

OFFICIAL STATEMENT**Dated: August 10, 2021**

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

The City has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

\$4,660,000**CITY OF CADDO MILLS, TEXAS****(Hunt County)****COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2021****Dated Date: August 1, 2021****Due: February 15, as shown on page ii**

The City of Caddo Mills, Texas (the "City") \$4,660,000 Combination Tax and Revenue Certificates of Obligation, Series 2021 (the "Certificates") are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct obligations of the City payable from a combination of the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City and a limited pledge (not to exceed \$1,000) of the surplus net revenues of the City's Waterworks and Sewer System (the "System"), as provided in the Ordinance. (See "THE CERTIFICATES - Security for Payment" herein.)

Interest on the Certificates will accrue from August 1, 2021 (the "Dated Date") as shown above and will be payable on February 15, 2022, and on each August 15 and February 15 thereafter, until maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to DTC, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used to pay all or a portion of the City's contractual obligations incurred in connection with (i) constructing, reconstructing and improving streets, roads, and sidewalks, including related drainage, utility relocation, signalization, landscaping, lighting and signage; and (ii) legal, fiscal and engineering fees in connection with such projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

The City reserves the right to redeem the Certificates maturing on and after February 15, 2031, on February 15, 2030, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest as further described herein. (See "THE CERTIFICATES - Redemption Provisions" herein.)

The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by **ASSURED GUARANTY MUNICIPAL CORP.** (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)

**STATED MATURITY SCHEDULE****(On Page ii)**

The Certificates are offered for delivery, when, as and if issued and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the underwriter named below (the "Underwriter") by Locke Lord LLP, Austin, Texas, as counsel to the Underwriter. (See "Appendix C – Form of Legal Opinion of Bond Counsel".) (See "OTHER PERTINENT INFORMATION - Legal Matters" herein). It is expected that the Certificates will be available for delivery through the facilities of DTC on or about September 8, 2021.

Stifel Nicolaus & Company, Incorporated

STATED MATURITY SCHEDULE
(Due February 15)
Base CUSIP – 127235^(a)

Stated Maturity February 15	Principal Amount*	Interest Rate (%)	Initial Yield (%)	CUSIP Suffix ^(a)
2022	\$ 75,000	3.000	0.250	CA5
2023	470,000	3.000	0.300	CB3
2024	175,000	3.000	0.400	CC1
2025	180,000	3.000	0.500	CD9
2026	185,000	3.000	0.700	CE7
2027	190,000	3.000	0.850	CF4
2028	195,000	3.000	1.050	CG2
2029	205,000	3.000	1.150	CH0
2030	210,000	3.000	1.250	CJ6
2031	215,000	3.000	1.350 ^(b)	CK3
2032	225,000	3.000	1.400 ^(b)	CL1
2033	230,000	3.000	1.450 ^(b)	CM9
2034	235,000	3.000	1.500 ^(b)	CN7
2035	245,000	3.000	1.550 ^(b)	CP2
2036	250,000	3.000	1.600 ^(b)	CQ0
2037	260,000	3.000	1.630 ^(b)	CR8
2038	265,000	3.000	1.660 ^(b)	CS6
2039	275,000	3.000	1.700 ^(b)	CT4
2040	285,000	3.000	1.750 ^(b)	CU1
2041	290,000	3.000	1.780 ^(b)	CV9

(Interest to accrue from the Dated Date)

The City reserves the right to redeem the Certificates maturing on and after February 15, 2031, on February 15, 2030, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest as further described herein. (See “THE CERTIFICATES - Redemption Provisions” herein.)

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- (a) CUSIP numbers are included solely for the convenience of the owners of the Certificates. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (“CGS”), managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Underwriter or the Financial Advisor is responsible for the selection or the correctness of the CUSIP numbers set forth herein.
- (b) Yield calculated to first call date, February 15, 2030.

CITY OF CADDO MILLS, TEXAS
2313 Main Street
Caddo Mills, Texas 75135
903-527-3116

ELECTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>On Council Since</u>	<u>Term Expires May</u>	<u>Occupation</u>
Ron Olson	Mayor	2013	2023	Retired
Kevin Mosher	Council Member	2018	2023	L-3 / Harris
Chris Davies	Council Member	2021	2023	Retired
Ben Bentley	Council Member	2010	2022	Disabled
Scott Clements	Council Member	2020	2022	Builder / Developer
John Verity	Council Member	2021	2022	Insurance

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Years With The City</u>
Matt McMahan	City Manager	8 years
Stacy Smith	Finance Manager	11 years
Jana Sanchez	City Secretary	2 years

CONSULTANTS AND ADVISORS

Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Certified Public Accountants	Wilf & Henderson, P.C. Texarkana, Texas
Financial Advisor	SAMCO Capital Markets, Inc. San Antonio, Texas

For Additional Information Please Contact:

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING EITHER THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION IS PROVIDED BY DTC, OR THE INSURER, AND ITS MUNICIPAL BOND INSURANCE POLICY.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGM 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 AGM supplied by AGM and presented under the heading "Bond Insurance" and "Appendix E – Specimen Municipal Bond Insurance Policy".

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

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

TABLE OF CONTENTS

SELECTED DATA FROM THE OFFICIAL STATEMENT.....v	CITY APPLICATION OF THE PROPERTY TAX CODE.....17
INTRODUCTORY STATEMENT.....1	ADDITIONAL TAX COLLECTIONS17
INFECTIOUS DISEASE OUTBREAK – COVID-19.....1	Municipal Sales Tax Collections.....17
THE CERTIFICATES.....2	TAX MATTERS.....17
General.....2	Opinion.....17
Authority for Issuance.....2	Federal Income Tax Accounting Treatment of Original Issue
Security for Payment.....2	Discount.....18
Tax Rate Limitations.....2	Collateral Federal Income Tax Consequences.....19
Use of Certificate Proceeds.....2	State, Local and Foreign Taxes.....19
Redemption Provisions.....3	Information Reporting and Backup Withholding.....19
Payment Record.....3	Future and Proposed Legislation.....19
Legality.....3	CONTINUING DISCLOSURE OF INFORMATION.....20
Defeasance.....3	Annual Reports.....20
Amendments.....4	Notice of Certain Events.....20
Default and Remedies.....4	Availability of Information from MSRB.....21
REGISTRATION, TRANSFER AND EXCHANGE.....5	Limitations and Amendments.....21
Paying Agent/Registrar.....5	Compliance with Prior Agreements.....21
Record Date.....6	OTHER PERTINENT INFORMATION.....21
Future Registration.....6	Registration and Qualification of Certificates for Sale.....21
Limitation on Transfer or Exchange of Certificates.....6	Litigation.....21
Replacement Certificates.....6	Future Debt Issuance.....22
BOND INSURANCE.....6	Legal Investments and Eligibility to Secure Public Funds in
BOND INSURANCE GENERAL RISKS.....8	Texas.....22
BOOK-ENTRY-ONLY SYSTEM.....9	Legal Matters.....22
Use of Certain Terms in Other Sections of this Official	Rating.....23
Statement.....10	Financial Advisor.....23
INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF	Underwriting.....23
THE CITY.....10	Links to Websites.....23
DEFINED BENEFIT PENSION PLAN.....13	Forward-Looking Statements Disclaimer.....23
AD VALOREM TAX PROCEDURES.....13	Concluding Statement.....24

Financial Information of the City.....	Appendix A
General Information Regarding the City of Caddo Mills and Hunt County, Texas.....	Appendix B
Form of Legal Opinion of Bond Counsel.....	Appendix C
City's General Purpose Audited Financial Statements for the Fiscal Year Ended September 30, 2020.....	Appendix D
Specimen Municipal Bond Insurance Policy.....	Appendix E

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The City	The City of Caddo Mills, Texas (the "City"), located in Hunt County is a political subdivision of the State of Texas (the "State") and operates under a Mayor and a City Council comprised of five members. The Mayor and all five Council members are elected at-large for two year staggered terms. The City's current estimated population is 2,500. (See "Appendix B - General Information Regarding the City of Caddo Mills and Hunt County, Texas" herein.)
The Certificates	The Certificates are being issued pursuant to the Constitution and laws of the State, including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, and an ordinance (the "Ordinance") adopted by the City Council. (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Certificates is BOKF, NA, Dallas Texas.
Security	The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City and a limited pledge (not to exceed \$1,000) of the surplus net revenues of the City's Waterworks and Sewer System (the "System"), as provided in the Ordinance. (see "THE CERTIFICATES – Security for Payment").
Redemption Provision	The City reserves the right, at its sole option, to redeem Certificates stated to mature on and after February 15, 2031, on February 15, 2030, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the price of par plus accrued interest to the date fixed for redemption. (See "THE CERTIFICATES - Redemption Provisions" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal tax purposes under statutes, regulations, published rulings and court decisions existing on the date of the initial delivery of the Certificates, subject to the matters described under "TAX MATTERS" herein. (See "Tax MATTERS" for a discussion of the Opinion of Bond Counsel and "APPENDIX C - FORM OF LEGAL OPINION OF BOND COUNSEL" herein.)
Qualified Tax-Exempt Obligations	The City has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)
Use of Certificate Proceeds	Proceeds from the sale of the Certificates will be used to pay all or a portion of the City's contractual obligations incurred in connection with (i) constructing, reconstructing and improving streets, roads, and sidewalks, including related drainage, utility relocation, signalization, landscaping, lighting and signage; and (ii) legal, fiscal and engineering fees in connection with such projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)
Book-Entry-Only System	The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC") described herein. No physical delivery of the Certificates will be made to the beneficial owners of the Certificates. Such Book-Entry-Only System may affect the method and timing of payments on the Certificates and the manner the Certificates may be transferred. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Rating	The Certificates are rated "AA" (Stable Outlook) by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") with the understanding that upon delivery of the Certificates, a municipal bond insurance policy insuring the timely payment of the principal and interest on the Certificates will be issued by AGM. In addition, The Certificates and the City's presently outstanding debt are rated "A+" by S&P without regard to credit enhancement. (See "OTHER PERTINENT INFORMATION - Rating" herein.)
Bond Insurance	The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer"). (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)
Issuance of Additional Debt	The City does not anticipate issuing any additional debt within the next twelve months.
Payment Record	The City has never defaulted on the payment of its general obligation or revenue debt.
Delivery	When issued, anticipated on or about September 8, 2021.
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas.

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INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Caddo Mills, Texas (the "City") of its \$4,660,000 Combination Tax and Revenue Certificates of Obligation, Series 2021 (the "Certificates") identified on the cover page hereof.

The City of Caddo Mills, Texas (the "City"), located in Hunt County operates under a Mayor and a City Council comprised of five members. The Mayor and all five Council members are elected at-large for two-year staggered terms. The City is a political subdivision and Type A general law municipal corporation of the State of Texas (the "State"), duly organized and existing under the Constitution and laws of the State. The Certificates are being issued pursuant to the Constitution and general laws of the State and an ordinance (the "Ordinance") adopted by the City Council of the City (the "City Council") authorizing the issuance of the Certificates. (See "THE CERTIFICATES - Authority for Issuance" herein.)

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

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 the State in response to the Pandemic which has been subsequently extended and remains in effect. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. However, on March 2, 2021 (but effective as of March 10, 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 remains in place until amended, rescinded, or superseded by the Governor. On May 18, 2021, the Governor issued Executive Order GA-36, which rescinds certain provisions of GA-34 and provides that no governmental entity, including the City, may require any person to wear a face covering or to mandate that another person wear a face covering. 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.

The City collects a sales and use tax on all taxable transactions within the City's boundaries, revenue from the sale of water and the collection of sewage, franchise fees based on private utility sales, hotel occupancy taxes upon the occupancy of any hotel or motel room in the City, and other excise taxes and fees that depend on business activity. 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 sales or other excise taxes, utility system revenue, hotel occupancy tax revenues, and utility franchise and other fees and charges may negatively impact the City'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 longer-term operational and financial performance will depend on future developments, many of which are outside of its 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 continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition.

The 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. The financial and operating data contained herein are the latest available but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future collections of certain revenues securing the Certificates.

Convening of the Texas Legislature

On January 12, 2021, the 87th Texas Legislature convened in general session which adjourned on May 31, 2021. Additionally, the Texas Governor called a special session to convene on July 8, 2021, which is ongoing. The Texas Governor may call additional special sessions. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the City and the financial condition of the City. The City makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed and final legislation for any developments applicable to the City.

THE CERTIFICATES

General

The Certificates are dated August 1, 2021 (the "Dated Date"). The Certificates are stated to mature on February 15, in the years and in the principal amounts set forth on page ii hereof. The Certificates shall bear interest from their Dated Date on the unpaid principal amounts, and the amount of interest to be paid with respect to each payment period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Certificates will be payable on February 15, 2022, and on each August 15 or February 15 thereafter until maturity or prior redemption. Principal is payable at the designated offices of the "Paying Agent/Registrar" for the Certificates, initially BOKF, NA, Dallas, Texas. Interest on the Certificates shall be paid to the registered owners whose names appear on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (as hereinafter defined) and shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk of, the registered owner. If the date for the payment of the principal or of interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to be closed, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

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

Authority for Issuance

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

Security for Payment

The Certificates constitute direct obligations of the City, payable from the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City and a limited pledge (not to exceed \$1,000) of the surplus net revenues of the City's Waterworks and Sewer System (the "System"), as provided in the Ordinance. (See "CITY APPLICATION OF THE PROPERTY TAX CODE" herein.)

Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, annual direct ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limit prescribed by law. Article XI, Section 4, of the Texas Constitution applies to the City, and limits the maximum ad valorem tax rate of the City to \$1.50 per \$100 taxable assessed valuation for all City purposes. Administratively, the Attorney General of the State will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate.

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used to pay all or a portion of the City's contractual obligations incurred in connection with (i) constructing, reconstructing, and improving streets, roads and sidewalks, including related drainage, utility relocation, signalization, landscaping, lighting and signage; (ii) constructing, equipping and improving fire stations, and (iii) legal, fiscal and engineering fees in connection with such projects.

Redemption Provisions

Optional Redemption: The City reserves the right, at its option, to redeem the Certificates maturing on and after February 15, 2031 on February 15, 2030, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption.

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

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

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

Payment Record

The City has never defaulted on the payment of its general obligation or revenue debt.

Legality

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

Defeasance

The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality

and that, on the date the City authorizes the defeasance of the Certificates, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that, on the date the City authorizes the defeasance of the Certificates, have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

Amendments

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

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

Default and Remedies

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

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

On June 30, 2006 Texas Supreme 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." Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In *Tooke*, the Court

noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities under certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services to cities.

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

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

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

See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of the Certificates. Initially, the only registered owner of the Certificates will be Cede & Co., as DTC's nominee.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Certificates is BOKF, NA, Dallas, Texas. In the Ordinance, the 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 at the sole discretion of the City, shall be a bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid.

The Certificates will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (as defined below) by check or draft mailed on February 15, 2022, and on each August 15 and February 15 thereafter until maturity or prior redemption of the Certificates, by the Paying Agent/Registrar to the last known address of the registered owner as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal of a Certificate will be paid to the registered owner at its stated maturity or its prior redemption upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying

Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Certificates, payments of principal of and interest on the Certificates will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

Record Date

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

In the event of a non-payment of interest on an interest payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Future Registration

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

Limitation on Transfer or Exchange of Certificates

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

Replacement Certificates

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

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Certificates, Assured Guaranty Municipal Corp. ("AGM" or the "Insurer") will issue its Municipal Bond Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as an appendix 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.

ASSURED GUARANTY MUNICIPAL CORP.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody's Investors Service, Inc. (“Moody's”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of certificates insured by AGM 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 relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On July 8, 2021, S&P announced it had affirmed AGM's financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On October 29, 2020, KBRA announced it had affirmed AGM's insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of “A2” (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Capitalization of AGM

At June 30, 2021:

- The policyholders' surplus of AGM was approximately \$2,943 million.
- The contingency reserve of AGM was approximately \$947 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,137 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited (“AGUK”) and Assured Guaranty (Europe) SA (“AGE”).

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Merger of MAC into AGM

On April 1, 2021, MAC was merged into AGM, with AGM as the surviving company. Prior to that merger transaction, MAC was an indirect subsidiary of AGM (which indirectly owned 60.7% of MAC) and AGM's affiliate, Assured Guaranty Corp., a Maryland-domiciled insurance company (“AGC”) (which indirectly owned 39.3% of MAC). In connection with the merger transaction, AGM and AGC each reassumed the remaining outstanding par they ceded to MAC in 2013, and AGC sold its indirect share of MAC to AGM. All of MAC's direct insured par exposures have become insured obligations of AGM.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (filed by AGL with the SEC on February 26, 2021);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021 (filed by AGL with the SEC on May 7, 2021); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 (filed by AGL with the SEC on August 6, 2021).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Certificates shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGM 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE".

BOND INSURANCE GENERAL RISKS

General

The City has obtained a commitment from the Insurer to provide the Policy relating to the Certificates. The following risk factors related to municipal bond insurance policies generally apply.

In the event of default of the scheduled payment of principal of or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered 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 Certificates is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES - Default and Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Beneficial Owners.

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

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

The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the City, the Purchaser, 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 Investors Service, 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 any bond insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the investment.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the

identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY

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

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City's account, (iii) the full amount of the principal and accrued interest of the banking

deposits is insured by the United States or an instrumentality of the United States, and (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clauses (1) or (12), which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party designated by the City, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

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

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the City's designated Investment Officer; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Authorized Investments

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

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

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

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

Current Investments

State law does not require the City to periodically mark its investments to market price, and the City does not do so, other than annually upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the City's audited financial statements. Given the nature of its investments, the City does not believe that the market value of its investments differs materially from book value.

As of May 31, 2021, 100% of the City's investable funds in the amount of \$4,694,290.65 were invested in interest bearing checking accounts, money market accounts and certificates of deposit.

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

The Texas State Comptroller of Public Accounts exercises oversight responsibility over the Texas Local Government Investment Pool ("TexPool"). Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of the other persons who do not have a business relationship with TexPool. The advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAA by S&P. TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State 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. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained at www.tmr.com.

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

For more information see the Annual Financial Report for the Fiscal Year Ended September 30, 2020, Note 7 and Note 8, pages 38 through 45.

AD VALOREM TAX PROCEDURES

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

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

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

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "AD VALOREM TAX PROCEDURES – City and Taxpayer Remedies."

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See "Table 1 – Assessed Valuation" for the reduction, if any, attributable to local option homestead exemptions.

Local Option Freeze for the Elderly and Disabled

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

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

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

See "Table 1 – Assessed Valuation" for the reduction, if any, attributable to Freeport Property and/or Goods-in-Transit exemptions.

Other Exempt Property

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

Tax Increment Financing Zones

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

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See "CITY APPLICATION OF THE PROPERTY TAX CODE" for descriptions of any of the City's tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, See "CITY APPLICATION OF THE PROPERTY TAX CODE" herein.

Public Hearing and Maintenance and Operation Tax Rate Limitations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

City and Taxpayer Remedies

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

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

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

The foregoing sections represents the City's current understanding of the recently adopted Senate Bill 2, however the City cannot represent at this time what impact such legislation may have on the City. The City may revise and update this information as more information about Senate Bill 2 and its specific impact on the City becomes available.

City's Rights in the Event of Tax Delinquencies

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

Penalties and Interest

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

<u>Month</u>	<u>Penalty</u>	<u>Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July ^(a)	12	6	18

^(a) After July, the penalty remains at 12% and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition the taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may not provide for a fee not to exceed 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances, taxes, which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed.

CITY APPLICATION OF THE PROPERTY TAX CODE

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

The City does not grant an additional exemption of up to 20% of the appraised value of residence homesteads (minimum exemption of \$5,000).

The City does not tax non-business personal property.

The City has contracted with the Hunt County Tax Assessor/Collector for the collection of the City's property taxes.

Hunt County does permit split payments, but discounts are not allowed.

The City does not grant the Freeport Property exemption.

The City does not grant an exemption for Goods-in-Transit.

The City does not participate in a Tax Increment Reinvestment Zone.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004, as described above under "AD VALOREM TAX PROCEDURES – Local Option Freeze for the Elderly and Disabled" herein.

The City has no tax abatement agreements.

ADDITIONAL TAX COLLECTIONS

Municipal Sales Tax Collections

The City has adopted the provisions of Chapter 34 of the Texas Tax Code, as amended, which provides for the maximum levy of a one percent sales tax which may be used by the City for any lawful purpose except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of the Certificates or other indebtedness. Net collections on a fiscal year basis are shown in Table 7 of Appendix A – Financial Information of the City.

TAX MATTERS

Opinion

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the facilities financed or refinanced with the proceeds of the Certificates. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

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

Qualified Tax-Exempt Obligations

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

of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1,2,3,4,5,6,7 and 8 of Appendix A. The City will update and provide this information within six (6) months after the end of each fiscal year ending in and after 2021. The City will additionally provide audited financial statements when and if available, and in any event, within twelve (12) months after the end of each fiscal year ending in or after 2021. If the audit of such financial statements is not complete within twelve (12) months after any such fiscal year end, then the City will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, the City must provide updated information included in the above-referenced tables by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

Notice of Certain Events

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

the City will provide timely notice of any failure by the City to provide annual financial information or operating data in accordance with their agreement described above under "Annual Reports".

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

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

Availability of Information from MSRB

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

Limitations and Amendments

The City has agreed to update information and to provide notices of specified 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 Certificates 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 agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

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

In the past five years, the City has not failed to comply in any material respect with its existing continuing disclosure agreements made pursuant to the Rule.

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

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

Litigation

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

Future Debt Issuance

The City does not anticipate issuing any additional debt within the next twelve (12) months.

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

Legal Matters

The City will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the initial Certificate is a valid and legally binding obligation of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein.

Though it may represent the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the City in the issuance of the Certificates. Except as noted below, Bond Counsel did not take part in the preparation of this Official Statement, 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 its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas has reviewed the information under the captions and subcaptions "THE CERTIFICATES" (except for the last sentence under the subcaption "Tax Rate Limitations" and the subcaptions "Payment Record" and "Default and Remedies" as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except the information under the subcaption "Compliance with Prior Agreements" as to which no opinion is expressed), and the subcaptions "Registration and Qualification of Certificates for Sale", "Legal Investments and Eligibility to Secure Public Funds in Texas", and "Legal Matters" (excluding the last two sentences of the third paragraph thereof) under the caption "OTHER PERTINENT INFORMATION" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the Ordinance. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished.

The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Locke Lord LLP, Austin, Texas, as counsel to the Underwriter. The legal fee of such firm is contingent upon the sale and delivery of the Certificates.

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

Rating

The Certificates are rated "AA" (Stable Outlook) by S&P with the understanding that upon delivery of the Certificates, a municipal bond insurance policy insuring the timely payment of the principal and interest on the Certificates will be issued by Assured Guaranty Municipal Corp. The Certificates and the City's currently outstanding debt have been rated "A+" by S&P without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from S&P. The ratings reflect only the view of such organization and the City makes no representation as to the appropriateness of the ratings. There is no assurance that any rating will continue for any given period of time or that one or both of the ratings will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of one or both of the ratings, may have an adverse effect on the market price of the Certificates (see "BOND INSURANCE GENERAL RISKS - Claims-Paying Ability and Financial Strength of Municipal Bond Insurers" for a description of the current state of the financial guaranty insurance industry and recent downgrading of multiple financial guaranty insurers).

Financial Advisor

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

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at a price of \$5,099,239.20 (which reflects the principal amount of the Certificates, less an underwriting discount of \$33,753.75, plus a reoffering premium of \$472,992.95), plus accrued interest of \$14,368.33.

The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Certificates, if any of the Certificates are purchased. The Certificates may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Certificates into investment trusts) and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriter and its affiliates may have certain creditor and/or other rights against the City and its affiliates in connection with such activities. In the various course of their various business activities, the Underwriter and its respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Links to Websites

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

Forward-Looking Statements Disclaimer

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

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

Concluding Statement

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

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Rule.

CITY OF CADDO MILLS, TEXAS

Ron Olson

Mayor

City of Caddo Mills, Texas

ATTEST:

Jana Sanchez

City Secretary

City of Caddo Mills, Texas

APPENDIX A

FINANCIAL INFORMATION OF THE CITY

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

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FINANCIAL INFORMATION OF THE CITY

ASSESSED VALUATION

TABLE 1

2021 Preliminary Market Value of Taxable Property (100% of Market Value)	\$ 327,173,824
Less Exemptions:	
Over 65-Disabled	\$ 1,020,000
Veterans Exemptions	1,360,726
Pollution Control	1,627,660
Exempt Property-Other	58,386,089
Productivity	7,344,070
Homestead Cap	2,551,098
TOTAL EXEMPTIONS	<u>72,289,643</u>
2021 Preliminary Assessed Value of Taxable Property	<u>\$ 254,884,181</u>

Source: Hunt County Appraisal District.

GENERAL OBLIGATION BONDED DEBT ⁽¹⁾

(as of July 1, 2021)

General Obligation Debt Principal Outstanding

Combination Tax & Surplus Revenue Certificates of Obligation, Series 2012	\$ 3,615,000
General Obligation Refunding Bonds, Series 2013	355,000
General Obligation Refunding Bonds, Series 2015	120,000
General Obligation Refunding Bonds, Series 2020	1,455,000
Combination Tax & Surplus Revenue Certificates of Obligation, Series 2021, (the "Certificates")	<u>4,660,000</u>
Total Gross General Obligation Debt	<u>\$ 10,205,000</u>

2021 Preliminary Net Assessed Valuation	\$ 254,884,181
Ratio of Total Gross General Obligation Debt Principal to 2021 Preliminary Net Taxable Assessed Valuation	4.00%
Ratio of Net General Obligation Debt to 2021 Preliminary Net Taxable Assessed Valuation	4.00%

Population: 1990 - 1,068; 2000 - 1,149; 2010 - 1,338; est. 2021 - 2,500

Per Capita Certified Net Taxable Assessed Valuation - \$101,953.67

Per Capita Gross General Obligation Debt Principal - \$4,082.00

⁽¹⁾ *Unaudited.*

DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE

TABLE 2

None

Source: The City's Annual Financial Report for Fiscal Year Ending September 30, 2020.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

(as of July 1, 2021)

Fiscal Year Ending (9/30)	Current	The Certificates			Combined Debt Service	Less: Self	Total Net Debt Service
	Outstanding Debt Service	Principal	Interest	Total		Supporting Debt	
2021	\$ 649,104	\$ -	\$ -	\$ -	\$ 649,104	\$ -	\$ 649,104
2022	644,511	75,000	144,112	219,112	863,622	-	863,622
2023	439,339	470,000	130,500	600,500	1,039,839	-	1,039,839
2024	438,206	175,000	120,825	295,825	734,031	-	734,031
2025	436,560	180,000	115,500	295,500	732,060	-	732,060
2026	434,740	185,000	110,025	295,025	729,765	-	729,765
2027	437,587	190,000	104,400	294,400	731,987	-	731,987
2028	440,125	195,000	98,625	293,625	733,750	-	733,750
2029	437,313	205,000	92,625	297,625	734,938	-	734,938
2030	439,141	210,000	86,400	296,400	735,541	-	735,541
2031	252,070	215,000	80,025	295,025	547,095	-	547,095
2032	251,130	225,000	73,425	298,425	549,555	-	549,555
2033	254,840	230,000	66,600	296,600	551,440	-	551,440
2034	253,000	235,000	59,625	294,625	547,625	-	547,625
2035	250,878	245,000	52,425	297,425	548,303	-	548,303
2036	253,563	250,000	45,000	295,000	548,563	-	548,563
2037	250,563	260,000	37,350	297,350	547,913	-	547,913
2038	252,260	265,000	29,475	294,475	546,735	-	546,735
2039	253,553	275,000	21,375	296,375	549,928	-	549,928
2040	254,440	285,000	12,975	297,975	552,415	-	552,415
2041	254,923	290,000	4,350	294,350	549,273	-	549,273
Total	\$ 7,577,841	\$ 4,660,000	\$ 1,485,637	\$ 6,145,637	\$ 13,723,477	\$ -	\$ 13,723,477

TAX ADEQUACY (Includes Self-Supporting Debt)

2021 Preliminary Net Taxable Assessed Valuations	\$ 254,884,181
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2023)	\$ 1,039,839 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.3998

* Includes the Certificates.

Note: AV computations are exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(as of July 1, 2021)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year	Percent of Principal Retired (%)
	Currently Outstanding	The Certificates	Total		
2021	\$ 300,000	\$ -	\$ 300,000	\$ 9,905,000	2.94%
2022	490,000	75,000	565,000	9,340,000	8.48%
2023	295,000	470,000	765,000	8,575,000	15.97%
2024	300,000	175,000	475,000	8,100,000	20.63%
2025	305,000	180,000	485,000	7,615,000	25.38%
2026	310,000	185,000	495,000	7,120,000	30.23%
2027	320,000	190,000	510,000	6,610,000	35.23%
2028	330,000	195,000	525,000	6,085,000	40.37%
2029	335,000	205,000	540,000	5,545,000	45.66%
2030	345,000	210,000	555,000	4,990,000	51.10%
2031	165,000	215,000	380,000	4,610,000	54.83%
2032	170,000	225,000	395,000	4,215,000	58.70%
2033	180,000	230,000	410,000	3,805,000	62.71%
2034	185,000	235,000	420,000	3,385,000	66.83%
2035	190,000	245,000	435,000	2,950,000	71.09%
2036	200,000	250,000	450,000	2,500,000	75.50%
2037	205,000	260,000	465,000	2,035,000	80.06%
2038	215,000	265,000	480,000	1,555,000	84.76%
2039	225,000	275,000	500,000	1,055,000	89.66%
2040	235,000	285,000	520,000	535,000	94.76%
2041	245,000	290,000	535,000	-	100.00%
Total	\$ 5,545,000	\$ 4,660,000	\$ 10,205,000		

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2012-2021

TABLE 3

Tax Roll Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2012	\$ 113,067,865	---	---
2013	109,628,580	(3,439,285)	-3.04%
2014	128,872,135	19,243,555	17.55%
2015	123,612,604	(5,259,531)	-4.08%
2016	122,653,429	(959,175)	-0.78%
2017	130,342,181	7,688,752	6.27%
2018	141,644,919	11,302,738	8.67%
2019	155,512,799	13,867,880	9.79%
2020	182,289,653	26,776,854	17.22%
2021	254,884,181 *	72,594,528	39.82%

Source: Hunt County Appraisal District.

* Preliminary Hunt County Appraisal District as of April 28, 2021.

PRINCIPAL TAXPAYERS 2020

TABLE 4

<u>Name</u>	<u>Type of Business/Property</u>	<u>% of Total 2020 Assessed</u>	
		<u>2020 Net Taxable Assessed Valuation</u>	<u>Valuation</u>
DR Horton	Homebuilders	\$ 14,877,570	8.16%
Explorer Pipeline	Transport-gasoline, diesel, fuel oil and jet fuel	11,225,800	6.16%
SUNOCO Partners Marketing & Terminals	Gas Station Industry	7,984,730	4.38%
Hixson Lumber Sales Inc.	Lumber	5,685,229	3.12%
Kinder Morgan N Texas Pipeline	Energy infrastructure	4,129,990	2.27%
Motiva Enterprise LLC	Gas distributor	3,127,970	1.72%
Oneok Sterling III Pipeline LLC	Natural Gas Liquid	2,903,410	1.59%
Exxon Mobil Corporation	Gas	2,452,005	1.35%
PTCAA Texas LP	Construction	2,421,150	1.33%
Valero Marketing & Supply Co	Gas	2,170,770	1.19%
		<u>\$ 56,978,624</u>	<u>31.26%</u>

Based on a 2020 Certified Net Taxable Assessed Valuation of \$ 182,289,653

As shown in the table above, the top ten taxpayers in the City currently account for approximately 31% of the City's tax base. Adverse developments in economic conditions, especially in a particular industry in which one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the City, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually.

Source: Hunt County Appraisal District

TAX DATA

TABLE 5

<u>Tax Year</u>	<u>Net Taxable Assessed</u>		<u>% of Collections</u>			<u>Year Ended</u>
	<u>Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Current</u>	<u>Total</u>	
2012	\$ 113,067,865	\$ 0.644800	\$ 729,062	98.76	100.16	9/30/2013
2013	109,628,580	0.750000	822,214	98.46	103.34	9/30/2014
2014	128,872,135	0.750000	966,541	98.35	99.83	9/30/2015
2015	123,612,604	0.750000	927,095	98.58	99.67	9/30/2016
2016	122,653,429	0.750000	919,901	98.71	99.48	9/30/2017
2017	130,342,181	0.730000	951,498	98.30	99.03	9/30/2018
2018	141,644,919	0.693700	982,591	98.61	100.33	9/30/2019
2019	155,512,799	0.657000	1,021,719	98.25	99.37	9/30/2020
2020	182,289,653	0.576000	1,049,988	96.64	97.59	9/30/2021 *

* Collections as of June 30, 2021.

TAX RATE DISTRIBUTION

TABLE 6

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Fund	\$0.218600	\$0.243300	\$0.216800	\$0.214300	\$0.212400
I&S Fund	<u>0.357400</u>	<u>0.413700</u>	<u>0.476900</u>	<u>0.515700</u>	<u>0.537600</u>
Total	<u>\$0.576000</u>	<u>\$0.657000</u>	<u>\$0.693700</u>	<u>\$0.730000</u>	<u>\$0.750000</u>

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, Hunt County Appraisal District.

CLASSIFICATION OF ASSESSED VALUATION

<u>Category</u>	<u>2021</u> ^(a)	<u>% of</u> <u>Total</u>	<u>2020</u>	<u>% of</u> <u>Total</u>	<u>2019</u>	<u>% of</u> <u>Total</u>
Residential	\$ 139,714,956	42.70%	\$ 70,204,576	27.64%	\$ 61,046,209	27.44%
Vacant Lots	18,371,650	5.62%	16,425,075	6.47%	703,130	0.32%
Qualified and Non-Qualified Land	7,541,500	2.31%	6,720,300	2.65%	5,240,304	2.36%
Farm or Ranch Improvement	23,612,479	7.22%	21,567,855	8.49%	17,715,721	7.96%
Commercial-Industrial Real Property	21,758,749	6.65%	18,877,935	7.43%	16,657,155	7.49%
Utilities	12,806,510	3.91%	12,785,160	5.03%	11,514,350	5.18%
Commercial-Industrial Personal Property	44,211,341	13.51%	46,661,569	18.37%	51,033,038	22.94%
Mobil Home	8,630	0.00%	4,000	0.00%	4,000	0.00%
Residential Inventory	235,650	0.07%	1,199,881	0.47%	1,806,610	0.81%
Special Inventory	620,070	0.19%	676,260	0.27%	522,220	0.23%
Totally Exempt	58,292,289	17.82%	58,910,388	23.19%	56,230,557	25.28%
Total Appraised Value	\$ 327,173,824	100.00%	\$ 254,032,999	100.00%	\$ 222,473,294	100.00%

Less Exemptions/Value Loss:

Over 65-Disabled	\$ 1,020,000	\$ 1,130,000	\$ 1,150,000
Veterans Exemptions	1,360,726	1,093,239	796,788
Pollution Control	1,627,660	1,634,060	1,640,690
Exempt Property-Other	58,386,089	58,940,238	56,230,557
Productivity	7,344,070	6,538,680	5,079,770
Homestead Cap	2,551,098	2,407,129	2,062,690
Total Exemptions	<u>\$ 72,289,643</u>	<u>\$ 71,743,346</u>	<u>\$ 66,960,495</u>

Certified Net Taxable Valuation \$ 254,884,181 \$ 182,289,653 \$ 155,512,799

^(a) Preliminary Hunt County Appraisal District as of April 28, 2021.

Source: Hunt County Appraisal District (Certified September 1 Totals) and the City.

Note: Assessed Valuations shown are Certified Values and may change during the year due to various supplements and protests. Valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

MUNICIPAL SALES TAX COLLECTIONS

TABLE 7

The City has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development sales tax. The City's approved a 1/2 of 1 cent sales tax for its Economic Development Corporation (4B). Collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2012	\$ 140,342.66	19.25%	\$ 0.124
2013	155,896.90	18.96%	0.142
2014	203,434.35	21.05%	0.158
2015	298,461.62	32.19%	0.241
2016	310,747.92	33.78%	0.253
2017	353,539.24	37.16%	0.271
2018	395,072.10	40.21%	0.279
2019	425,920.33	41.69%	0.274
2020	548,179.55	52.21%	0.301
2021	334,120.93	(As of June 2021)	

Source: State Comptroller's Office of the State of Texas.

OVERLAPPING DEBT INFORMATION

(as of July 1, 2021)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the City. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt (As of 5/31/21)	% Overlapping	Amount Overlapping
Caddo Mills ISD	\$ 76,094,463	28.51%	\$ 21,694,531
Hunt County	11,855,000	2.45%	290,448
Hunt Memorial Hospital District	39,730,000	2.45%	973,385
Total Gross Overlapping Debt			<u>\$ 22,958,364</u>
Caddo Mills, City of			\$ 10,205,000 *
Total Gross Direct and Overlapping Debt			<u>\$ 33,163,364 *</u>
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			13.01% *
Per Capita Direct and Overlapping Debt			\$13,265.35 *

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

* Includes the Certificates.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2020 Assessed Valuation	% of Actual	2020 Tax Rate
Caddo Mills ISD	\$ 644,037,480	100%	\$ 1.257000
Hunt County	7,561,510,010	100%	0.467000
Hunt Memorial Hospital District	7,465,846,819	100%	0.244000

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

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIV

Issuer	Date of Authorization	Amount Authorized	Amount Issued to Date	Amount Unissued
Caddo Mills ISD	11/3/2020	\$ 90,000,000	\$ 50,000,000	\$ 40,000,000
Hunt County	11/8/2016	\$ 24,420,000	\$ 12,000,000	\$ 12,420,000
Hunt Memorial Hospital District	None	\$ -	\$ -	\$ -

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

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 8

The following statements set forth in condensed form reflect the historical operations of the City. Such summary has been prepared for inclusion herein based upon information obtained from the City's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016
Fund Balance - Beginning of Year	\$ 1,220,749	\$ 1,037,186	\$ 155,086	\$ 127,799	\$ 161,045
Revenues	\$ 1,974,886	\$ 1,405,151	\$ 1,867,163	\$ 907,065	\$ 809,667
Expenditures	1,578,235	1,188,292	945,572	813,721	804,595
Excess (Deficit) of Revenues Over Expenditures	\$ 396,651	\$ 216,859	\$ 921,591	\$ 93,344	\$ 5,072
Other Financing Sources (Uses):					
Operating Transfers In	\$ 181,908	\$ 1,250	\$ -	\$ 2,726	\$ 25,000
Operating Transfers Out	(4,977)	(34,546)	(39,491)	(78,633)	(63,318)
Issuance of a Loan	-	-	-	-	-
Capital Leases	-	-	-	9,850	-
Proceeds from the Sale of Capital Assets	4,500	-	-	-	-
Total Other Financing Sources (Uses):	\$ 181,431	\$ (33,296)	\$ (39,491)	\$ (66,057)	\$ (38,318)
Fund Balance - End of Year	\$ 1,798,831	\$ 1,220,749	\$ 1,037,186	\$ 155,086	\$ 127,799

Source: The City's Annual Financial Report for Fiscal Year Ending September 30, 2020.

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APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF CADDO MILLS AND HUNT COUNTY, TEXAS

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**GENERAL INFORMATION REGARDING THE CITY OF CADDO MILLS
AND HUNT COUNTY, TEXAS**

CITY OF CADDO MILLS, TEXAS

General

Caddo Mills is at the intersection of State Highway 66 and Farm Road 36, eight miles southwest of Greenville in southwestern Hunt County. Downtown Dallas is 41 miles southwest of Caddo Mills.

Population:

<u>Census Report</u>	<u>City of Caddo Mills</u>	<u>Hunt County</u>
Current Estimate	2,500	101,510
2020	1,970	99,280
2010	1,338	86,129
2000	1,149	76,596

Sources: United States Bureau of the Census, Texas Municipal Reports, and the North Central Texas Council of Governments

Major Employers within Hunt County

<u>Employer</u>	<u>Approximate Number of Employees</u>
L-3 Communications	6,500
Hunt Regional Medical Center	1,100
Texas A&M University-Commerce	904
Greenville ISD	709
McKesson	500
City of Greenville	423
Hunt County	389
Cytec Engineered Materials	350
Wal-Mart	315
Weatherford Artificial Lift	300

Source: Texas Municipal Report Hunt County-Municipal Advisory Council of Texas

HUNT COUNTY, TEXAS

General

Hunt County is a northeast Texas county, traversed by Interstate 30, U.S. Highways 67, 69, and 380, State Highways 24, 34, 224, and fifteen farm-to market roads. Commercial and residential development along Lake Tawakoni contributes to the county's economy. The county was the fifth largest producing county of soybeans in Texas in 2016.

Source: Hunt County 2019 Annual Financial Report.

Labor Force Statistics

	<u>Hunt County</u>	
	<u>May 2021</u>	<u>May 2020</u>
Civilian Labor Force	44,453	41,467
Total Employed	42,030	37,412
Total Unemployed	2,423	4,055
% Unemployed	5.5%	9.8%
% Unemployed (Texas)	5.9%	11.8%
% Unemployed (United States)	5.5%	13.0%

Source: Texas Workforce Commission, Labor Market Information Department.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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PROPOSED FORM OF OPINION OF BOND COUNSEL

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

**CITY OF CADDO MILLS, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2021
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$4,660,000**

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

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

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

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

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined



to be inaccurate or upon if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates, including the amount, accrual or receipt of interest on, the Certificates. Owners of the Certificates should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates.

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

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

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

Respectfully,

APPENDIX D

CITY'S GENERAL PURPOSE AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

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CITY OF CADDO MILLS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Wilf & Henderson, P. C.
Certified Public Accountants

**City of Caddo Mills, Texas
Annual Financial Report
For The Year Ended September 30, 2020**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor’s Report.....	4
<u>Required Supplementary Information</u>	
Management’s Discussion and Analysis.....	7
<u>Basic Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Position.....	16
Statement of Activities.....	17
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Fund Net Position - Proprietary Fund.....	21
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund.....	22
Statement of Cash Flows - Proprietary Fund.....	23
Notes to Basic Financial Statements.....	24
<u>Required Supplementary Information</u>	
Budgetary Comparison Schedule - General Fund.....	49
Schedule of Changes in Net Pension Liability & Related Ratios	50
Schedule of Contributions.....	51
Schedule of Changes in Total OPEB Liability & Related Ratios	52

**City of Caddo Mills, Texas
Annual Financial Report
For The Year Ended September 30, 2020**

TABLE OF CONTENTS

	<u>Page</u>
<u>Supplementary Schedules (Unaudited):</u>	
Schedule of Delinquent Taxes Receivable.....	54
Historical Schedule of Property Tax Rates.....	55
Historical Schedule of Assessed Property Valuation.....	56

FINANCIAL SECTION



Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Caddo Mills, Texas

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Caddo Mills, Texas (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Caddo Mills, Texas, as of September 30, 2020, and the respective changes in financial position for the year ended in accordance with accounting 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 on pages 7-14, and the budgetary comparison information on page 49, schedule of changes in net pension liability & related ratios on page 50, schedule of contributions on page 51 and the schedule of changes in total OPEB liability & related ratios on page 52, which are required supplementary information (RSI) that supplements the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Caddo Mills, Texas' basic financial statements. The supplementary schedules on pages 54-56 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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.

Wulf & Henderson, P.C.

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

May 6, 2021

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management for the City of Caddo Mills, Texas, we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2020. This discussion should be read in conjunction with the financial statements and related notes.

FINANCIAL HIGHLIGHTS:

- Government-wide net position reported in the Statement of Activities is \$8,292,584. Of this amount \$6,393,271 is the net investment in capital assets, \$132,054 is restricted for debt service or municipal court use, leaving \$1,767,259 of unrestricted net position.
- Government-wide net position increased by \$2,053,464.
- Each of the City's fund financial statements reported changes in equity as follows:

General Fund - \$578,082 increase

Water & Sewer Fund - \$1,196,706 increase

Debt Service Fund - \$317 increase

Other Governmental Funds - \$9,595 increase

Comparative data is presented at the end of this section to facilitate further analysis of the City's financial activity.

USING THIS ANNUAL REPORT:

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and appropriations from the State. Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

REPORTING THE CITY AS A WHOLE GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Statement of Net Position and the Statement of Activities

Government-wide financial statements provide an analysis of the City's overall financial condition and operations. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Position includes all the City's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions and 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current year or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and the changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities:

Governmental Activities – Most of the City's services are reported here, including, administration, judicial, public works, police, code enforcement, parks and recreation and infrastructure. Property taxes and state and federal grants finance most of these activities.

Business-type Activities – The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system operations and sanitation services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. The City's administration establishes funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found at the bottom of each of the governmental fund financial statements.

Proprietary Funds – The Proprietary/Enterprise fund is used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

Net position serves as one useful indicator of a government's financial position. In the case of the City, the combined net position exceeded liabilities by \$8,292,584 at the close of FY 2020.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:

The net position of the City's activities increased by \$2,053,464 during 2020. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$1,767,259.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

As the City completed the year, its governmental funds \$1,835,892 and proprietary funds \$5,675,318 reported combined fund balance and net position of \$7,511,210 an \$1,784,700 increase from last year.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets – the City's capital assets reported in governmental activities and business-type activities was \$1,118,491 and \$10,944,092, respectively or \$12,062,583 in total government-wide. Capital assets include land, buildings and improvements, equipment and vehicles, net of accumulated depreciation. Net changes in capital assets in governmental activities and business-type activities were \$77,577 increase and \$1,351,231 increase, respectively after current year depreciation expense of \$119,020 (governmental activities) and \$382,925 (business-type activities). Additional information on the City's capital assets can be found in note 5 to the financial statements.

Long-term Debt – at year-end the City had \$355,000 in bonds outstanding in governmental activities – a decrease of \$170,000. At year-end the City has \$5,316,000 in bonds outstanding in business-type activities – a decrease of \$261,000. At year-end approximately \$176,000 of the proceeds of bonded debt is held in escrow for funding the City's water and sewer project. Additional information on the City's long-term debt can be found in note 6 to the financial statements.

BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:

The sewer expansion along FM 1565 is completed at this time. The development with DR Horton that was annexed in the city has brought in 300 homes last year at Caddo Downs and Trailstone with an additional 300+ this coming year. There is a new development with DR Horton called the Stonehaven subdivision that is in the process and should start by the 3rd quarter this year. The Stonehaven subdivision will bring in an additional 360 homes. More developers have purchased land and are interested in developing. The Phase 2 \$275,000 CDBG grant with a 5% match to finish out the new water lines has been completed. The city applied for and received a Phase 3 \$500,000 CDBG grant with a 5% match. This Phase 3 grant has been awarded and the engineering is now in the design work process. The airport has received a \$1,000,000 grant from TxDOT and has awarded the engineering so this project is in the beginning process of expanding ramps and taxi ways. There are additional small projects at the airport that will be achieved this year. There is a \$80,000,000 High School being built and the city will be doing all the inspections. The Economic Development Committee is on board with the City on any future developments.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Finance Manager at (903) 527-3116.

CITY OF CADDO MILLS, TEXAS
COMPARATIVE STATEMENT OF NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
ASSETS						
Current and other assets	\$ 1,994,192	\$ 1,381,303	\$ 1,258,174	\$ 1,902,977	\$ 3,252,366	3,284,280
Capital assets, net	1,118,491	1,040,914	10,944,092	9,592,861	12,062,583	10,633,775
Total Assets	3,112,683	2,422,217	12,202,266	11,495,838	15,314,949	13,918,055
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows- related to pensions	34,518	49,601	9,467	13,602	43,985	63,203
Deferred outflows- related to OPEB	17,338	14,867	4,755	4,077	22,093	18,944
Deferred loss on bond refunding	1,253	2,482			1,253	2,482
Total Deferred Outflows of Resources	53,109	66,950	14,222	17,679	67,331	84,629
LIABILITIES						
Other liabilities	143,160	167,843	1,211,360	1,448,084	1,354,520	1,615,927
Long-term debt	355,000	525,000	5,316,000	5,577,000	5,671,000	6,102,000
Total Liabilities	498,160	692,843	6,527,360	7,025,084	7,025,520	7,717,927
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows- related to pensions	37,883	34,085	10,387	9,346	48,270	43,431
Deferred inflows- related to OPEB	12,483	1,731	3,423	475	15,906	2,206
Total Deferred Inflows of Resources	50,366	35,816	13,810	9,821	64,176	45,637
NET POSITION						
Net investment in capital assets	764,744	518,396	5,628,527	4,304,950	6,393,271	4,823,346
Restricted for capital projects, \$435 net of related debt, \$435			-	-	-	-
Restricted for municipal court	23,806	19,795			23,806	19,795
Restricted for debt service	47,260	42,035	60,988	39,061	108,248	81,096
Unrestricted	1,781,456	1,180,282	(14,197)	134,601	1,767,259	1,314,883
Total Net Position	\$ 2,617,266	\$ 1,760,508	\$ 5,675,318	\$ 4,478,612	\$ 8,292,584	\$ 6,239,120

CITY OF CADDO MILLS, TEXAS
COMPARATIVE STATEMENT OF ACTIVITIES

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Program Revenues:						
Charges for services	\$ 707,277	\$ 168,865	\$ 1,095,028	\$ 840,265	\$ 1,802,305	\$ 1,009,130
Operating grants/contributions	357,674	528,520	-	-	357,674	528,520
Capital grants/contributions	-	-	1,129,771	1,516,673	1,129,771	1,516,673
General Revenues:						
Ad valorem taxes	1,032,385	1,002,147			1,032,385	1,002,147
Sales taxes	360,043	279,391			360,043	279,391
Franchise taxes	55,476	56,839			55,476	56,839
Interest	6,515	15,203	7,222	20,235	13,737	35,438
Other	138,082	66,615	-	8,663	138,082	75,278
Total Revenues	2,657,452	2,117,580	2,232,021	2,385,836	4,889,473	4,503,416
Expenses:						
Administration	620,913	538,059			620,913	538,059
Judicial	59,190	58,960			59,190	58,960
Police department	373,959	334,211			373,959	334,211
Fire protection	69,895	79,683			69,895	79,683
Safe schools program	136,012	55,884			136,012	55,884
Airport	32,572	101,648			32,572	101,648
Public works	29,162	29,162			29,162	29,162
Interest & fiscal charges	13,137	19,351			13,137	19,351
Water, Sewer & Sanitation Services			1,501,169	1,327,406	1,501,169	1,327,406
Total Expenses	1,334,840	1,216,958	1,501,169	1,327,406	2,836,009	2,544,364
Excess (deficiency) before transfers	1,322,612	900,622	730,852	1,058,430	2,053,464	1,959,052
Transfers	(465,854)	(494,769)	465,854	496,019	-	1,250
Change in Net Position	856,758	405,853	1,196,706	1,554,449	2,053,464	1,960,302
Net position - October 1	1,760,508	1,354,655	4,478,612	2,924,163	6,239,120	4,278,818
Net position - September 30	<u>\$ 2,617,266</u>	<u>\$ 1,760,508</u>	<u>\$ 5,675,318</u>	<u>\$ 4,478,612</u>	<u>\$ 8,292,584</u>	<u>\$ 6,239,120</u>

City of Caddo Mills, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUES:		
Ad valorem taxes	\$ 1,023,493	\$ 1,000,316
Franchise taxes	55,476	56,839
Sales tax	360,043	279,391
Impound income	16,163	12,909
Permits and fees	581,802	39,771
Fines	82,770	99,114
Grants	20,798	5,921
Hunt County fire contribution	30,149	31,968
Developer contributions	306,727	433,057
Donations and other income	153,377	146,354
Interest	6,515	15,203
Total Revenues	<u>2,637,313</u>	<u>2,120,843</u>
EXPENDITURES:		
Administration	613,090	542,114
Judicial	59,436	57,482
Police department	342,275	308,262
Fire protection	52,559	60,447
Safe schools program	132,779	57,912
Airport	6,694	72,666
Capital outlay	199,224	153,704
Debt Service:		
Principal retirement	170,000	180,670
Interest and fiscal charges	11,908	18,293
Total Expenditures	<u>1,587,965</u>	<u>1,451,550</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,049,348</u>	<u>669,293</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	182,859	32,104
Transfers out	(648,713)	(526,873)
Proceeds from sale of capital assets	4,500	-
Net Other Financing Sources (Uses)	<u>(461,354)</u>	<u>(494,769)</u>
Net change in fund balances	587,994	174,524
Fund balance - October 1	<u>1,247,898</u>	<u>1,073,374</u>
Fund balance - September 30	<u>\$ 1,835,892</u>	<u>\$ 1,247,898</u>

City of Caddo Mills, Texas
Statements of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>
	<u>Water & Sewer</u>	<u>Water & Sewer</u>
	<u>Activities</u>	<u>Activities</u>
OPERATING REVENUES:		
Water and sewer sales	\$ 593,163	\$ 543,321
Garbage fees	189,675	180,160
Penalties	19,085	22,009
Other revenues	293,105	94,775
Total Operating Revenues	<u>1,095,028</u>	<u>840,265</u>
OPERATING EXPENSES:		
Salaries and employee benefits	340,211	257,197
Water purchases	184,309	138,056
Contractual services	146,419	146,086
Repairs and facility maintenance	140,465	84,641
Fuel and oil	11,329	13,078
Utilities and telephone	30,507	28,517
Depreciation & amortization	382,925	363,313
Other expense	65,588	90,191
Total Operating Expenses	<u>1,301,753</u>	<u>1,121,079</u>
Operating Income	<u>(206,725)</u>	<u>(280,814)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	7,222	20,235
Interest and fiscal charges	(199,416)	(206,327)
Gain (loss) on disposal of capital asset	-	8,663
Total Nonoperating Revenues (Expenses)	<u>(192,194)</u>	<u>(177,429)</u>
Income (loss) before contributions and transfers	<u>(398,919)</u>	<u>(458,243)</u>
Capital grants	213,581	58,419
Capital contributions	916,190	1,458,254
Transfers in	465,854	496,019
Change in net position	<u>1,196,706</u>	<u>1,554,449</u>
Total net position, October 1	<u>4,478,612</u>	<u>2,924,163</u>
Total net position, September 30	<u>\$ 5,675,318</u>	<u>\$ 4,478,612</u>

BASIC FINANCIAL STATEMENTS

City of Caddo Mills, Texas
Statement of Net Position
September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total Primary Government	
ASSETS				
Cash and cash equivalents	\$ 1,824,198	\$ 818,308	\$ 2,642,506	\$ 120,716
Certificates of Deposit				931,093
Property taxes receivable, net	19,689		19,689	
Sales and franchise taxes receivable	79,726		79,726	39,857
Fines receivable, net	23,319		23,319	
Accounts receivable, net		121,339	121,339	138
Restricted Assets:				
Cash and cash equivalents		176,332	176,332	
Cash and cash equivalents - interest and sinking	7,452	60,988	68,440	
Property taxes receivable, net	39,808		39,808	
Due from developers		81,207	81,207	
Capital assets:				
Non-depreciable capital assets	15,500	4,948,972	4,964,472	
Capital assets, net	1,102,991	5,995,120	7,098,111	
Total Assets	3,112,683	12,202,266	15,314,949	1,091,804
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows-related to pensions	34,518	9,467	43,985	
Deferred outflows-related to OPEB	17,338	4,755	22,093	
Deferred loss on bond refunding	1,253		1,253	
Total Deferred Outflows of Resources	53,109	14,222	67,331	-
LIABILITIES				
Accounts payable	62,791	87,668	150,459	
Accrued salaries and benefits	40,905	17,342	58,247	
Accrued interest	336	24,541	24,877	
Unearned revenue		741,788	741,788	
Meter deposits payable		72,738	72,738	
Net pension liability	8,255	2,264	10,519	
Total OPEB liability	30,873	8,466	39,339	
Payable from restricted assets:				
Accounts payable - bond escrow		175,897	175,897	
Accounts payable - development		80,656	80,656	
Long-term liabilities:				
Due within one year	175,000	273,000	448,000	
Due in more than one year	180,000	5,043,000	5,223,000	
Total Liabilities	498,160	6,527,360	7,025,520	-
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows-related to pensions	37,883	10,387	48,270	
Deferred inflows-related to OPEB	12,483	3,423	15,906	
Total Deferred Inflows of Resources	50,366	13,810	64,176	-
NET POSITION				
Net investment in capital assets	764,744	5,628,527	6,393,271	
Restricted for capital projects, \$435 net of related debt, \$435		-	-	
Restricted for debt service	47,260	60,988	108,248	
Restricted for municipal court	23,806		23,806	
Unrestricted	1,781,456	(14,197)	1,767,259	1,091,804
Total Net Position	\$ 2,617,266	\$ 5,675,318	\$ 8,292,584	\$ 1,091,804

The accompanying notes are an integral part of these financial statements.

City of Caddo Mills, Texas
Statement of Activities
Year Ended September 30, 2020

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Primary Government	
Governmental activities:							
Administration	\$ 620,913	\$ 325,493		\$ (295,420)		\$ (295,420)	\$ -
Judicial	59,190	92,144		32,954		32,954	
Police department	373,959	16,163	907	(356,889)		(356,889)	
Fire protection	69,895	30,149		(39,746)		(39,746)	
Airport	32,572	1,125		(14,279)		(14,279)	
Public works	29,162	581,802		552,640		552,640	
Safe schools program	136,012			(136,012)		(136,012)	
Interest and fiscal charges	13,137			(13,137)		(13,137)	
Total governmental activities	1,334,840	707,277	357,674	(269,889)		(269,889)	-
Business-type activities:							
Water and sewer services	1,501,169	1,095,028	1,129,771		723,630	723,630	
Total business-type activities	1,501,169	1,095,028	1,129,771	-	723,630	723,630	-
Total primary government	\$ 2,836,009	\$ 1,802,305	\$ 357,674	\$ (269,889)	\$ 723,630	\$ 453,741	\$ -
Component Unit:							
Economic Development Corporation	36,000			\$ (36,000)		\$ (36,000)	\$ (36,000)
Total component unit	\$ 36,000	\$ -	\$ -	\$ (36,000)	\$ -	\$ (36,000)	\$ (36,000)
General revenues:							
Ad valorem taxes				1,032,385		1,032,385	
Sales taxes				360,043		360,043	180,019
Franchise taxes				55,476		55,476	
Miscellaneous income and contributions				138,082		138,082	
Unrestricted investment earnings				6,515	7,222	13,737	9,093
Transfers				(465,854)	465,854	-	
Total general revenues and transfers				1,126,647	473,076	1,599,723	189,112
Change in net position				856,758	1,196,706	2,053,464	153,112
Net position-beginning				1,760,508	4,478,612	6,239,120	938,692
Net position-ending				\$ 2,617,266	\$ 5,675,318	\$ 8,292,584	\$ 1,091,804

The accompanying notes are an integral part of these financial statements

City of Caddo Mills, Texas
Balance Sheet
Governmental Funds
September 30, 2020

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,794,513	\$ 7,452	\$ 29,685	\$ 1,831,650
Sales and franchise taxes receivable	79,726			79,726
Fines receivable, net	4,147			4,147
Property taxes receivable, net	19,689	39,808		59,497
Total Assets	\$ 1,898,075	\$ 47,260	\$ 29,685	\$ 1,975,020
<u>LIABILITIES, DEFERRED INFLOWS</u>				
<u>OF RESOURCES, AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts payable	62,715		76	62,791
Accrued salaries and benefits	16,840		-	16,840
Total Liabilities	79,555	-	76	79,631
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable revenue - property taxes	19,689	39,808		59,497
Total Deferred Inflows of Resources	19,689	39,808	-	59,497
<u>FUND BALANCES</u>				
Restricted for:				
Debt Service		7,452		7,452
Municipal Court	23,806			23,806
Assigned for:				
Airport			29,609	29,609
Unassigned	1,775,025			1,775,025
Total Fund Balances	1,798,831	7,452	29,609	1,835,892
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,898,075	\$ 47,260	\$ 29,685	\$ 1,975,020
Governmental fund balances as presented above:				1,835,892
Amounts presented for governmental activities in the statement of net position are different because:				
Capital assets reported in the statement of net position are not financial resources and are not reported in the fund balance sheet.				1,118,491
Other long-term assets (receivables) are not available to pay current-period expenditures and, therefore, are not recognized in the funds. These include unavailable property taxes of \$59,497 and fines receivable of \$19,172.				78,669
Interest due on long-term debt is recorded as accrued interest payable in the statement of net position but does not become a liability on the fund statements until the date due.				(336)
Net pension liabilities \$(8,255), the related deferred inflows of resources (\$37,883), and the related deferred outflows of resources \$34,518 are not available to pay current-period expenditures and therefore are not recorded in the funds.				(11,620)
Total OPEB liability (\$30,873), the related deferred inflows of resources (\$12,483), and the related deferred outflows of resources \$17,338 are not available to pay current-period expenditures and therefore are not recorded in the funds.				(26,018)
Deferred charges for bond refunding costs do not provide current resources and are not reported in the funds.				1,253
Long-term liabilities are reported in the statement of net position but they are not due and payable in the current period and therefore are not reported as liabilities in the fund balance sheet. These include bonds payable (\$355,000) and compensated absences (\$24,065).				(379,065)
Net Position - Governmental Activities				\$ 2,617,266

City of Caddo Mills, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2020

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES:				
Ad valorem taxes	\$ 380,615	\$ 642,878	\$ -	\$ 1,023,493
Franchise taxes	55,476			55,476
Sales tax	360,043			360,043
Impound income	16,163			16,163
Permits and fees	581,802			581,802
Fines	82,770			82,770
Grants	19,673		1,125	20,798
Hunt County fire contribution	30,149			30,149
Developer contributions	306,727			306,727
Donations and other income	136,209		17,168	153,377
Interest	5,259	1,175	81	6,515
Total Revenues	<u>1,974,886</u>	<u>644,053</u>	<u>18,374</u>	<u>2,637,313</u>
EXPENDITURES:				
Administration	613,090			613,090
Judicial	59,436			59,436
Police department	342,275			342,275
Fire protection	52,559			52,559
Safe schools program	132,779			132,779
Airport			6,694	6,694
Capital Outlay	196,188		3,036	199,224
Debt Service:				
Principal retirement	170,000			170,000
Interest and fiscal charges	11,908			11,908
Total Expenditures	<u>1,578,235</u>	<u>-</u>	<u>9,730</u>	<u>1,587,965</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>396,651</u>	<u>644,053</u>	<u>8,644</u>	<u>1,049,348</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	181,908		951	182,859
Transfers out	(4,977)	(643,736)		(648,713)
Proceeds from sale of capital assets	4,500			4,500
Net Other Financing Sources (Uses)	<u>181,431</u>	<u>(643,736)</u>	<u>951</u>	<u>(461,354)</u>
Net change in fund balances	<u>578,082</u>	<u>317</u>	<u>9,595</u>	<u>587,994</u>
Fund Balance, October 1	<u>1,220,749</u>	<u>7,135</u>	<u>20,014</u>	<u>1,247,898</u>
Fund Balance, September 30	<u>\$ 1,798,831</u>	<u>\$ 7,452</u>	<u>\$ 29,609</u>	<u>\$ 1,835,892</u>

The accompanying notes are an integral part of these financial statements.

City of Caddo Mills, Texas
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2020

Net change in fund balances - total governmental funds **\$ 587,994**

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

Governmental funds report capital outlays as expenditures, while in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$199,224 exceeded depreciation expense of (\$119,020) in the current period. 80,204

In the statement of activities, the gain on the disposal of assets is reported, but in the governmental funds, proceeds from the sale increase current financial resources. The change in net position differs from the change in fund balance by the net book value of the assets disposed. (2,627)

Proceeds from the issuance of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of principal retired during the year \$170,000 less the amount of debt issued \$-0-. 170,000

Some expenses in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This includes the amortization of deferred bonds of (\$1,229). (1,229)

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. These include the change in unavailable deferred ad valorem taxes of \$8,892 and court fines receivables of \$9,374. 18,266

Changes in long term amounts for net pension liability \$31,211, the related deferred outflows of resources (\$15,083), and the related deferred inflows of resources (\$3,798) are not recorded in the funds. 12,330

Changes in long term amounts for total OPEB liability \$5,191, the related deferred outflows of resources \$2,471, and the related deferred inflows of resources (\$10,752) are not recorded in the funds. (3,090)

Repayment of other long-term liabilities consume current resources and are reported as expenditures in governmental funds, but the repayment of these items reduces long-term liabilities in the statement of net position. These include the change in the accrual for compensated absences of (\$5,090). (5,090)

Change in net position - governmental activities **\$ 856,758**

City of Caddo Mills, Texas
Statement of Fund Net Position
Proprietary Fund
September 30, 2020

	Enterprise Fund
	Water & Sewer
	Activities
ASSETS	
Cash and cash equivalents	\$ 818,308
Cash and cash equivalents - interest and sinking	60,988
Accounts receivable, net	121,339
Total current assets	1,000,635
Restricted assets:	
Cash and cash equivalents - construction escrow	176,332
Due from developers	81,207
Total restricted assets	257,539
Capital Assets:	
Nondepreciable land	181,825
Nondepreciable construction in progress	4,767,147
Depreciable capital assets, net	5,995,120
Capital assets, net	10,944,092
Deferred outflows of resources:	
Deferred outflows- related to pensions	9,467
Deferred outflows- related to OPEB	4,755
Total deferred outflows of resources	14,222
Total assets and deferred outflows of resources	\$ 12,216,488
LIABILITIES	
Accounts payable	87,668
Accrued salaries and benefits	17,342
Bonds payable - current	273,000
Accrued interest payable	24,541
Unearned revenue	741,788
Total current liabilities	1,144,339
Payable from restricted assets:	
Accounts payable - bond escrow	175,897
Accounts payable - development	80,656
Total liabilities payable from restricted assets	256,553
Long-term Liabilities	
Meter deposits payable	72,738
Net pension liability	2,264
Total OPEB liability	8,466
Bonds payable - long-term	5,043,000
Total non-current liabilities	5,126,468
Deferred inflows of resources:	
Deferred inflows- related to pensions	10,387
Deferred inflows- related to OPEB	3,423
Total deferred inflows of resources	13,810
Total liabilities and deferred inflows of resources	6,541,170
NET POSITION	
Net investment in capital assets	5,628,527
Restricted for debt service	60,988
Restricted for capital projects, \$435 net of related debt, \$435	-
Unrestricted	(14,197)
Total Net Position	\$ 5,675,318

The accompanying notes are an integral part of these financial statements.

City of Caddo Mills, Texas
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended September 30, 2020

	Enterprise Fund
	Water and
	Sewer
Operating revenues:	
Water sales	\$ 344,946
Sewer sales	248,217
Sanitation fees	189,675
Late fees	19,085
Other revenues	293,105
Total Operating Revenues	1,095,028
Operating expenses:	
Salaries and employee benefits	340,211
Water purchases	184,309
Sanitation contract	146,419
Repairs and maintenance	140,465
Fuel and oil	11,329
Utilities and telephone	30,507
Depreciation	382,925
Other expense	65,588
Total Operating Expenses	1,301,753
Operating Income (loss)	(206,725)
Non-operating revenues (expenses):	
Interest income	7,222
Interest and fiscal charges	(199,416)
Total Nonoperating Revenues (Expenses)	(192,194)
Income (loss) before contributions and transfers	(398,919)
Capital grants	213,581
Capital contributions	916,190
Transfers in	465,854
Change in net position	1,196,706
Net position, October 1	4,478,612
Net position, September 30	\$ 5,675,318

The accompanying notes are an integral part of these financial statements.

City of Caddo Mills, Texas
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2020

	Enterprise Fund
	Water and
	Sewer
Cash flows from operating activities:	
Cash received from customers and users	\$ 1,818,884
Cash paid to suppliers	(543,339)
Cash paid to employees	(330,898)
Net cash provided by operating activities	944,647
Cash flows from noncapital financing activities:	
Operating transfers (to) from other funds	465,854
Change in customer deposits	12,077
Change in due to/from other funds	(62,773)
Net cash provided (used) for noncapital financing activities	415,158
Cash flows from capital and related financing activities:	
Proceeds from capital grants	233,666
Proceeds from developers	1,548,711
Acquisition of capital assets	(2,760,478)
Principal payments - bonds payable	(261,000)
Interest paid on debt	(200,828)
Net cash provided (used) by capital and related financing activities	(1,439,929)
Cash flows from investing activities:	
Interest on deposits and investments	7,222
Net cash provided (used) by investing activities	7,222
Net change in cash and cash equivalents	(72,902)
Cash and cash equivalents, October 1	1,128,530
Cash and cash equivalents, September 30	\$ 1,055,628
Reconciliation of net income to net cash provided by operating activities	
Operating income (loss)	\$ (206,725)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	382,925
Change in accounts receivable (net)	(17,932)
Change in deferred outflows - related to pensions	4,135
Change in deferred outflows - related to OPEB	(678)
Change in accounts payable	35,278
Change in accrued salaries	11,847
Change in unearned revenue	741,788
Change in net pension liability	(8,557)
Change in total OPEB liability	(1,423)
Change in deferred inflows - related to pensions	1,041
Change in deferred inflows - related to OPEB	2,948
Total Adjustments	1,151,372
Net cash provided by operating activities	\$ 944,647

The accompanying notes are an integral part of these financial statements.

City of Caddo Mills, Texas
Notes to Basic Financial Statements
September 30, 2020

1. Introduction and Summary of Significant Accounting Policies

The financial statements of the City of Caddo Mills, Texas and its component unit, Caddo Mills Economic Development Corporation, collectively identified as the “City” have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City’s financial activities for the fiscal year ending September 30, 2020.

(A) Reporting Entity and Related Organizations

The City is a municipal corporation governed by an elected mayor and City Council. The City provides general administration, public works, police and judicial, and community development services to its residents. The City Council contracts with a City Manager to manage the operations of the City.

The City Council has the authority to make decisions, appoint administrators and managers, significantly influence operations; and has the primary accountability for fiscal matters. The City is not included in any other governmental “reporting entity” as defined in Section 2100, codification of Governmental Accounting and Financial Reporting Standards.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in the GASB Statements No. 14 and 39 as amended by GASB Statement 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. These statements define the reporting entity as the primary government and those component units for which the primary government is financially accountable. In addition, component units may be included in the reporting entity based on the nature and significance of the relationship with the primary government, or based on being closely related or financially integrated with the primary government. Based on these criteria the City has the following component unit at September 30, 2020:

Discretely Presented Component Unit:

Caddo Mills Economic Development Corporation (EDC) - EDC serves all citizens of the government and is governed by a board appointed by the City Council. The City Council may remove the EDC board for cause. EDC is a nonprofit corporation governed by Section 4A of the Texas Development Corporation Act of 1979 and organized for the public purpose of aiding, promoting and furthering economic development within the City of Caddo Mills, Texas. Financial statements for EDC may be obtained by contacting the city offices. EDC is reported as a discretely presented component unit in the government-wide financial statements.

1. Introduction and Summary of Significant Accounting Policies - continued

(B) Government-Wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and proprietary funds are reported in separate columns with composite columns for non-major funds.

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The government-wide statements report using the *economic resources measurement focus* and the *accrual basis of accounting* generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond and capital lease principal and interest which are reported as expenditures in the year due.

1. Introduction and Summary of Significant Accounting Policies - continued

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, grant revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for water and sewer sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

(D) Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund - reports as the primary operating fund of the City. This fund is used to account for all financial resources not reported in other funds.

Debt Service Fund - accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. The City annually levies ad valorem taxes restricted for the retirement of general obligation bonds, capital leases, and interest. This fund reports all such ad valorem taxes collected.

Non-Major Governmental Funds

The City also maintains the following non-major governmental fund:

Airport Fund - accounts for revenues and expenditures associated with the local airport.

Proprietary Funds

The City reports the following major proprietary fund:

Water and Sewer Fund - accounts for the operating activities of the City's water and sewer utilities services.

(E) Assets, Liabilities and Net Assets or Equity

Cash and Investments

The City maintains bank accounts which may be shared by the various governmental funds. In addition, non-pooled cash bank accounts are separately held and reflected in the respective individual funds. These non-pooled bank accounts are displayed on its respective balance sheet as "cash and cash equivalents".

1. Introduction and Summary of Significant Accounting Policies - continued

Investments are stated at fair value within the fair value hierarchy established by generally accepted accounting principles. The fair value of investments is determined as follows. Short-term, highly liquid investments are reported at cost, which approximates fair value. Cash deposits are reported at the carrying amount which reasonably estimates fair value. The City did not own any nationally traded securities or long term investments during the current fiscal year, but the City's policy for reporting assets such as these would be at fair value on the balance sheet date.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Restricted cash and cash equivalents of \$68,440 are restricted for debt service requirements and restricted cash and cash equivalents of \$176,332 are restricted for construction projects and related accounts payable at year-end.

Inventories and Prepaids

Inventories consisting of expendable supplies held for consumption in governmental funds are reported using the expenditure method. Under this method, amounts paid for these items are reported as expenditures when purchased. Inventories, when material, are recorded at cost stated on a first-in, first-out basis in the government-wide financial statements.

Prepaids record payments to vendors that benefit future reporting periods and are reported on the consumption basis at cost. Prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, or if donated, at acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty on the acquisition date. These assets are comprehensively reported in the government-wide financial statements. The City generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40
Road infrastructure	15 - 20
Water & sewer infrastructure & rights	20 - 40
Vehicles	5
Furniture, machinery, and equipment	5

1. Introduction and Summary of Significant Accounting Policies - continued

Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. Bond issuance costs are expensed as incurred.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Equity

The City has implemented GASB Statement 54 for the classification of fund balances in the governmental funds. The fund balances of governmental funds are defined as follows:

Non-spendable - amounts that cannot be spent either because they are in non-spendable form, such as inventory or prepaid items or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through a formal resolution of the City Council.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes that have been established by the City Council.

Unassigned - all other spendable amounts in the general fund.

The City Council delegates the responsibility to assign funds to the City Manager or other designees as determined by the Council.

1. Introduction and Summary of Significant Accounting Policies – continued

When expenditures are incurred for which both restricted and unrestricted fund balance is available the City considers restricted funds to have been spent first. Similarly, committed funds are considered to have been spent first when there is a choice for the use of less restricted funds, then assigned and then unassigned funds.

Compensated Absences

Full-time employees earn vacation leave for each month of work performed. Progressive accrual of vacation leave is based on the number of years the individual is employed by the City. After completion of a probationary period of employment, accrued vacation leave is paid upon termination of employment.

Full-time employees also earn sick leave time. Unused sick leave is not paid upon termination of employment.

Compensated absences are reported as accrued in the government-wide, proprietary and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

(F) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a participant in the Texas Municipal League (TML) Employees Health Insurance Fund, Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The agreement provides that the trust established by TML will be self-sustaining through member premiums. The City pays annual premiums to TML for worker's compensation, general and auto liability, property damage, employee dishonesty, public officials liability, and law enforcement professional liability coverages. The City does not anticipate any material additional insurance cost assessments as a result of participation in this risk management pool. There were no reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage during any of the past three fiscal years.

(G) Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(H) Deferred Inflows and Outflows of Resources

Deferred inflows of resources represent an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City has deferred inflows of resources related to property tax revenue, the City's defined benefit pension plan, and the City's postemployment benefits other than pensions (OPEB) at year-end that are not available for recognition.

1. **Introduction and Summary of Significant Accounting Policies - continued**

Deferred outflows of resources represent a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The City has deferred outflows that relate to a deferred loss on bond refunding, the City's defined benefit pension plan, and the City's postemployment benefits other than pensions (OPEB) at year-end.

2. **Stewardship, Compliance, and Accountability**

Budgetary Information

The City Manager and the City Finance Manager submit an annual budget to the City Council in accordance with the laws of the State of Texas. The budget is presented to the City Council for review, budget workshops are held with the various City department officials, and public hearings are held to address priorities and the allocation of resources. Generally in August, the City Council adopts the annual fiscal year budgets for all City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's approved budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services and related fringe benefits, supplies, other services and charges, capital outlay, transfers, and debt service. Expenditures may not exceed appropriations at the department level. Within this control level, management may transfer appropriations between line items. Budget revisions and line item transfers are subject to final review by the City Council.

The budgets for the operating funds are prepared on the cash and expenditure basis. Revenues are budgeted in the year receipt is expected; and expenditures, which do not include encumbrances, are budgeted in the year that the liability is to be incurred. The budget and actual required supplementary information is presented on this basis. Unexpended appropriations for annually budgeted funds lapse at fiscal year-end.

3. **Deposits and Investments**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be fully secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation (FDIC) insurance. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health. Collateral agreements must be approved prior to deposit of funds. The City Council approves authorized depository institutions based on the recommendations of City management.

Deposits of the City of Caddo Mills, Texas (primary government) and Caddo Mills Economic Development Corporation were fully insured or collateralized with securities held by the reporting entity, its agent, or by the pledging financial institution's trust department or agent in the name of the reporting entity.

3. Deposits and Investments - continued

Investments

Investments, when applicable, are stated at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At year end, the City had no investments subject to the fair value hierarchy established by generally accepted accounting principles.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the Mayor, City Administrator, City Finance Manager and members of City Council. Investing is performed in accordance with investment policies adopted by the City Council complying with state statutes. City investment policy and state statute generally permit the City to invest in certificates of deposit, and public funds investment pools having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AAA" or its equivalent. During the year ended September 30, 2020, the City did not own any types of securities other than those permitted by statute. The City was substantially in compliance with the Public Funds Investment Act during the year.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. City policy generally requires investment maturities to correspond to anticipated cash flow needs.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. City policy requires that the risk of principal loss in the portfolio as a whole shall be minimized by diversifying among investment types.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City's policy on principal protection and safekeeping provides that all bank and savings and loan associations deposits and investments of City funds shall be secured by pledged collateral with a market value equal to the principal plus accrued interest less the amount insured by FDIC.

At September 30, 2020 and for the year then ended the City did not own any investments. The Economic Development Corporation held \$931,093 in certificates of deposit as of September 30, 2020.

4. Receivables, Uncollectible Accounts, and Deferred Revenue

Proprietary Receivables, Uncollectible Accounts and Deferred Revenue

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The Proprietary Fund report accounts receivable net of an allowance for uncollectible accounts and revenues net of uncollectible amounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days.

Following is the detail of the Proprietary Fund receivables and the related allowance for uncollectible accounts:

Accounts receivable, gross	\$129,096
Less: allowance for uncollectible accounts	<u>(7,757)</u>
Accounts receivable, net	<u>\$ 121,339</u>

Property Taxes Receivable, Deferred Revenue, and Property Tax Calendar

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real property located within the City. Appraised values are established by the Hunt County Appraisal District at 100% of market value. As of January 1, 2019, all real property was assessed at a net taxable value of \$155,512,799.

The property tax rate for the year ended September 30, 2020 was .657000 per \$100 of the assessed valuation on taxable property. Following is a summary of the overall tax rate as levied by fund type:

Maintenance and operations-General Fund	.243314
Debt Service Fund	<u>.413686</u>
Total tax rate	<u>.657000</u>

In the governmental fund financial statements, property taxes are recorded as receivables in each of the respective funds on the tax levy date with appropriate allowances for estimated uncollectible amounts. At fiscal year-end, property tax receivables represent delinquent taxes. If delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due to the City with appropriate allowances for estimated uncollectible amounts regardless of when cash is received. Over time substantially all property taxes are collected.

4. Receivables, Uncollectible Accounts, and Deferred Revenue - continued

The City's full year property tax calendar is as follows:

October 1: Full year tax levy assessed for the current fiscal year-taxes are due and payable.

January 1: Tax lien is attached to property to secure the payment of taxes, and penalty and interest as applicable.

February 1: Penalty and interest charges begin to accrue on unpaid past due taxes.

July 1: Taxes become delinquent and are subject to attorney fees incurred for collection.

Allowance for Uncollectible Taxes

The City records an allowance for uncollectible property taxes in order to estimate the amount of taxes that will ultimately prove to be uncollectible. Management has determined that an allowance in the amount of \$6,611 of the property taxes receivable should be adequate to provide for uncollectible property taxes. No provisions are made for uncollectible sales tax receivables, or grants receivable as management estimates that these amounts will be fully collectible.

Fines and Court Costs Receivable and Related Allowances

In the governmental fund financial statements, fines and court costs are recognized as revenue on the cash basis.

In the government-wide financial statements, the City records fines and court costs receivable net of amounts estimated to be uncollectible and net of any amounts that would be due to other governmental entities as a result of collection. Management has determined the estimate of uncollectible fines and court costs through an analysis of actual amounts collected subsequent to year end. Amounts due to other governmental entities has been determined based on distribution requirements of the State of Texas. Following is a summary of the court fines receivable and the related allowance for uncollectible amounts and amounts due to the State of Texas at year-end:

Fines and warrants receivable, gross	\$ 582,981
Less: allowance for uncollectible & due to state	<u>(559,662)</u>
Fines receivable, net	<u>\$ 23,319</u>

5. Capital Assets

The following table provides a summary of changes in capital assets:

	Balance October 1, <u>2019</u>	<u>Increases</u>	<u>Decreases</u>	Balance September 30, <u>2020</u>
<i>GOVERNMENTAL ACTIVITIES</i>				
Capital assets - non-depreciable:				
Land	\$ 15,500	\$	\$	\$ 15,500
Construction in progress	<u>78,427</u>	<u>10,000</u>	<u>88,427</u>	<u>-</u>
Non-depreciable capital assets	<u>\$ 93,927</u>	<u>\$ 10,000</u>	<u>\$ 88,427</u>	<u>\$ 15,500</u>
Depreciable capital assets:				
Buildings	101,153	88,427		189,580
Infrastructure	1,346,641			1,346,641
Vehicles	211,856	178,218	73,554	316,520
Furniture & Equipment	<u>1,187,901</u>	<u>11,006</u>	<u>18,954</u>	<u>1,179,953</u>
Depreciable capital assets	<u>2,847,551</u>	<u>277,651</u>	<u>92,508</u>	<u>3,032,694</u>
Less: accumulated depreciation:	<u>1,900,564</u>	<u>119,020</u>	<u>89,881</u>	<u>1,929,703</u>
Governmental Activities				
Capital Assets, net	<u>\$ 1,040,914</u>	<u>\$ 168,631</u>	<u>\$ 91,054</u>	<u>\$ 1,118,491</u>
<i>BUSINESS-TYPE ACTIVITIES</i>				
Capital assets - non-depreciable:				
Land	\$ 181,825	\$	\$	\$ 181,825
Construction in progress	<u>4,144,633</u>	<u>1,464,582</u>	<u>842,068</u>	<u>4,767,147</u>
Non-depreciable capital assets	<u>4,326,458</u>	<u>1,464,582</u>	<u>842,068</u>	<u>4,948,972</u>
Depreciable capital assets:				
Buildings & improvements	161,592			161,592
Water & sewer infrastructure	9,199,760	1,100,948		10,300,708
Vehicles	142,147			142,147
Equipment	<u>287,433</u>	<u>10,694</u>		<u>298,127</u>
Depreciable capital assets	<u>9,790,932</u>	<u>1,111,642</u>		<u>10,902,574</u>
Less: accumulated depreciation	<u>4,524,529</u>	<u>382,925</u>		<u>4,907,454</u>
Business-type Activities				
Capital Assets, net	<u>\$ 9,592,861</u>	<u>\$ 2,193,299</u>	<u>\$ 842,068</u>	<u>\$10,944,092</u>

Depreciation expense for governmental activities was charged to functions of the City as follows:

Police department	\$ 35,113
Airport	29,410
Public works	29,162
Fire protection	17,336
Administration	<u>7,999</u>
Total	<u>\$ 119,020</u>

Depreciation expense recorded in business-type activities and the Proprietary Fund was \$382,925.

6. Long-Term Obligations:

Long-term Debt Supporting Governmental Activities

General Obligation Refunding Bonds, Series 2013, issued August 15, 2013 in the original amount of \$1,470,000 at an interest rate of 2.2682%. Requires semi-annual payments of interest on March 15 and September 15 of each year and annual principal payments due on September 15 of each year.

The City's general obligation bonds are guaranteed by the full faith and credit of the City. General obligation bond issues are approved by the voters and repaid with property taxes levied as a part of the interest and sinking tax rate in the Debt Service Fund. Repayments of principal and interest for these obligations are accounted for in the Debt Service Fund.

\$13,137 of interest expense was recorded in governmental activities and charged to governmental functions of the City during the year.

Business-type Activities - Combination Tax and Surplus Revenue Certificates of Obligation

Combination Tax and Surplus Revenue Certificates of Obligation represent debt issued to support activities of the Proprietary (water and sewer) Fund. In addition to being backed by the full faith and credit of the City, revenue bonds are secured by a lien on and a pledge of the surplus revenues of the water and sewer system.

Interest expense for business-type activities and the Proprietary (water and sewer) Fund was \$199,416 for the year.

The next page presents a summary of changes in long-term obligations for the year ended September 30, 2020.

6. Long-Term Obligations - continued

	<u>Balance Beginning</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance Ending</u>	<u>Due Within One Year</u>
<i>Governmental Activities:</i>					
Series, 2013, 2.2682%					
General Obligation - Refunding Bonds	\$ 525,000	\$	\$ 170,000	\$ 355,000	\$ 175,000
Debt obligations	<u>525,000</u>	<u></u>	<u>170,000</u>	<u>355,000</u>	<u>175,000</u>
Other long-term obligations:					
Compensated Absences	<u>18,975</u>	<u>5,090</u>	<u></u>	<u>24,065</u>	<u>24,065</u>
Total Governmental Activities	<u>\$ 543,975</u>	<u>\$ 5,090</u>	<u>\$ 170,000</u>	<u>\$ 379,065</u>	<u>\$ 199,065</u>
<i>Business-type Activities:</i>					
Tax and Surplus Revenue					
Certificates of Obligation					
Series 2015, 1.9962%	\$ 355,000		\$ 115,000	\$ 240,000	\$ 120,000
<i>Direct Borrowings</i>					
Tax and Surplus Revenue					
Certificates of Obligation					
Series 2007, 4.125%	736,000		14,000	722,000	15,000
Tax and Surplus Revenue					
Certificates of Obligation					
Series 2009, 4.375%	751,000		12,000	739,000	13,000
Tax and Surplus Revenue					
Certificates of Obligation					
Series 2012, 1.75 to 4.05%	<u>3,735,000</u>	<u></u>	<u>120,000</u>	<u>3,615,000</u>	<u>125,000</u>
Total Business-type Activities	<u>\$ 5,577,000</u>	<u>\$</u>	<u>\$ 261,000</u>	<u>\$ 5,316,000</u>	<u>\$ 273,000</u>

Compensated absences are paid from the fund responsible for the employee's compensation with significant liabilities payable from the General Fund.

6. Long-Term Obligations - continued

Debt Service Requirements to Maturity

The annual debt service requirements to maturity for bonded debt obligations are as follows at year-end:

Fiscal Year Ending <u>September 30,</u>	<u>Governmental Activities</u>			
	<u>Bonds Payable</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 175,000	\$ 8,052	\$ 175,000	\$ 8,052
2022	<u>180,000</u>	<u>4,082</u>	<u>180,000</u>	<u>4,082</u>
Totals	<u>\$ 355,000</u>	<u>\$ 12,134</u>	<u>\$ 355,000</u>	<u>\$ 12,134</u>

Fiscal Year Ending <u>September 30,</u>	<u>Business-type Activities</u>			
	<u>Bonds Payable</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 273,000	\$ 194,538	\$ 273,000	\$ 194,538
2022	275,000	188,101	275,000	188,101
2023	160,000	182,568	160,000	182,568
2024	167,000	177,743	167,000	177,743
2025	168,000	172,382	168,000	172,382
2026-2030	938,000	771,877	938,000	771,877
2031-2035	1,120,000	586,610	1,120,000	586,610
2036-2040	1,367,000	344,386	1,367,000	344,386
2041-2045	598,000	102,281	598,000	102,281
2046-2049	<u>250,000</u>	<u>18,335</u>	<u>250,000</u>	<u>18,335</u>
Totals	<u>\$5,316,000</u>	<u>\$2,738,821</u>	<u>\$5,316,000</u>	<u>\$2,738,821</u>

Terms of the bonds due to the Texas Water Development Board require the City to establish an interest and sinking fund in an amount equal to the pro-rata share of the next principal and interest payment due for the bonds. At year-end, this requirement was \$38,962. The City has established an interest and sinking fund in the amount of \$60,988 at year-end, and accordingly is in compliance with this requirement.

7. Defined Benefit Pension Plan:

Plan Description

The City of Caddo Mills, Texas participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

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

Employee deposit rate	6.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	0%
Annuity increase to retirees	0% of CPI

Employees covered by benefit terms.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>15</u>
	<u>29</u>

7. **Defined Benefit Pension Plan—continued**

Contributions

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

Employees for the City of Caddo Mills, Texas were required to contribute 5.97% of their annual gross earnings during the fiscal year. The contribution rates for the City of Caddo Mills, Texas were 6.38% and 5.79% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$46,160, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019 and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

7. Defined Benefit Pension Plan—continued

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	<u>10.00%</u>	7.75%
Total	<u>100.00%</u>	

Discount Rate

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

7. Defined Benefit Pension Plan—continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2018	\$ 567,613	\$ 517,326	\$ 50,287
Changes for the year:			
Service cost	68,731		68,731
Interest	39,425		39,425
Change of benefit terms	-		-
Difference between expected and actual experience	194		194
Changes of assumptions	5,709		5,709
Contributions - employer		38,331	(38,331)
Contributions – employee		36,048	(36,048)
Net investment income		79,914	(79,914)
Benefit payments, including refunds of employee contributions	(35,811)	(35,811)	-
Administrative expense		(452)	452
Other changes		(14)	14
Net changes	\$ 78,248	\$ 118,016	\$ (39,768)
Balance at 12/31/2019	\$ 645,861	\$ 635,342	\$ 10,519

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

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

	1 % Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 106,184	\$ 10,519	\$ (68,310)

Pension Plan Fiduciary Net Position

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

7. Defined Benefit Pension Plan—continued

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

For the year ended September 30, 2020, the City recognized pension expense of \$30,450.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,984	\$ 30,492
Changes in actuarial assumptions	5,792	-
Difference between projected and actual investment earnings	-	17,778
Contributions subsequent to the measurement date	35,209	
Total	<u>\$ 43,985</u>	<u>\$ 48,270</u>

\$35,209 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	
2021	\$ (12,943)
2022	(13,072)
2023	(4,613)
2024	(8,866)
2025	-
Thereafter	-
Total	<u>\$ (39,494)</u>

8. Postemployment Benefits Other Than Pensions (OPEB)

Plan description - The City maintains a single-employer defined benefit group-term life insurance plan known as the TMRS Supplemental Death Benefits Fund (“SDBF”). The plan is administered by the Texas Municipal Retirement System (“TMRS”). This is a voluntary program in which the City elected, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. 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 in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*).

Benefits provided - 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). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500.

8. Postemployment Benefits Other Than Pensions (OPEB) - continued

Employees Covered by Benefit Terms

At the December 31, 2019 actuarial valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>15</u>
Total	<u>24</u>

Contributions

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

Employees for the City of Caddo Mills were required to contribute .03% of their annual gross earnings during the fiscal year. The contribution rates for the City were .17% and .15% in calendar year 2019 and 2020, respectively. The City's contribution to TMRS for the year ended September 30, 2020 were \$1,204 and were equal to the required contributions.

Total OPEB Liability

The City's total OPEB liability (TOL) of \$39,339 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and other inputs:

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	2.5% per year
Salary Increase	3.5% to 11.5% per year, including inflation
Discount Rate	2.75%
Retirees Share of Benefit Costs	\$0

Salary increases are assumed to occur once a year and are assumed to increase by a graduated service-based scale ranging from 11.50% for employees with one year of service to 3.50% for employees with 25 or more years of service.

Mortality rates for service retirees were based on the 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

8. Postemployment Benefits Other Than Pensions (OPEB) - continued

For disabled retirees, mortality rates were based on the 2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

The applicable discount rate for an unfunded OPEB plan under GASB No. 75 is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/18	\$ 45,953
Changes for the year:	
Service cost	1,322
Interest on total OPEB liability	1,728
Change in benefit terms	-
Differences between expected & actual experience	(17,407)
Changes in assumptions and other inputs	7,803
Benefit payments*	(60)
Other charges	-
Net changes	\$ (6,614)
Balance at 12/31/19	\$ 39,339

*Due to the SBDF being considered an unfunded OPEB plan under GASB Statement No. 75, benefit payments are treated as being equal to the employer's yearly contribution for retirees.

The SDBF does not incur TMRS Administrative Expenses. The City is charged and the administrative expenses are paid through the TMRS Defined Benefit Pension Plan recorded under GASB Statement No. 68.

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	1 % Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB liability	\$ 50,190	\$ 39,339	\$ 31,337

8. Postemployment Benefits Other Than Pensions (OPEB) - continued

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$4,179.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 13,460	\$ 14,098
Changes in actuarial assumptions	7,721	1,808
Difference between projected and actual investment earnings (net of current year amortization)	-	-
Contributions subsequent to the measurement date	912	
Total	<u>\$ 22,093</u>	<u>\$ 15,906</u>

\$912 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in pension expense as follows:

Year ended September 30:	
2021	\$ 1,129
2022	1,129
2023	1,129
2024	950
2025	938
Thereafter	-
Total	<u>\$ 5,275</u>

9. Contingencies and Commitments

The City participates in various state and federal grant programs and contracts which are subject to financial and compliance audits by the grantors or their representatives. Audits of these programs for the year ended September 30, 2020 have not been conducted. Accordingly, the City's compliance with applicable grant and contract requirements will be established at some future date. The City expects that costs disallowed by these various awarding agencies, if any, would be minimal.

Certain state reports and remittances are required by the City's municipal court. These reports and remittances are subject to audit by the Comptroller of Public Accounts. Any adjustments which may occur based upon such an audit could require the City to remit additional funds. The City expects that costs disallowed by these various awarding agencies, if any, would be minimal.

9. Contingencies and Commitments - continued

The City has entered into a water and sewer construction project funded by bond proceeds that are maintained with a commercial bank trustee and released as construction progresses through an escrow agreement with the Texas Water Development Board. At year-end, the funds held in escrow and the estimated cost to complete the project was approximately \$176,000.

The City is involved in litigation from time to time during the ordinary course of business. Management estimates that any potential litigation will not have a material impact on the City's financial statements.

10. Balances and Transfers/Payments Within the Reporting Entity

Receivables and Payables

Generally, outstanding balances between funds reported as "due to/from other funds" in the governmental fund financial statements include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

At year-end, there were no balances due between funds.

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers reported within governmental activities.

The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 181,908	\$ 4,977
Debt Service Fund		643,736
Airport Fund	951	
Proprietary Fund	<u>465,854</u>	
Totals	<u>\$ 648,713</u>	<u>\$ 648,713</u>

11. Economic Dependence and Significant Contractors

City operations are funded by taxes and revenues provided by the residents of the City of Caddo Mills, Texas. Accordingly, the City is economically dependent on the property values and local economy of City of Caddo Mills, Texas and the surrounding area.

The City purchases water through an agreement with the City of Greenville/GEUS. During 2020, water purchases through this agreement were \$184,309.

The City contracts with Waste Connections Lone Star, Inc. for sanitation services. During 2020, the cost of sanitation services paid through this contract were \$146,419.

12. Subsequent Events

In March, 2020, Texas Governor Greg Abbott declared the state of Texas a disaster area as a result of the COVID-19 pandemic. As a result of the health risks associated with this disease, the Texas economy was limited to activity in businesses that were considered essential to the public. The ensuing reduction in economic activity will have a significant effect on private businesses and local governments. The extent of the economic effect on the City cannot be estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

City of Caddo Mills, Texas
Budgetary Comparison Schedule - General Fund
Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Ad valorem taxes	\$ 376,000	\$ 376,000	\$ 380,615	\$ 4,615
Franchise taxes	55,000	55,000	55,476	476
Sales tax	282,000	282,000	360,043	78,043
Impound income	17,000	17,000	16,163	(837)
Permits and fees	101,129	102,959	581,802	478,843
Fines	136,100	136,100	82,770	(53,330)
Grants	900	900	19,673	18,773
Hunt County fire contribution	30,000	30,000	30,149	149
Developer contributions	-	-	306,727	306,727
Donations and other income	158,902	158,902	136,209	(22,693)
Interest	-	-	5,259	5,259
Total Revenues	1,157,031	1,158,861	1,974,886	816,025
EXPENDITURES:				
Administration	603,311	596,198	613,090	(16,892)
Judicial	52,662	52,662	59,436	(6,774)
Police department	356,785	348,166	342,275	5,891
Fire protection	52,378	56,878	52,559	4,319
Safe schools program	149,902	149,902	132,779	17,123
Capital outlay	60,000	79,619	196,188	(116,569)
Debt Service:				
Principal retirement	-	-	170,000	(170,000)
Interest and fiscal charges	-	-	11,908	(11,908)
Total Expenditures	1,275,038	1,283,425	1,578,235	(294,810)
Excess (deficiency) of revenues over (under) expenditures	(118,007)	(124,564)	396,651	521,215
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	181,908	181,908
Transfers out	-	-	(4,977)	(4,977)
Proceeds from sale of capital assets	-	-	4,500	4,500
Total Other Financing Sources (Uses)	-	-	181,431	181,431
Net change in fund balance	(118,007)	(124,564)	578,082	702,646
Fund balance, October 1	1,220,749	1,220,749	1,220,749	-
Fund balance, September 30	\$ 1,102,742	\$ 1,096,185	\$ 1,798,831	\$ 702,646

Notes to the budgetary comparison schedule:

The General Fund budget is adopted on a basis consistent with generally accepted accounting principles for a governmental fund. General Fund revenues exceeded budgeted amounts because the City does not budget developer contributions and under budgeted building permit fees related to the new developments.

General Fund expenditures exceeded budgeted amounts because the City does not budget capital outlay funded by developer contributions or debt service expenditures because the funds are transferred in from the debt service fund.

City of Caddo Mills, Texas
Schedule of Changes in Net Pension Liability and Related Ratios
For the Year Ended September 30, 2020

	Plan Year Ended December 31,					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 68,731	\$ 68,951	\$ 62,620	\$ 60,914	\$ 43,401	\$ 35,360
Interest (on the total pension liability)	39,425	37,554	32,043	28,963	24,719	19,820
Changes of benefit terms	-	-	-	-	22,051	-
Difference between expected and actual experience	194	(41,146)	7,291	(23,922)	2,819	396
Change of assumptions	5,709	-	-	-	15,999	-
Benefit payments, including refunds of employee contributions	(35,811)	(39,260)	(7,682)	(34,675)	(4,814)	(18,513)
Net Change in Total Pension Liability	78,248	26,099	94,272	31,280	104,175	37,063
Total Pension Liability - Beginning	567,613	541,514	447,242	415,962	311,787	274,724
Total Pension Liability - Ending (a)	\$ 645,861	\$ 567,613	\$ 541,514	\$ 447,242	\$ 415,962	\$ 311,787
Plan Fiduciary Net Position						
Contributions - employer	\$ 38,331	\$ 36,922	\$ 34,266	\$ 31,500	\$ 16,456	\$ 11,610
Contributions - employee	36,048	35,788	32,643	32,088	27,193	24,701
Net investment income	79,914	(14,962)	53,540	22,642	437	15,092
Benefit payments, including refunds of employee contributions	(35,811)	(39,260)	(7,682)	(34,675)	(4,814)	(18,513)
Administrative expense	(452)	(289)	(278)	(256)	(266)	(157)
Other	(14)	(15)	(14)	(14)	(13)	(13)
Net Change in Plan Fiduciary Net Position	118,016	18,184	112,475	51,285	38,993	32,720
Plan Fiduciary Net Position - Beginning	517,326	499,142	386,667	335,382	296,389	263,669
Plan Fiduciary Net Position - Ending (b)	\$ 635,342	\$ 517,326	\$ 499,142	\$ 386,667	\$ 335,382	\$ 296,389
Net Pension Liability - Ending (a) - (b)	\$ 10,519	\$ 50,287	\$ 42,372	\$ 60,575	\$ 80,580	\$ 15,398
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	98.37%	91.14%	92.18%	86.46%	80.63%	95.06%
Covered Payroll	\$ 600,799	\$ 596,464	\$ 544,049	\$ 534,799	\$ 543,866	\$ 494,028
Net Pension Liability as a Percentage of Covered Payroll	1.75%	8.43%	7.79%	11.33%	14.82%	3.12%

**City of Caddo Mills, Texas
Schedule of Contributions
For the Year Ended September 30, 2020**

	Fiscal Year Ended September 30,					
	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 46,160	\$ 37,753	\$ 35,999	\$ 33,493	\$ 28,905	\$ 15,793
Contributions in relation to actuarially determined contribution	(46,160)	(37,753)	(35,999)	(33,493)	(28,905)	(15,793)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 779,733	\$ 596,729	\$ 578,906	\$ 528,661	\$ 552,834	\$ 534,044
Contributions as a percentage of covered payroll	5.92%	6.33%	6.22%	6.34%	5.23%	2.96%

Schedule Notes:

Valuation Dates:

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 Period	20 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% 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 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

There were no benefit changes during the year.

City of Caddo Mills, Texas
Schedule of Changes in Total OPEB Liability and Related Ratios
Last 10 Fiscal Years (will ultimately be displayed)

Actuarial Valuation & Measurement Date, December 31,	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 1,322	\$ 1,789	\$ 1,415
Interest on the total OPEB liability	1,728	907	848
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(17,407)	19,376	-
Changes in assumptions or other inputs	7,803	(2,604)	2,586
Benefit payments *	(60)	(60)	(54)
Net Change in Total OPEB Liability	<u>(6,614)</u>	<u>19,408</u>	<u>4,795</u>
Total OPEB Liability - Beginning	45,953	26,545	21,750
Total OPEB Liability - Ending	<u>\$ 39,339</u>	<u>\$ 45,953</u>	<u>\$ 26,545</u>
Covered Payroll	\$ 600,799	\$ 596,464	\$ 544,049
Total OPEB Liability as a Percentage of Covered Payroll	6.55%	7.70%	4.88%
Required contribution	\$ 1,204	\$ 998	\$ 896
Actual contribution	1,204	998	896
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Schedule Notes:

Plan information:

Single-employer unfunded OPEB plan

There are no assets accumulated in a trust that meets the criteria in GASB Statement No. 75 paragraph 4 to pay related benefits.

Actuarial Valuation & Measurement Date:

December 31

Significant actuarial assumptions used to measure the total OPEB liability:

Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discount Rate	2.75% (Based on Fidelity Index's "20-year Municipal GO AA Index" rate as of 12/31/19)
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 - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year setforward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

* 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.

SUPPLEMENTARY SCHEDULES

(UNAUDITED)

City of Caddo Mills, Texas
Schedule of Delinquent Taxes Receivable
Year Ended September 30, 2020 (Unaudited)

<u>Tax Roll Year</u>	<u>Fiscal Year Ended September 30</u>	<u>Outstanding Balance 9/30/19</u>
2019	2020	\$ 21,230
2018	2019	8,859
2017	2018	6,557
2016	2017	5,280
2015	2016	6,196
2014	2015	4,593
2013	2014	2,291
2012	2013	2,903
2011	2012	2,688
2010	2011 and prior	5,511
	Allowance for uncollectible taxes	<u>(6,611)</u>
	Delinquent taxes receivable, net	<u>\$ 59,497</u>

City of Caddo Mills, Texas
Historical Schedule of Property Tax Rates
Year Ended September 30, 2020 (Unaudited)

<u>Tax Roll Year</u>	<u>Fiscal Year Ended September 30</u>	<u>Tax Rates</u>
2019	2020	0.657000
2018	2019	0.693693
2017	2018	0.730000
2016	2017	0.750000
2015	2016	0.750000
2014	2015	0.750000
2013	2014	0.750000
2012	2013	0.750000
2011	2012	0.644800
2010	2011	0.644800

City of Caddo Mills, Texas
Historical Schedule of Assessed Property Valuation
Year Ended September 30, 2020 (Unaudited)

Tax Roll Year	Fiscal Year Ended September 30	Net Taxable Valuation
2019	2020	\$ 155,512,799
2018	2019	141,644,919
2017	2018	130,342,181
2016	2017	122,653,429
2015	2016	123,612,604
2014	2015	128,872,135
2013	2014	109,628,580
2012	2013	113,067,865
2011	2012	116,507,149
2010	2011	105,415,718

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APPENDIX E
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, 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 Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

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 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 AGM 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 of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount 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 or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, AGM 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 AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, 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, (a) 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 and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Financial Advisory Services
Provided By:

