46,154)</u>	<u>850,000</u>
Bond Totals	<u>15,050,000</u>			<u>12,465,000</u>	<u>-</u>	<u>315,000</u>	<u>12,150,000</u>	<u>(46,154)</u>	<u>1,175,000</u>

On December 15, 2018, GFU issued the City of Grey Forest, Texas Gas System Revenue and Refunding Bonds, Series 2018 in the amount of \$10,000,000. The purpose of the issuance was to provide funds to acquire, purchase, construct, improve, extend, renovate, enlarge, equip, and repair the system, to refund certain outstanding obligations, and pay the costs of issuance. The bonds mature on December 31, 2031 and were issued at a discount of \$50,000 for \$9,950,000. Proceeds of \$4,373,550 were used to refund existing outstanding obligations. Any economic gain or loss resulting from the issuance have not been determined. The discount on the issuance of bonds is amortized using the straight-line method over the life of the bonds. The current year amortization expense was \$3,846 and the unamortized discount totaled \$46,154 as of December 31, 2019.

The bond indentures covering the bonds include many provisions, the most significant of which are requirements for maintenance of certain cash balances. Restricted assets represent such amounts held for payment of the bonds. \$916,762 in cash and pooled investments included in restricted assets is restricted under the terms of the bond indentures.

The annual debt service requirements to maturity for all bonds outstanding at December 31, 2019 are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2020	\$ 1,175,000	\$ 427,415	\$ 1,602,415
2021	1,220,000	383,174	1,603,174
2022	1,260,000	337,363	1,597,363
2023	1,310,000	289,890	1,599,890
2024	1,365,000	240,477	1,605,477
2025-2029	4,240,000	637,841	4,877,841
2030-2035	<u>1,580,000</u>	<u>59,015</u>	<u>1,639,015</u>
Total	<u>\$ 12,150,000</u>	<u>\$ 2,375,175</u>	<u>\$ 14,525,175</u>

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IV. Long-term Debt (Continued)

Bonds payable activity for fiscal year 2018 is as follows:

Bonds	Original Amount	Maturity Date	Coupon Rate	Amount Due at 12/31/17	New	Retired	Amount Due at 12/31/18	Bond (Discount)	Amount Due Within One Year
09BD Series	\$ 265,000	2018	4.25%	\$265,000	\$ -	\$265,000	\$ -	\$ -	\$ -
05BD Series	5,050,000	2025	3.68%	2,770,000	-	305,000	2,465,000	-	315,000
18BD Series	<u>10,000,000</u>	2031	3.70%	-	10,000,000	-	10,000,000	(50,000)	-
Bond Totals	\$15,315,000			3,035,000	10,000,000	570,000	12,465,000	(50,000)	315,000
Jefferson Bank									
Line of Credit	600,000		3.00%	258,341	243,230	501,571	-	-	-
Line of Credit	1,200,000		3.00%	1,200,000	1,500,000	2,700,000	-	-	-
Line of Credit	<u>3,000,000</u>		3.00%	<u>1,500,000</u>	<u>950,000</u>	<u>2,450,000</u>	-	-	-
Notes Totals	<u>\$4,800,000</u>			<u>2,958,341</u>	<u>2,693,230</u>	<u>5,651,571</u>	-	-	-
				<u>\$5,993,341</u>	<u>\$12,693,230</u>	<u>\$6,221,571</u>	<u>\$12,465,000</u>	<u>(\$50,000)</u>	<u>\$315,000</u>

The bond indentures covering the bonds include many provisions, the most significant of which are requirements for maintenance of certain cash balances. Restricted assets represent such amounts held for payment of the bonds. \$811,375 in cash and pooled investments included in restricted assets is restricted under the terms of the bond indentures.

The annual debt service requirements to maturity for all bonds outstanding at December 31, 2018 are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2019	\$ 315,000	\$ 314,110	\$ 629,110
2020	1,175,000	427,415	1,602,415
2021	1,220,000	383,174	1,603,174
2022	1,260,000	337,363	1,597,363
2023	1,310,000	289,890	1,599,890
2024-2028	4,855,000	805,983	5,660,983
2029-2034	<u>2,330,000</u>	<u>131,350</u>	<u>2,461,350</u>
Total	<u>\$ 12,465,000</u>	<u>\$ 2,689,285</u>	<u>\$ 15,154,285</u>

GREY FOREST UTILITIES
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V. Changes in Long-term Debt

Long-term liability activity for the year ended December 31, 2019, was as follows:

	Amount Outstanding 1/1/19	Additions	Reductions	Amount Outstanding 12/31/19	Due Within One Year
Bonds payable	\$ 12,465,000	\$ -	\$ (315,000)	\$ 12,150,000	\$ 1,175,000
Unamortized discount on bonds	(50,000)	-	3,846	(46,154)	-
Notes & LOC payable	-	-	-	-	-
Net pension liability	1,584,445	1,658,463	(534,242)	2,708,666	-
OPEB liability	94,556	7,551	(9,821)	92,286	-
Total long-term liabilities	<u>\$ 14,094,001</u>	<u>\$ 1,666,014</u>	<u>\$ (855,217)</u>	<u>\$ 14,904,798</u>	<u>\$ 1,175,000</u>

Long-term liability activity for the year ended December 31, 2018 was as follows:

	Amount Outstanding 1/1/18	Additions	Reductions	Amount Outstanding 12/31/18	Due Within One Year
Bonds payable	3,035,000	10,000,000	(570,000)	12,465,000	315,000
Unamortized discount on bonds	-	(50,000)	-	(50,000)	-
Notes & LOC payable	2,958,341	2,693,230	(5,651,571)	-	-
Net pension liability	2,035,939	1,398,959	(1,850,453)	1,584,445	-
OPEB liability	80,854	14,398	(696)	94,556	-
Total long-term liabilities	<u>8,110,134</u>	<u>14,056,587</u>	<u>(8,072,720)</u>	<u>14,094,001</u>	<u>315,000</u>

VI. Intergovernmental Expense

GFU is a semi-autonomous entity with a Board of Trustees, which is responsible for its operations.

GFU makes semi-annual payments to the City of Grey Forest. By policy, the amount of the transfers is calculated on a base amount increased by 5% annually, dependent upon unforeseen circumstances and the profitability of GFU. For the years ended 2019 and 2018, GFU transferred \$788,894 and \$751,329, respectively, to the City of Grey Forest.

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NOTES TO THE FINANCIAL STATEMENTS

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VII. Retirement Plan

As a component unit of the City of Grey Forest (the City), Grey Forest Utility (GFU) participates in the City pension. The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administrated by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six- member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City and GFU are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the City, within the options available in the state statues governing TMRS. The values stated are for the combined City and Utility pension calculations. All pension reporting is as of the most recent valuation and measurement date for the years ended December 31, 2019 and 2018.

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

The City has adopted the following plan provisions as displayed in the following table:

Plan Provision	2019	2018
Employee deposit rate	7.00%	7.00%
Matching ratio (City to Employee)	2 to 1	2 to 1
Years required for vesting	5	5
Retirement age, based on years of service	Age 60/Years 5	Age 60/Years 5
Service requirement eligibility (expressed as age/years of service)	20 years/any age	20 years/any age
Updated service credit	100%	100%
Annuity increase in retirees	Repeating Transfers 70% of CPI Repeating	Repeating Transfers 70% of CPI Repeating

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NOTES TO THE FINANCIAL STATEMENTS

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VII. Retirement Plan (Continued)

Employees covered by benefit terms

Based on the December 31, 2018 measurement date, the following employees were covered by the benefit terms:

	Total	City	Utility
Inactive employees or beneficiaries currently receiving benefits	22	6	16
Inactive employees entitled to but not yet receiving benefits	16	10	6
Active employees	38	8	30

Based on the December 31, 2017 measurement date, the following employees were covered by the benefit terms:

	Total	City	Utility
Inactive employees or beneficiaries currently receiving benefits	22	6	16
Inactive employees entitled to but not yet receiving benefits	15	10	5
Active employees	39	8	31

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 were required to contribute 7% of their annual gross earnings during fiscal year 2019 and 2018. The required contribution for the years ended December 31, 2019 and 2018 was \$612,491 and \$554,322, respectively.

Net Pension Liability

GFU's net pension liability (NPL) was measured as of December 31, 2018 and 2017, and the total pension liability (TPL) was used to calculate the NPL and was determined by an actuarial valuation as of that date. GFU's proportionate share of the net pension liability was computed to be 88% of the total actuarially determined net pension liability.

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NOTES TO THE FINANCIAL STATEMENTS

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VII. Retirement Plan (Continued)

Actuarial Assumptions:

The total pension liability in the December 31, 2018 and 2017 actuarial valuations was determined using the following actuarial assumptions:

Inflation	2.50%	Per year
Overall payroll growth	3.00%	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 rate 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 Tale with Blue Collar Adjustment are used with male's 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.

These 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 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal (EAN) 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.

These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund as applicable.

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, the actuary 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 the time (aggressive).

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For the Year Ended December 31, 2019 and 2018

VII. Retirement Plan (Continued)

The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2018 and 2017 are summarized in the following table:

Asset Class	December 31, 2018		December 31, 2017	
	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.50%	4.30%	17.50%	4.55%
International equity	17.50%	6.10%	17.50%	6.35%
Core fixed income	10.00%	1.00%	10.00%	1.00%
Non-core fixed income	20.00%	3.39%	20.00%	3.90%
Real return	10.00%	3.78%	10.00%	3.80%
Real estate	10.00%	4.44%	10.00%	4.50%
Absolute return	10.00%	3.56%	10.00%	3.75%
Private equity	5.00%	7.75%	5.00%	7.50%
Total	100.00%		100.00%	

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 payment to determine the total pension liability.

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VII. Retirement Plan (Continued)

Changes in Net Pension Liability

For the measurement period ending December 31, 2018 the changes in the net pension liability were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a)-(b)
Balance at December 31, 2017	\$ 12,345,824	\$ 10,761,379	\$ 1,584,445
Changes for the year:			
Service Cost	399,047	-	399,047
Interest	829,474	-	829,474
Change of benefit terms	-	-	-
Difference between expected and actual experience	100,976	-	100,976
Changes of assumptions	-	-	-
Contributions – employer	-	364,903	(364,903)
Contributions – employee	-	169,339	(169,339)
Net investment income	-	(322,411)	322,411
Benefit payments, including refunds of employee contributions	(513,695)	(513,695)	-
Administrative expense	-	(6,230)	6,230
Other changes	-	(325)	325
Net Changes	815,802	(308,419)	1,124,221
Balance at December 31, 2018	\$ 13,161,626	\$ 10,452,960	\$ 2,708,666

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VII. Retirement Plan (Continued)

For the measurement period ending December 31, 2017 the changes in the net pension liability were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a)-(b)
Balance at December 31, 2016	\$ 11,575,090	\$ 9,539,151	\$ 2,035,939
Changes for the year:			
Service Cost	387,616	-	387,616
Interest	773,425	-	773,425
Change of benefit terms	-	-	-
Difference between expected and actual experience	231,193	-	231,193
Changes of assumptions	-	-	-
Contributions – employer	-	366,032	(366,032)
Contributions – employee	-	162,474	(162,474)
Net investment income	-	1,322,422	(1,322,422)
Benefit payments, including refunds of employee contributions	(621,500)	(621,500)	-
Administrative expense	-	(6,852)	6,852
Other changes	-	(348)	348
Net Changes	770,734	1,222,228	(451,494)
Balance at December 31, 2017	\$ 12,345,824	\$ 10,761,379	\$ 1,584,445

Sensitivity of the Net Pension Liability to Changes in Discount Rate

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

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VII. Retirement Plan (Continued)

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

	1% Decrease in Discount Rate 5.75%	Current Discount Rate 6.75%	1% Increase in Discount Rate 7.75%
12/31/18 net pension liability	\$ 4,557,534	\$ 2,708,666	\$ 1,191,287
12/31/17 net pension liability	\$ 3,313,590	\$ 1,584,445	\$ 167,386

Pension Plan Fiduciary Net Position

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

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

For the years ended December 31, 2019 and 2018, the recognized pension expense was \$534,243 and \$487,803, respectively.

At December 31, 2019 and 2018, GFU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 130,141	\$ 129,906	\$ 162,078	\$ 396,949
Changes in actuarial assumptions	-	11,858	-	73,183
Net difference between projected and actual earnings	-	550,374	90,443	(379,228)
Totals as of the measurement date	130,141	692,138	252,521	90,904
Contributions made subsequent to the measurement date	-	538,992	-	487,803
Totals as reported at December 31	\$ 130,141	\$ 1,231,130	\$ 252,521	\$ 578,707

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For the Year Ended December 31, 2019 and 2018

VII. Retirement Plan (Continued)

As of December 31, 2018, deferred outflows and deferred inflows of resources, by year, to be recognized in future pension expense (as provided by TMRS) are as follows:

	<u>Net Deferred Outflows (Inflows) of Resources</u>
2019	\$ 213,983
2020	88,135
2021	136,058
2022	224,798
Thereafter	-
Total	<u>\$ 662,974</u>

VIII. Other Post-Employment Benefits (OPEB)

Benefit Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is considered a post-employment benefit (OPEB) plan. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The SBDP does not issue a separately available report but is included as a component of the TMRS CAFR that can be obtained at www.tmr.com.

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VIII. Other Post-Employment Benefits (OPEB) (Continued)

Membership in the plan as of the measurement date of December 31, 2018 was as follows:

Inactive employees currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	5
Active Employees	<u>38</u>
Total	<u><u>60</u></u>

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.12% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both active employees and retirees and the assets are not segregated for these groups. Under GASB Statement No. 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.71% based on the 20 Year Municipal GO Index published by Fidelity Index is used as of the measurement date of December 31, 2018. At transition, GASB Statement No. 75 also requires that the total OPEB liability as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index as of the prior fiscal year end. The actuary has estimated the total OPEB liability, as of December 31, 2018, using a discount rate of 3.31%.

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VIII. Other Post-Employment Benefits (OPEB) (Continued)

Actuarial Assumptions

GFU's total OPEB liability was measured at December 31, 2018 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

<i>Valuation Date:</i>	December 31, 2018
<i>Methods and Assumptions</i>	
Inflation:	2.50%
Salary Increase:	3.50% to 10.50%, including inflation
Discount rate:	3.71%. The discount rate was based on the Fidelity Index's "20- Year Municipal GO AA Index" rate as of December 31, 2018.
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.
Mortality rates – service retiree**:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees**:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

** The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

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Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

VIII. Other Post-Employment Benefits (OPEB) (Continued)

For the measurement period ending December 31, 2018 the changes in the net OPEB liability were as follows:

Service cost	\$	4,361
Interest		3,190
Changes of benefit terms		-
Difference between expected And actual experience of total OPEB liability		(2,218)
Changes of assumptions		(6,875)
Benefit payments		<u>(728)</u>
Net change in total OPEB liability		(2,270)
Total OPEB liability – beginning		<u>94,556</u>
Total OPEB liability – ending	\$	<u>92,286</u>

Ending total OPEB liability reported as of December 31, 2018. Changes of assumptions reflect a change in the discount rate from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

For the measurement period ending December 31, 2017 the changes in the net pension liability were as follows:

Service cost	\$	3,714
Interest		3,113
Changes of benefit terms		-
Difference between expected And actual experience of total OPEB liability		-
Changes of assumptions		7,571
Benefit payments		<u>(696)</u>
Net change in total OPEB liability		13,702
Total OPEB liability – beginning		<u>80,854</u>
Total OPEB liability – ending	\$	<u>94,556</u>

Ending total OPEB liability reported as of December 31, 2017. Changes of assumptions reflect a change in the discount rate from 3.78% as of December 31, 2016 to 3.31% as of December 31, 2017.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

VIII. Other Post-Employment Benefits (OPEB) (Continued)

Sensitivity Analysis

The following presents the total OPEB liability of the employer, calculated using the discount rate as well as what the GFU's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

Measurement Year	1% Decrease in discount rate 2.31%	Current Discount Rate Assumption 3.31%	1% Increase in discount rate 4.31%
2018	\$ 110,790	\$ 92,286	\$ 77,770
2017	\$ 114,123	\$ 94,556	\$ 79,405

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

For the year ended December 31, 2018 and 2017, Grey Forest Utilities recognized OPEB expenses of \$7,426 and \$6,545, respectively.

As of December 31, 2019 and 2018, GFU reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	2018		2017	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 1,845	\$ -	\$ -	\$ -
Changes in actuarial assumptions	5,720	5,026	7,157	-
Net difference between projected and actual earnings	-	-	-	-
Totals as of the measurement date	7,565	5,026	7,157	-
Contributions made subsequent to the measurement date	-	-	-	-
Totals as reported at December 31	\$ 7,565	\$ 5,026	\$ 7,157	\$ -

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

VIII. Other Post-Employment Benefits (OPEB) (Continued)

Amounts currently reported as deferred outflows of resources related to OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2018	\$ (256)
2019	(256)
2020	(256)
2021	(320)
2022	(1,451)
Thereafter	-
Total	<u>\$ (2,539)</u>

VIII. Compensated Absences

GFU employees earn vacation and sick leave based on their years of service. Sick leave is accrued at a rate of one day of sick leave per month and may be accrued up to a maximum of 75 days (600 hours). Accumulated sick leave will not be paid when employment ceases for any reason. After employee's sick leave has been exhausted, accrued vacation may be used as sick leave.

Vacation time accrues depending on the employee's length of service as follow:

Years of Service	1 year	2-4 years	5-19 years	20-29 years	30+ years
Days earned	5	10	15	20	25

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019 and 2018

IX. Risk Management

GFU is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. GFU participates in a state-wide municipal risk pool to cover risks of loss. There has not been a significant reduction in insurance coverage during the fiscal year in any risk category. GFU carries health and life insurance for its employees. Insurance coverages are stated below:

Carrier	Policy	Coverage Summary
TML	W/C	
TML	General	\$5,000,000 Per occurrence: 10,000,000 aggregate
TML	Law Enforcement	\$5,000,000 Per occurrence: 10,000,000 aggregate
TML	Errors and Omissions	\$5,000,000 Per occurrence: 10,000,000 aggregate
TML	Auto	\$5,000,000 Per occurrence
TML	Property	\$1,400,000 Coverage
TML	Crime	\$200,000 Coverage

X. Contingencies

From time to time, GFU may be a defendant in lawsuits or claims filed against it. It is the opinion of management that the outcome of these lawsuits or claims will not have a material adverse effect on GFU's financial position or operations.

XI. Net Position – Restatement

Beginning net position was restated as of January 1, 2018 as follows:

	<u>2018</u>
Beginning net position, as reported	\$ 48,705,869
Additional correction for adoption of GASB 68 – Pension	-
Adoption of GASB 75 – OPEB	<u>(80,854)</u>
Beginning net position, as restated	<u>\$ 48,625,015</u>

Required Supplementary Information

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

December 31, 2018

	2018	2017	2016	2015	2014
Total Pension Liability					
Service costs	\$ 399,047	\$ 440,474	\$ 444,522	\$ 377,857	\$ 303,396
Interest	829,474	878,892	855,864	813,295	741,666
Change of benefit terms	-	-	-	-	-
Difference between expected and actual experience	100,976	262,719	(404,339)	139,397	452,896
Changes of assumptions	-	-	-	106,391	-
Benefit payments, including refunds	(513,695)	(706,250)	(399,490)	(419,102)	(604,753)
	815,802	875,835	496,557	1,017,838	893,205
Total pension liability-beginning of year	<u>12,345,824</u>	<u>13,153,511</u>	<u>12,656,954</u>	<u>11,639,116</u>	<u>10,745,911</u>
Total pension liability-end of year	<u>\$ 13,161,626</u>	<u>\$ 14,029,346</u>	<u>\$ 13,153,511</u>	<u>\$ 12,656,954</u>	<u>\$ 11,639,116</u>
Plan Fiduciary Net Position					
Contributions-employer	\$ 364,903	\$ 415,945	\$ 405,506	\$ 379,294	\$ 398,212
Contributions-employee	169,339	184,630	186,774	167,617	157,485
Net investment income	(322,411)	1,502,752	674,591	14,531	535,876
Benefit payments (including refunds)	(513,695)	(706,250)	(399,490)	(419,102)	(604,753)
Administrative expenses	(6,230)	(7,786)	(7,618)	(8,851)	(5,594)
Other changes	(326)	(395)	(410)	(438)	(460)
	(308,420)	1,388,896	859,353	133,051	480,766
Plan fiduciary net position-beginning of year	<u>10,761,380</u>	<u>10,839,944</u>	<u>9,980,591</u>	<u>9,847,540</u>	<u>9,366,774</u>
Plan fiduciary net position-end of year	<u>\$ 10,452,960</u>	<u>\$ 12,228,840</u>	<u>\$ 10,839,944</u>	<u>\$ 9,980,591</u>	<u>\$ 9,847,540</u>
Net pension liability	2,708,666	1,800,506	2,313,567	2,676,363	1,791,576
City/Utility Allocation percentage		12% / 88%	12% / 88%	12% / 88%	12% / 88%
City	*	216,061	277,628	321,164	214,989
Utility	*	1,584,445	2,035,939	2,355,199	1,576,587
Plan fiduciary net position as a percentage of total pension liability	79.42%	87.17%	82.41%	78.85%	84.61%
Covered employee payroll	2,753,261	2,637,570	2,668,198	2,394,530	2,249,787
Net pension liability as a percentage of covered employee payroll	98.38%	68.26%	86.71%	111.77%	79.63%

GASB 68 requires 10 fiscal years of data to be included in this schedule. Prior information is not available; therefore, additional years will be reported as they become available.

* Amounts reflected include the applicable percentage for the Utility System only.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS

December 31, 2019

Actuarial Valuation Date December 31	Actuarial Determined Employer Contribution	Actuarial Contributions Paid by the Employer	Contribution Deficiency (Excess)	Covered Payroll	Contribution as Percentage of Covered Payroll
2014	\$ 398,212	\$ 398,212	\$ -	\$ 2,249,787	17.70%
2015	379,294	379,294	-	2,394,530	15.84%
2016	405,506	405,506	-	2,668,198	15.20%
2017	415,945	415,945	-	2,637,570	15.77%
2018	414,663	414,663	-	2,753,261	15.06%

The above schedule includes both the City of Grey Forest and Grey Forest Utility's portions.

GASB 68 requires 10 fiscal years of data to be included in this schedule. Prior information is not available; therefore, additional years will be reported as they become available.

Notes to Schedule of Contributions

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization:	27 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation:	2.50%
Salary Increases:	3.50% to 10.5% including inflation
Investment Rate of Return:	6.75%
Retirement Age:	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other:	There were no benefit changes during the year.

GREY FOREST UTILITIES
(A Component Unit of the City of Grey Forest)
Helotes, Texas

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

December 31, 2019

	Plan Year Ended December 31, 2018	Plan Year Ended December 31, 2017
Total OPEB liability:		
Service cost	\$ 4,361	\$ 3,714
Interest	3,190	3,113
Change in assumptions	(8,995)	7,571
Benefit payments *	(826)	(696)
Net change in total OPEB liability	(2,270)	13,702
Total OPEB liability - beginning	94,556	80,854
Total OPEB liability - ending	\$ 92,286	\$ 94,556
Covered payroll	\$ 2,753,261	\$ 2,637,570
Total OPEB liability as a percentage of covered payroll	3.35%	3.58%

* Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Notes to Schedule:

1. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits
2. No factors that significantly affect trends that require disclosure.
3. GASB 75 was adopted in 2018 therefore only two years of data is shown.
Additional years will be reported as they become available.

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APPENDIX D

Form of Opinion of Bond Counsel

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_____, 2021

DRAFT

IN REGARD to the authorization and issuance of the “City of Grey Forest, Texas Gas System Revenue Bonds, Taxable Series 2021” (the *Bonds*), dated May 1, 2021, in the aggregate principal amount of \$_____, we have reviewed the legality and validity of the issuance thereof by the City of Grey Forest, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof, and have Stated Maturities of February 1 in each of the years 2022 through 2029, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance authorizing the issuance of the Bonds (the *Ordinance*). Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, and for no other 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 City’s gas system (the *System*) and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the City and the Board of Trustees of the System in connection with the issuance of the Bonds, including the Ordinance and the resolution adopted by the System Board; (2) customary certifications and opinions of officials of the City and the System; (3) certificates executed by officers of the City and the System relating to the expected use and investment of proceeds of the Bonds and certain other funds of the City and the System, and to certain other facts solely within the knowledge and control of the City and the System; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the City, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express

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Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF GREY FOREST, TEXAS GAS SYSTEM REVENUE BONDS, TAXABLE SERIES 2021”

no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding special obligations of the City enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from and equally and ratably secured solely, together with the currently outstanding Prior Lien Obligations, by a first and prior lien on and pledge of the Net Revenues derived from the operation of the System. In the Ordinance, the City retains the right to issue Additional Bonds and bonds or other evidences of indebtedness whose lien on and pledge of the Net Revenues shall be junior, subordinate, and inferior to that possessed by the Bonds Similarly Secured (including the Bonds), without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the City or the System, except with respect to the Net Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation.

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

Norton Rose Fulbright US LLP

APPENDIX E

Selected Provisions of the Ordinance

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APPENDIX E

SELECTED PROVISIONS OF THE ORDINANCE

The following contains certain selected provisions of the Ordinance. This document should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in the Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

SECTION 9: Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 33 and 50 of this Ordinance have the meanings assigned to them in such Sections, and all such terms include the plural as well as the singular; (ii) all references in this Ordinance to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of this Ordinance as originally adopted; and (iii) the words “herein”, “hereof”, and “hereunder” and other words of similar import refer to this Ordinance as a whole and not to any particular Section or other subdivision.

(1) The term *Additional Bonds* shall mean (i) bonds, notes, warrants, certificates of obligation, or other evidences of indebtedness which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 21 of this Ordinance and which are equally and ratably secured, together with the Bonds and the currently outstanding Prior Lien Obligations, solely by a prior and first lien on and pledge of the Net Revenues of the System, and (ii) obligations hereafter issued to refund any of the foregoing as determined by the City Council, if issued in a manner so as to be payable from and equally ratably secured by a first and prior lien on and pledge of the Net Revenues.

(2) The term *Authorized Official* shall mean the Mayor or City Secretary of the City or the General Manager of the System.

(3) The term *Average Annual Debt Service Requirements* shall mean that average amount which, at the time of computation, will be required to pay the Debt Service Requirement on all outstanding Bonds Similarly Secured when due and derived by dividing the total of such Debt Service Requirement by the number of Fiscal Years then remaining before Stated Maturity of such Bonds Similarly Secured. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

(4) The term *Bonds* shall mean the \$_____ “CITY OF GREY FOREST, TEXAS GAS SYSTEM REVENUE BONDS, TAXABLE SERIES 2021, dated May 1, 2021, authorized by this Ordinance.

(5) The term *Bonds Similarly Secured* shall mean the Prior Lien Obligations, the Bonds, and any Additional Bonds.

(6) The term *City* shall mean the City of Grey Forest, Texas, located in the County of Bexar, Texas.

(7) The term *Closing Date* shall mean the date of physical delivery of the Initial Bond for the payment in full by the initial purchaser(s) thereof.

(8) The term *Debt Service Requirements* shall mean as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest calculated by assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity, and (ii) that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such Bonds, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity, the principal amounts thereof will be redeemed prior to Stated Maturity in accordance with the mandatory redemption provisions applicable thereto.

(9) The term *Depository* shall mean an official depository bank of the City.

(10) The term *Fiscal Year* shall mean the twelve month accounting period used by the City in connection with the operation of the System, currently ending on December 31st of each year.

(11) The term *Government Securities* shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

(12) The term *Gross Revenues* shall mean all income, receipts, and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts, and grants in aid of construction) of the System.

(13) The term *Holder or Holders* shall mean the registered owner, whose name appears in the Security Register, for any Bond.

(14) The term *Insurance Policy* shall mean the municipal bond insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Certificates as provided therein.

(15) The term *Insurance Premium* shall mean the premium paid by the Purchasers for the Insurance Policy.

(16) The term *Insurer* shall mean Build America Mutual Assurance Company (“BAM”), or any successor thereto or assignee thereof.

(17) The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being February 1 and August 1 of each year, commencing February 1, 2022, while any of the Bonds remain Outstanding.

(18) The term *Inferior Lien Obligations* shall mean (i) bonds, notes, warrants, certificates of obligation, or other evidences of indebtedness which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 21 of this Ordinance and which obligations or evidences of indebtedness are equally and ratably secured solely by a subordinate and inferior lien on and pledge of the Net Revenues of the System; and (ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with any applicable law.

(19) The term *Junior Lien Obligations* shall mean (i) bonds, notes, warrants, certificates of obligation, or other evidences of indebtedness which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 21 of this Ordinance and which obligations or evidences of indebtedness are equally and ratably secured solely by a junior and inferior lien on and pledge of the Net Revenues of the System, and (ii) obligations hereafter issued to refund any of the foregoing as determined by the City Council, if issued in a manner so as to be payable from and equally and ratably secured by a junior lien on and pledge of the Net Revenues.

(20) The term *Late Payment Rate* shall mean the lessor of (a) the greater of (i) the per annum rate of interest, publically announced from time to time by JPMorgan Chase Bank, N.A., at its principal office in The City of New York, New York, as its prime or base lending rate (*Prime Rate*) (any change in such Prime Rate to be effective on the date of such change is announced by JP Morgan Chase Bank, N.A.) plus 5%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. In the event JP

Morgan Chase Bank, N.A., ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as the Insurer, in its sole and absolute discretion, shall designate. Interest on the Late Payment Rate on any amount owing to the Insurer shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

(21) The term *Maintenance and Operating Expenses* shall mean all current expenses of operating and maintaining the System as authorized by the provisions of Chapter 1502, as amended, Texas Government Code, including but not limited to, all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair obligations payable from Net Revenues shall be deducted in determining Net Revenues.

(22) The term *Net Earnings* shall have the meaning set forth in Section 21C hereof.

(23) The term *Net Revenues* shall mean Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

(24) The term *Ordinance* shall mean this ordinance adopted by the City Council on May 19, 2021.

(25) The term *Outstanding* shall mean when used in this Ordinance with respect to Bonds means, as of the date of determination, all Bonds issued and delivered under this Ordinance, except:

(i) those Bonds cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 35 of this Ordinance by the irrevocable deposit with the Paying Agent/Registrar, of money or Government Securities, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Ordinance or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 of this Ordinance.

(26) The term *Prior Lien Obligations* shall mean (i) the outstanding and unpaid obligations of the City that are payable from and equally and ratably secured solely by a

prior and first lien on and pledge of the Net Revenues of the System, identified as follows:

1. “City of Grey Forest, Texas Gas System Revenue Bonds, Series 2005”, dated September 1, 2005, in the original principal amount of \$5,050,000;
2. “City of Grey Forest, Texas Gas System Revenue Refunding Bonds, Series 2020”, dated June 1, 2020, in the original principal amount of \$9,255,000; and
3. Upon issuance, the Bonds; and

(ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the System as determined by the City Council in accordance with any applicable law.

(27) The term *Purchasers* shall mean the initial purchaser or purchasers of the Bonds named in Section 31 of this Ordinance.

(28) The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on February 1 of each year, as set forth in Section 2 of this Ordinance.

(29) The term *System* shall mean and include, for so long as the Bonds and any Prior Lien Obligations issued prior to May 1, 2020 remain outstanding or until consents from the Insurer and the Holders thereof permitting an amendment to the applicable authorizing ordinances providing for an earlier date of effectiveness are secured, all properties, facilities and plants currently owned, operated, and maintained by the City for the supply of natural gas, together with all future extensions, improvements, replacements and additions thereto, whether situated within or without the limits of the City; thereafter, the term *System* shall mean and include the City’s gas system, and to be added at the sole discretion of the City, the combined waterworks system, wastewater disposal system, storm sewer and drainage within the waterworks system, solid waste disposal system, additional utility (including electricity), telecommunications, technology, and any other similar enterprise services, together with all future extensions, improvements, enlargements, and additions thereto, including, to the extent permitted by law, and all replacements, additions, and improvements to any of the foregoing, within or without the City limits; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term *System* shall not include any components or facilities which are declared by the City not to be a part of the System and which are hereafter acquired or constructed by the City with the proceeds from the issuance of “Special Facilities Bonds”, which are hereby defined as being special revenue obligations of the City which are not secured by or payable from the Net Revenues, but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities; and such revenues or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided

in the ordinance or ordinances authorizing the issuance of such “Special Facilities Bonds”.

SECTION 10: Pledge of Net Revenues. (a) The City hereby covenants and agrees that the Net Revenues of the System, with the exception of those in excess of the amounts required to establish and maintain the Funds as hereinafter provided, are hereby irrevocably pledged to the payment and security of the Bonds Similarly Secured including the establishment and maintenance of the special funds created and established for the payment and security thereof, all as hereinafter provided; and it is hereby ordained that the Bonds Similarly Secured, and the interest thereon, shall constitute a lien on and pledge of the Net Revenues of the System and be valid and binding without any physical delivery thereof or further act by the City, and the lien created hereby on the Net Revenues of the System for the payment and security of the Bonds Similarly Secured shall be prior in right and claim as to any other indebtedness, liability, or obligation of the City or the System.

(b) Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds Similarly Secured and the pledge of Net Revenues granted by the City under subsection (a) of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds Similarly Secured are outstanding and unpaid such that the pledge of the Net Revenues granted by the City is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds Similarly Secured the perfection of the security interest in this pledge, the City Council agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, as amended, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

SECTION 11: Rates and Charges. For the benefit of the Holders of the Bonds Similarly Secured and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Bonds Similarly Secured are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, together with any other lawfully available funds, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. To pay all operating, maintenance, depreciation, replacement, betterment and other costs incurred in the maintenance and operation of the System, including, but not limited to, Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;

B. To produce Net Revenues sufficient to pay the principal of and interest on the Bonds Similarly Secured and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Bonds Similarly Secured, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a prior and first lien on and pledge of the Net Revenues of the System; and

C. To pay any other legally incurred indebtedness payable from the Net Revenues of the System and/or secured by a lien on the System (including, but not limited to, any Junior Lien

Obligations or Inferior Lien Obligations hereafter issued by the City, all as provided in the ordinances authorizing the issuance of any such obligations).

SECTION 12: Fund Designations. All Gross Revenues derived from the operation of the System shall be kept separate from other funds of the City. To that end the following special Funds are hereby created:

A. Gas System Revenue Fund, hereinafter called "System Fund". This Fund shall be kept in the City's depository bank.

B. Gas System Revenue Bond Interest and Sinking Fund, hereinafter called "Interest and Sinking Fund". This Fund shall be deposited with the Paying Agent/Registrar, and shall be used to pay principal of and interest on the Bonds Similarly Secured when and as the same shall become due and payable.

C. Gas System Revenue Bond Reserve Fund, hereinafter called "Reserve Fund". This Fund shall be deposited with the Paying Agent/Registrar and shall be used to pay principal of or interest on the Bonds Similarly Secured falling due at any time when there is not sufficient money available in the Interest and Sinking Fund.

D. Gas System Replacement and Extension Fund, hereinafter called "Replacement and Extension Fund". This Fund shall be deposited with the City's Depository bank, which bank shall be a member of the Federal Deposit Insurance Corporation. This Fund may be used only for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements, and extensions, and paying the cost of improvements to the System which will either enhance its revenue producing capacity or provide a higher degree of service, provided, however, in the event the available balances in the Interest and Sinking Fund and the Reserve Fund are not adequate to meet Debt Service Requirements and to maintain the required debt service reserve, then transfers may be made from the Replacement and Extension Fund in such amounts as are necessary to eliminate the deficiencies in the said fund or funds. Provided, further, when the Prior Lien Obligations dated September 1, 2005 are no longer Outstanding any money on deposit in the Replacement and Extension Fund shall be transferred into the Interest and Sinking Fund and the Replacement and Extension Fund shall be closed.

SECTION 13: System Fund. All Gross Revenues of every nature received through the operation of the System shall be deposited from day to day as collected into the System Fund, and the reasonable and proper expenses of operating and maintaining the System as set forth in Section 9 hereof shall be paid therefrom upon approval of the City Council. All revenues of the System not actually required to pay expenses and costs incurred as permitted by this Section shall be appropriated and used for the purposes and in the order of precedence hereinafter set forth.

SECTION 14: Interest and Sinking Fund; Excess Bond Proceeds. Upon the delivery of the Bonds, there shall be deposited in the Interest and Sinking Fund from Bond proceeds an amount equal to any accrued interest received upon such delivery. If applicable, upon the completion of the construction of improvements to the System and their acceptance by the City from the contractor, all bond proceeds remaining in the Construction Fund shall be deposited in

such Fund. The amounts required to be deposited in the Interest and Sinking Fund by reason of the foregoing provisions shall reduce the amount which would otherwise be required to be paid into said Fund by the provisions of the remainder of this section.

The City Treasurer (or City Manager) shall calculate the amount of principal and interest (either or both) scheduled to become due on or before the first day of February next following the delivery of the Bonds and thereafter shall cause such amount to be deposited into the Interest and Sinking Fund in equal monthly installments so that the full amount thereof shall be in said fund at least 15 days prior to the scheduled payment date or dates. On the 10th day of February and on the tenth day of each month thereafter, there shall be deposited into said Fund an amount equal to not less than 1/6 of the next maturing interest payment. Additionally, on the 10th day of February preceding the first principal payment date, and on the tenth day of each month thereafter, there shall be deposited in said Fund an amount equal to not less than 1/12 of the next maturing principal.

These monthly deposits shall continue to be made until such time as the amounts on deposit in the Interest and Sinking Fund and the Reserve Fund are equal to the indebtedness which said Funds were established to pay by the provisions of Section 12 hereof.

Accrued interest, if any, received from the Purchasers shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Interest and Sinking Fund from the Net Revenues of the System. Additionally, any proceeds of the Bonds not expended for authorized purposes shall be deposited into the Interest and Sinking Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Interest and Sinking Fund from the Net Revenues of the System.

SECTION 15: Reserve Fund. The City hereby covenants and agrees to accumulate, and, when accumulated, to continuously maintain in the Reserve Fund an amount equal to at least the Average Annual Debt Service Requirements of the Bonds Similarly Secured (calculated on a Fiscal Year basis as of the date the last series of Bonds Similarly Secured outstanding were delivered), which amount is hereby referred to as the "Required Reserve."

In accordance with the provisions of the ordinance authorizing the issuance of the Prior Lien Obligations, the amount currently on deposit in the Reserve Fund is \$_____, and the total amount required to be accumulated and maintained in such Fund is \$_____. By reason of the issuance of the Bonds, the total amount to be accumulated and maintained in the Reserve Fund shall be and is hereby increased to the sum of \$_____ (the *Required Reserve*), which amount equals or exceeds the Average Annual Debt Service Requirements (calculated on a Fiscal Year basis) for the Bonds and the Prior Lien Obligations now outstanding. A portion of the proceeds of the Bonds, in the amount of \$_____, shall be deposited into the Reserve Fund. Additionally, beginning on or before the last day of the month the Bonds are delivered to the Purchasers and on or before the last day of each following month until the Required Reserve has been accumulated in such Fund, the City covenants and agrees to increase the monthly deposit to the Reserve Fund from the Net Revenues of the System to \$_____, such total monthly deposit being equal to at least the sum of (i) the amount currently being deposited in the Reserve Fund and (ii) an amount equal to at least 1/120th of the difference between the Required Reserve and \$_____. After the Required Reserve has been

accumulated in the manner herein specified and when and so long as the money and investments in such Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the deficiency in funds occurred with available Net Revenues of the System pledged to the payment of the Bonds and the Prior Lien Obligations. The City further hereby covenants and agrees that the Net Revenues of the System remaining in the Reserve Fund shall be applied and appropriated and used to cure any deficiency in such amount, as required by the terms of this Ordinance and any other ordinance pertaining to the Prior Lien Obligations.

All surplus in the Reserve Fund in excess of the Required Reserve may, at the option of the City, be deposited in the System Fund.

To the extent permitted by law, the City expressly reserves the right at any time to satisfy all or any part of the Required Reserve by obtaining for the benefit of the Reserve Fund one or more Reserve Fund Surety Policies (a *Reserve Fund Surety Policy*). In the event the City elects to substitute at any time a Reserve Fund Surety Policy for any funded amounts in the Reserve Fund, it may apply any bond proceeds thereby released, to the greatest extent permitted by law, to any purposes for which the bonds were issued, and if all such purposes have been satisfied, to the payment of debt service on such bonds, and it may apply any other funds thereby released to any of the purposes for which such funds may lawfully be applied including the payment of debt service on the Bonds Similarly Secured. A Reserve Fund Surety Policy shall be an insurance policy or other similar guarantee in a principal amount equal to the portion of the Required Reserve to be satisfied which is issued by a financial institution or insurance company. The premium for any such policy shall be paid from bond proceeds or other funds of the City lawfully available for such purpose. The City reserves the right to fund any increase in the Required Reserve caused by the issuance of Additional Bonds by the purchase of a Reserve Fund Surety Policy in the amount of such increase or by making transfers from the System Fund to the Reserve Fund, in approximately equal monthly installments, in amounts sufficient to accumulate the increase in the Required Reserve within one hundred twenty (120) months of the issuance of such Additional Bonds. If the Reserve Fund contains only cash and the balance in the Reserve Fund is reduced below the Required Reserve at any time, the City shall make monthly transfers from the System Fund to the Reserve Fund, in approximately equal monthly installments, in amounts sufficient to restore the balance in the Reserve Fund to the Required Reserve within twelve (12) months of the date on which the balance in the Reserve Fund was so reduced. If the Reserve Fund contains a Reserve Fund Surety Policy (and no cash) and a draw is made against such policy, the City shall make monthly transfers from the System Fund, in approximately equal monthly installments, in amounts sufficient to reimburse the amount drawn under such policy within twelve (12) months. If the Reserve Fund contains a combination of cash and a Reserve Fund Surety Policy, and the balance in the Reserve Fund is reduced below the Required Reserve by a combination of cash withdrawals and draws against the Reserve Fund Surety Policy, the City shall make monthly transfers from the System Fund, in approximately equal monthly installments, in amounts sufficient to restore the cash balance in the Reserve Fund and reimburse the amount drawn under such policy within twelve (12) months, with reimbursements to be made for all amounts drawn under such policy before any cash deposits are made into the Reserve Fund. Any reimbursement of amounts drawn against a Reserve Fund Surety Policy shall be

limited to the amounts actually paid under such policy, and the City shall have no obligation to make any reimbursement payment with respect to any such policy except as provided herein. Such right to reimbursement shall never constitute a separate obligation independent of the Bonds.

When the Prior Lien Obligations dated September 1, 2005 (excluding the Bonds and any Additional Bonds) are no longer remain Outstanding and when the Bonds are no longer insured by the Insurer, and notwithstanding anything to the contrary contained in this Section, the requirements set forth above to fund the Reserve Fund in the amount of the Required Reserve shall be suspended for such time as the Net Earnings for each Fiscal Year are equal to at least 140% of the Average Annual Debt Service Requirements. In the event that the Net Earnings for any Fiscal Year are less than 140% of the Average Annual Debt Service Requirements, the City will be required to commence making the deposits to the Reserve Fund, as provided above, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve, or (ii) the Net Earnings in each of two consecutive Fiscal Years have been equal to not less than 140% of the Average Annual Debt Service Requirements. If this springing covenant is triggered when the Prior Lien Obligations dated September 1, 2005 are no longer Outstanding, or the requisite consents are obtained from the holders of these Prior Lien Obligations and the Bond Insurer, the City shall transfer immediately all cash and investments on deposit in the Reserve Fund to the System Fund.

SECTION 16: Replacement and Extension Fund. On the tenth day of each month after making deposits then required to be made under the provisions of the two preceding sections, all amounts, except \$100.00, then remaining in the System Fund shall be transferred to the Replacement and Extension Fund until such time as there is on deposit in said Fund the sum of \$35,000.00. The amount currently on deposit in the Replacement and Extension Fund is \$35,000.00. When any money is paid out of the Replacement and Extension Fund payments into the account shall be resumed and continued until such time as the account has been restored to the level of \$35,000.00. At such time, any money on deposit in any Fiscal Year in the Replacement and Extension Fund in excess of \$35,000.00 shall be transferred to the Interest and Sinking Fund. When the Prior Lien Obligations dated September 1, 2005 are no longer Outstanding, the City shall deposit all money on deposit in the Replacement and Extension Fund into the Interest and Sinking Fund and the Replacement and Extension Fund shall be closed.

SECTION 17: Investment of Funds. The City, at its option, may invest the Reserve Fund and the Replacement and Extension Fund in direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States Government, and if at any time uninvested funds are sufficient to accomplish the purpose for which said respective Funds are herein established, the respective custodian bank shall sell on the open market such amount of the securities as may be required to meet such deficiency, giving thereof to the City. Until such time as the Reserve Fund and the Replacement and Extension Fund are equally established and contain the full amounts provided in the two preceding Sections, all money resulting from the maturity of principal and interest of the securities in which the aforesaid Funds are invested may be reinvested or accumulated in the respective Funds and considered a part thereof and used for and only for the purposes hereinabove specified with respect thereto, provided, however, when such funds are equally established such increment may be transferred to the System Fund. Any other funds created, established, or maintained by this Ordinance may be invested in accordance

with the provisions of the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or in accordance with other applicable law.

SECTION 18: Deficiencies in Funds. If in any month the City shall for any reason fail to pay into the Interest and Sinking Fund, Reserve Fund or the Replacement and Extension Fund the full amount above stipulated, an amount equivalent to such deficiency shall be set apart and paid into said Funds from the first available and unallocated System revenues of the following month or months, and such payment shall be in addition to the amount hereinabove provided to be otherwise paid into said Funds during such month or months.

SECTION 19: Excess Net Revenues. Any System revenues in excess of those required to fully establish and maintain the Funds herein provided may be used for the redemption of Bonds Similarly Secured, or may be transferred to the general fund of the City and used for general or special purposes.

SECTION 20: Security of Funds. All special Funds for which this ordinance makes provision (except any portions thereof as may be at any time properly invested) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and such Funds shall be used only for the purposes permitted by this ordinance.

SECTION 21: Issuance of Additional Parity Bonds. In addition to the right to issue bonds of inferior lien as authorized by the laws of this State, the City reserves the right hereafter to issue additional parity bonds. The Additional Bonds when issued shall be payable from and secured by a first and prior lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as are the currently outstanding Prior Lien Obligations and the Bonds authorized by this Ordinance, and the Bonds and the Additional Bonds shall in all respects be of equal dignity. The Additional Bonds may be issued in one or more installments, provided, however, that none shall be issued unless and until the following conditions have been met:

A. The City is not then in default as to any covenant, condition, or obligation prescribed in this ordinance.

B. That the Interest and Sinking Fund and the Reserve Fund created by this ordinance contain the amount of money then required to be on deposit therein.

C. The Net Earnings of the System were, during the last completed Fiscal Year, equal to at least 1.40 times the average annual principal and interest requirements of all the then Outstanding Bonds Similarly Secured, including the proposed Additional Bonds, secured by a first and prior lien on and pledge of the Net Earnings of the System, such Net Earnings to be verified in writing by a Certified Public Accountant or a Licensed Public Accountant (the *Accountant*). The term "Net Earnings" as used in this Section 21 shall mean the Gross Revenues after deduction of Maintenance and Operating Expenses, but not deducting depreciation or expenditures which, under standard accounting practices, should be charged to capital expenditures. In making a determination of the Net Earnings, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Earnings are to be determined and, for purposes of satisfying the above Net Earnings test, make a

pro forma determination of the Net Earnings for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion. When the Prior Lien Obligations dated September 1, 2005 (excluding the Bonds and any Additional Bonds) no longer remain Outstanding or until consents from the Holders thereof permitting an amendment to the applicable authorizing ordinance providing for an earlier date of effectiveness are secured, the foregoing verification described above as to the determination of the Net Earnings may be certified by the General Manager of the System.

D. The Additional Bonds are made to mature on February 1 of each of the years in which they are scheduled to mature.

E. The ordinance authorizing issuance of the Additional Bonds provides for the accumulation in the Interest and Sinking Fund of amounts sufficient to pay the principal and interest on such Additional Bonds as same mature.

F. The ordinance authorizing issuance of the Additional Bonds provides that the amount to be accumulated and maintained in the Reserve Fund shall be in an amount not less than the Average Annual Debt Service Requirements for the payment of principal of and interest on all Bonds Similarly Secured to be secured by a first and prior lien on and pledge of the Net Revenues of the System after giving effect to the issuance of the proposed Additional Bonds, and provides that any additional Reserve Fund amount which may thus be required shall be accumulated within not more than ten years from the date of the passage of the ordinance authorizing issuance of the proposed Additional Bonds.

PROVIDED, HOWEVER, any or all of the conditions hereinabove set forth for the issuance of Additional Bonds may be waived by an instrument or instruments in writing executed by the holders of at least 75% of the principal amount of Bonds Similarly Secured outstanding.

SECTION 22: Maintenance and Operation - Insurance. The City shall maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. So long as any of the bonds are outstanding, the City agrees to maintain insurance for the benefit of the holder or holders of the bonds on the System, of a kind and in an amount which usually would be carried by private companies engaged in similar types of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City's from doing so.

SECTION 23: Records - Accounts - Accounting Reports. The City hereby covenants and agrees, and affirms its covenants that so long as any of the bonds are outstanding, it will keep proper records, books, and accounts, relating to the operation of the System and other facilities the revenues of which are pledged to secure the bonds, separate from all other records and accounts of the City in accordance with generally accepted accounting practices followed on privately-owned facilities of like type and size, in which complete and correct entries shall be made of all pertaining transactions, as provided by Chapter 1502, as amended, Texas Government Code, and that such records, books and accounts shall be open to inspection by the

holder or holders of any of the bonds and their agents and representatives. So long as any of the bonds remain outstanding, the City will furnish, upon request, to any holder or holders of any of the bonds, (1) on or before thirty (30) days after close of each six months' period of the Fiscal Year a statement on operations of the pledged facilities for the said period, in form and content in the minimum hereinafter specified, and (2) on or before ninety (90) days after the close of each Fiscal Year a copy of a report by a certified public accountant, or public accountant, on the operations of the pledged facilities for the next preceding Fiscal Year including therein the following information:

A. Comment regarding the manner in which the City has complied with covenants in this Ordinance and recommendations for any changes or improvements in the operation of the pledge facilities;

B. Statement of Income and Expense;

C. Balance Sheet;

D. Schedule of insurance policies and fidelity bonds showing with respect to each policy and bond the nature and amount of risk covered, the expiration date, and name of the insurer;

E. Schedule of the number of properties (connected and unconnected to the System) by classifications set forth in the rate ordinance, and showing the rate schedule currently in effect; and

F. Current assessed property valuation, report on tax rates, levies and collections of the incorporated City.

Expenses incurred in making the audits above referred to are to be regarded as Maintenance and Operating Expenses and paid as such. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of the State of Texas at her office in Austin, and to any holder of any revenue bond or bonds authorized by this Ordinance who shall request the same. Any Bondholder shall have the right to discuss with the Accountant making the annual audit the contents thereof and to ask for such additional information as he may reasonably require.

SECTION 24: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that, in the event the City (a) defaults in payments to be made to the Interest and Sinking Fund, Reserve Fund or the Replacement and Extension Fund as required by this Ordinance or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the following remedies shall be available:

A. The Holder or Holders of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the City Council and other officers of the City to observe and perform any covenant, condition or obligation prescribed in the bond ordinance.

B. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed to be exclusive.

SECTION 25: Special Covenants. The City further covenants as follows:

A. That it has the lawful power to pledge the revenues supporting the Bonds, and has lawfully exercised such power under the Constitution and laws of the State of Texas, including such power existing under Chapter 1502, as amended, Texas Government Code; that the Bonds Similarly Secured, and the Additional Bonds when issued, shall be ratably secured under said pledge of income in such manner that one bond shall have no preference over any other bond of said issues.

B. The City covenants and represents that other than for the payment of the Bonds Similarly Secured, the rents, revenues and the income of the System have not in any manner been pledged to the payment of any debt or obligations of the City or of the System.

C. That, so long as any of the Bonds or any interest thereon remain outstanding, the City will not sell or encumber the System or any substantial part thereof, provided that this shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System, also, with the exception of the Additional Bonds expressly permitted by this ordinance to be issued, it will not encumber the revenues thereof unless such encumbrance is made junior and subordinate to all of the provisions of this Ordinance.

It is provided, however, that the City may dispose of any portions of the System which are located within the corporate limits of other municipalities under the following conditions:

(i) That the proceeds of any such sale shall be deposited in the Interest and Sinking Fund and, as promptly as possible, applied to the timely prior redemption of Bonds Similarly Secured in accordance with their terms.

(ii) That such sale shall be authorized in a manner conforming with the applicable laws of the State of Texas then existing.

(iii) That an independent registered professional engineer of the State of Texas retained and paid by the System, shall certify, in his or her opinion, that such sale will not impair the efficient operation of the unsold portion of the System and that the annual net revenues of said remaining System will not be less than one and one-fourth (1¼) times the average annual principal and interest requirements of all Bonds Similarly Secured to be Outstanding, after giving effect to such sale and the redemption of bonds (in inverse order of their scheduled maturity).

(iv) Except as otherwise described herein, as revealed by a report prepared by an independent certified public accountant covering the period of twelve (12) consecutive months ended not more than ninety (90) days prior to said sale, the Net Revenues of the said unsold portion of the System shall have been not less than one and one-fourth (1¼)

times the average annual principal and interest requirements of the amount of Bonds Similarly Secured to be Outstanding after giving effect to the application of the sale proceeds to the retirement of bonds as provided for in paragraph (i) above.

D. That no free service of the System shall be allowed, and should the City or any of its agents or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of funds from sources other than the revenues and income of the System.

E. The current expenses of the operation of the System in any year will not exceed the amounts reasonable and necessary therefor.

F. The City Council shall maintain and collect such schedule of charges as may be necessary to pay the Maintenance and Operating Expenses of the System, and to establish and maintain the funds established by Section 12 for the payment and security of any Bonds Similarly Secured.

SECTION 26: Payment of Bonds. While any of the Bonds Similarly Secured are Outstanding, the General Manager of the System or other authorized City official, shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Interest and Sinking Fund, and, if necessary, in the Reserve Fund or Replacement and Extension Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Bonds Similarly Secured as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds Similarly Secured at the close of the business day next preceding the date a debt service payment is due on the Bonds Similarly Secured.

SECTION 27: Limited Obligations of the City. The Bonds are limited, special obligations of the City payable from and equally and ratably secured solely by a prior and first lien on and pledge of the Net Revenues of the System, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds from any funds raised or to be raised through taxation by the City.

SECTION 28: Notices to Holders Waiver. Wherever this Ordinance provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States Mail, first-class postage prepaid, to the address of each Holder as it appears in the Security Register at the close of business on the business day next preceding the mailing of such notice.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Holders. Where this Ordinance provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 29: Cancellation. All Bonds surrendered for payment, transfer, exchange, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly cancelled by it and, if surrendered to the City, shall be delivered to the Paying Agent/Registrar and, if not already cancelled, shall be promptly cancelled by the Paying Agent/ Registrar. The City may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the City may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly cancelled by the Paying Agent/ Registrar. All cancelled Bonds held by the Paying Agent/Registrar shall be destroyed as directed by the City.

SECTION 30: Mutilated, Destroyed, Lost, and Stolen Bonds. If (1) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the City and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (2) there is delivered to the City and the Paying Agent/Registrar such security or indemnity as may be required to save each of them harmless, then, in the absence of notice to the City or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the City shall execute and, upon its request, the Paying Agent/Registrar shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same Stated Maturity and interest rate and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost, or stolen Bond has become or is about to become due and payable, the City in its discretion may, instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond or payment in lieu thereof, under this Section, the City may require payment by the Holder of a sum sufficient to cover any tax or other governmental charge imposed in relation thereto and any other expenses (including attorney's fees and the fees and expenses of the Paying Agent/Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the City, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other Outstanding Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost, or stolen Bonds.

APPENDIX F

Specimen Municipal Bond Insurance Policy

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BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

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Financial Advisory Services
Provided By:

