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**NEW ISSUE  
BOOK-ENTRY-ONLY**

**PRELIMINARY OFFICIAL STATEMENT**  
**Dated: June 7, 2022**

**S&P: "AA-"**  
**(See "RATING" herein.)**

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

**THE CERTIFICATES WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR  
FINANCIAL INSTITUTIONS.**

**\$1,750,000\***

**CITY OF GRANITE SHOALS, TEXAS**

**(A political subdivision of the State of Texas located in Burnet County)**

**COMBINATION TAX AND LIMITED REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022**

**Dated: June 1, 2022 (interest to accrue from Delivery Date)**

**Due: August 1, as shown on inside cover**

The \$1,750,000\* City of Granite Shoals, Texas, Combination Tax and Limited Revenue Certificates of Obligation, Series 2022 (the "Certificates") are being issued by the City of Granite Shoals, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an ordinance (the "Ordinance") to be adopted by the City Council of the City on June 14, 2022. See "THE CERTIFICATES – Authority for Issuance".

The Certificates constitute direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City. The Certificates are additionally secured by a limited pledge of the surplus net revenues derived from the ownership and operation of the City's waterworks and sewer system, not to exceed \$1,000, as provided in the Ordinance (see "THE CERTIFICATES - Security and Source of Payment" and "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations" herein).

Interest on the Certificates will accrue from the Delivery Date (defined below) and will be payable February 1 and August 1 of each year, commencing February 1, 2023, until maturity or prior redemption. Interest on the Certificates will be calculated on the basis of a 360-day year composed of twelve 30-day months.

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

Proceeds from the sale of the Certificates will be used for (i) improvements to the City's waterworks system, including acquisition and installation of water meters (collectively, the "Project"), and (ii) paying all or a portion of the legal, fiscal and engineering fees in connection with the Project and the costs of issuance related to the Certificates.

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

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**SEE MATURITY SCHEDULE ON INSIDE COVER**

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*The Certificates are offered when, as and if issued and subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the initial purchaser thereof named below (the "Underwriter") by its counsel, Norton Rose Fulbright US LLP, Austin, Texas. The Certificates are expected to be available for initial delivery to the Underwriter through the services of DTC on or about July 12, 2022 (the "Delivery Date").*

**SAMCO CAPITAL MARKETS**

\* Preliminary, subject to change.

## MATURITY SCHEDULE

\$1,750,000\*

CITY OF GRANITE SHOALS, TEXAS

COMBINATION TAX AND LIMITED REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022

<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>		<b>CUSIP No</b>
<b>Date</b>	<b>Amount*</b>	<b>Rate</b>	<b>Yield</b>	<b>Suffix <sup>(1)</sup></b>
<b>(8/1)</b>				
2023	\$ 25,000			
2024	30,000			
2025	30,000			
2026	40,000			
2027	45,000			
2028	135,000			
2029	140,000			
2030	145,000			
2031	150,000			
2032	155,000			
2033	160,000			
2034	165,000			
2035	170,000			
2036	175,000			
2037	185,000			

(Interest to accrue from the Delivery Date)

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

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\* Preliminary, subject to change.

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (“Rule 15c2-12”), this document may be treated as an “official statement” of the City with respect to the Certificates described herein that has been deemed “final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

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

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

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

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

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

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE 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.

NONE OF THE CITY, THE FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

## SELECTED DATA FROM THE OFFICIAL STATEMENT

*The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the 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.*

<b>The City</b>	The City of Granite Shoals, Texas (the “City”) is a political subdivision and Home Rule City of the State of Texas (the “State”). The City is located near the intersection of U.S. Highway 281 and State Highways 71, and is 55 miles northwest of Austin, Texas. The City had a 2010 census population of 5,129.
<b>The Certificates</b>	\$1,750,000* Combination Tax and Limited Revenue Certificates of Obligation, Series 2022, dated June 1, 2022, maturing as described on the inside cover page of this Official Statement.
<b>Security for the Certificates</b>	The Certificates constitute direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City. The Certificates are additionally secured by a limited pledge of the surplus net revenues derived from the ownership and operation of the City's waterworks and sewer system, no to exceed \$1,000, as provided in the Ordinance. (See “THE CERTIFICATES – Security and Source of Payment”).
<b>Redemption Provisions of the Certificates</b>	The City reserves the right, at its sole option, to redeem Certificates having stated maturities on or after August 1, ____, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, ____, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. (See “THE CERTIFICATES – Optional Redemption” herein.)
<b>Tax Matters</b>	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of delivery thereof, subject to matters discussed herein under “TAX MATTERS”. (See “TAX MATTERS” and Appendix D - “Form of Opinion of Bond Counsel” herein.)
<b>Qualified Tax-Exempt Obligations</b>	The City will designate the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions. (See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”)
<b>Use of Proceeds</b>	Proceeds from the sale of the Certificates will be used for (i) improvements to the City's waterworks system, including acquisition and installation of water meters (collectively, the “Project”), and (ii) paying all or a portion of the legal, fiscal and engineering fees in connection with the Project and the costs of issuance related to the Certificates.
<b>Authority for Issuance</b>	The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an ordinance (the “Ordinance”) to be adopted by the City Council of the City on June 14, 2022.
<b>Ratings</b>	S&P Global Ratings (“S&P”) has assigned a rating of “AA-” to the Certificates. An explanation of the significance of such rating may be obtained from said rating agency. (See “RATING” herein.)
<b>Payment Record</b>	The City has never defaulted on the payment of its bonded indebtedness.
<b>Future Bond Issues</b>	The City does not anticipate the issuance of additional ad valorem tax debt during the next 12 months.
<b>Delivery</b>	When issued, anticipated on or about July 12, 2022.

\* Preliminary, subject to change.

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

**ELECTED OFFICIALS**

**CITY COUNCIL**

<b>Name</b>	<b>Term Expires (May)</b>	<b>Occupation</b>
Will Skinner Mayor	2023	Utility Operator
Ron Munos Mayor Pro-Tem, District 1	2023	Retired
Eric Garcia Council Member, District 2	2024	Police Officer
Samantha Ortis Council Member, District 3	2023	Community Volunteer
Dr. Steve Hougen Council Member, District 4	2024	Retired Medical Doctor
Eddie McCoy Council Member, District 5	2023	Police Officer
Phil Ort Council Member, District 6	2024	Business Owner

**APPOINTED OFFICIALS**

<b>Name</b>	<b>Position</b>	<b>Years with the City</b>
Jeff Looney	City Manager	4
Peggy Smith	Asst. City Manager	14
Elaine Simpson	City Secretary	8

**BOND COUNSEL AND ADVISORS**

**Bond Counsel**  
McCall, Parkhurst & Horton L.L.P.  
600 Congress Avenue  
Suite 2150  
Austin, Texas 78701

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

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

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<i>The Cover Page, Table of Contents, and Appendices attached hereto are part of the Official Statement</i>	

*[The remainder of this page intentionally left blank]*

**OFFICIAL STATEMENT**  
*relating to*  
**\$1,750,000\***  
**CITY OF GRANITE SHOALS, TEXAS**  
**(A political subdivision of the State of Texas located in Burnet County)**  
**Combination Tax and Limited Revenue Certificates of Obligation, Series 2022**

**INTRODUCTORY STATEMENT**

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

There follows in this Official Statement a description of the City of Granite Shoals, Texas, Combination Tax and Limited Revenue Certificates of Obligation, Series 2022 (the "Certificates") and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City and, during the offering period, from the Financial Advisor, upon payment of reasonable copying, handling, and delivery charges. Certain capitalized terms used in this Official Statement have meanings assigned to them in the "Ordinance" (defined below) to be adopted by the City Council, except as otherwise indicated herein.

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

**INFECTIOUS DISEASE OUTBREAK – COVID-19**

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State in response to the Pandemic, which disaster declaration was extended and is still in effect. Under State law, the proclamation of a state of disaster by the Governor may not continue for more than 30 days unless renewed by the Governor. The Governor has renewed this declaration monthly, most recently on August 29, 2021. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation, and the reopening of business in Texas. However, on July 29, 2021, the Governor issued Executive Order GA-38, which supersedes all pre-existing executive orders related to COVID-19 and rescinds them in their entirety, except for Executive Order GA-13 (relating to detention in county and municipal jails) and Executive Order GA-37 (related to migrant transport). Executive Order GA-38 combines several previous executive orders into one order and continues the prohibition against governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance. It also prohibits governmental entities from: (i) compelling any individual to receive a COVID-19 vaccine administered under emergency use authorization, and (ii) enforcing any requirements to show proof of vaccination before receiving a service or entering any place (other than nursing homes, hospitals, and similar facilities) if the public or private entity that has adopted such requirement receives public funds through any means. Executive Order GA-39, issued on August 25, 2021, further provides that governmental entities cannot require mask mandates, vaccine passports, or mandatory vaccinations. On October 11, 2021, the Governor issued Executive Order GA-40, prohibiting any entity from requiring COVID vaccinations. Various lawsuits have been filed throughout the State related to the foregoing, and litigation is expected to continue. Executive orders remain in effect until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

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

\* Preliminary, subject to change.

These potential negative impacts may reduce or negatively affect property values and/or the collection of sales tax revenues within the City. The Certificates are secured by an ad valorem tax (within the limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Certificates as well as the City's operations and maintenance expenses. Additionally, the City collects a sales and use tax on all taxable transactions within the City's boundaries. A reduction in the collection of sales tax revenues may negatively impact the City's operating budget and overall financial condition.

The financial and operating data contained herein are as of the dates stated herein and in some instances are for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the City.

## **THE CERTIFICATES**

### **General Description**

The Certificates will be dated June 1, 2022 (the "Dated Date"), and will be issued in fully-registered form, in denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Certificates will accrue from the Delivery Date and interest will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2023, until maturity or prior redemption. Interest on the Certificates will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Certificates will mature on the dates and in the amounts as set forth on the inside cover page hereof.

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

### **Authority for Issuance**

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an ordinance (the "Ordinance") to be adopted by the City Council of the City on June 14, 2022.

### **Purpose**

Proceeds from the sale of the Certificates will be used for (i) improvements to the City's waterworks system, including acquisition and installation of water meters (collectively, the "Project"), and (ii) paying all or a portion of the legal, fiscal and engineering fees in connection with the Project and the costs of issuance related to the Certificates.

### **Legality**

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

### **Security and Source of Payment**

Tax Pledge . . . The Certificates constitute direct obligations of the City payable from an annual ad valorem tax levied against all taxable property within the City, within the limits prescribed by law (see "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations" below).

Pledge of Surplus Waterworks and Sewer System Revenues for Certificates . . . The Certificates are additionally secured by a limited pledge of surplus net revenues of the City's waterworks and sewer system, not to exceed \$1,000, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the revenues of the City's waterworks and sewer system, as provided in the Ordinance.



## **Optional Redemption**

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

## **Notice of Redemption for the Certificates**

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

## **DTC Redemption Provisions**

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the 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 account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Certificates and such redemption will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Certificates for redemption.

## **Defeasance of Certificates**

The Ordinance provides for the defeasance of the Certificates when the payment of the principal of the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. Thereafter, the City will have no further responsibility with respect to amounts available to such paying agent, or other authorized escrow agent, for the payment of such defeased Certificates, including any insufficiency therein caused by the failure of such paying agent, or other authorized escrow agent, to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and, (d) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Certificates. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, the 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 the 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 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 the Certificates for redemption, (ii) gives notice of the reservation of that right to the owners of the 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**

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

## **Record Date**

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

## **Special Record Date for Interest Payment**

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

## **Limitation on Transfer of Certificates**

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

## **Mutilated, Destroyed, Lost, or Stolen Certificates**

If any Certificate is mutilated, destroyed, stolen or lost, a new Certificate in the same principal amount as the Certificate so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Certificate, such new Certificate will be delivered only upon surrender and cancellation of such mutilated Certificate. In the case of any Certificate issued in lieu of and in substitution for a Certificate which has been destroyed, stolen or lost, such new Certificate will be delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfying to them that such Certificate has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Certificate must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

## **Payment Record**

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

## **SOURCES AND USES OF CERTIFICATE PROCEEDS**

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

### **Sources:**

Principal Amount of the Certificates  
[Net] Original Issue Premium/Discount on the Certificates  
**Total Sources of Funds**

### **Uses:**

Deposit to Escrow Fund  
Costs of Issuance and Underwriter's Discount  
**Total Uses of Funds**

## **ENFORCEMENT OF REMEDIES**

The Ordinance establishes specific events of default with respect to the Certificates. If the City (i) defaults in the payment of the principal, premium, if any, or interest on the Certificates, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund, or

(iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the failure to perform which materially, adversely affects the rights of the holders including but not limited to their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for 30 days after the City has received written notice of such defaults, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions.

The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the 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 Certificateholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

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

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

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

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

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

## BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the 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, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 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 ("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 securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated industries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://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 Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Certificates representing their ownership interests in 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 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, 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible

after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 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 Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments on the 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 Direct and Indirect 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, the 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, the Certificates will be printed and delivered.

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

In reading this Official Statement it should be understood that while the 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.

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

### **REGISTRATION, TRANSFER AND EXCHANGE**

#### **Paying Agent/Registrar**

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

#### **Future Registration**

In the event the use of the "Book-Entry-Only System" for the Certificates should be discontinued, printed physical Certificates will be delivered to the registered owners of the Certificates and thereafter such Certificates may be transferred, registered and assigned on the registration books only upon their presentation and surrender to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect to such registration and transfer. The Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New 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 owner's request, risk and expense. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 of principal amount for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

### **AD VALOREM PROPERTY TAXATION**

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

## **Valuation of Taxable Property**

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Burnet County Appraisal District (the “Appraisal District”). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner’s principal residence (“homestead” or “homesteads”) to be based solely on the property’s value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates (see “AD VALOREM PROPERTY TAXATION – Issuer and Taxpayer Remedies”).

## **State Mandated Homestead Exemptions**

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

## **Local Option Homestead Exemptions**

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

## **Local Option Freeze for the Elderly and Disabled**

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

## **Personal Property**

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

## **Freeport and Goods-In-Transit Exemptions**

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local

option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

### **Other Exempt Property**

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

### **Tax Increment Financing Zones**

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "tax increment". During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

### **Tax Abatement Agreements**

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

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

### **Public Hearing and Maintenance and Operation Tax Rate Limitations**

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

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

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

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

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

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

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

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

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

the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

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

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

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

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

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

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

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

### **Debt Tax Rate Limitations**

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

### **Issuer and Taxpayer Remedies**

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

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

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



## **Levy and Collection of Taxes**

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. Taxpayers 65 years old or older, disabled veterans or an unmarried surviving spouse of a disabled veteran, are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

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

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

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

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

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

## **City Application of Property Tax Code**

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

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

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

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

The City does not tax Freeport Property.

The City does not tax Goods-in-Transit.

The City does not participate in a TIRZ.

The City does not offer tax abatements.

## **PENSION PLAN**

All qualified employees of the City are members of the Texas Municipal Retirement System. Covered employees of the City contribute 5% of gross covered salary. The City's contribution is determined annually by actuarial study as a percent of gross covered payroll. For the calendar year 2021, the rate was 4.33%. For additional information, refer to the notes to the Combined Financial Statements for the year ended September 30, 2021, in Appendix C herein.

## **INVESTMENTS**

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

## Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) interest-bearing banking deposits, other than those described by clause (7), if (A) the funds invested in the banking deposits are invested through (i) a broker with a main office or branch office in this State that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution as described in clause (8)(A), above, arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits or; (ii) where the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13), and require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, and that complies with SEC Rule 2a-7; and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

### **Investment Policies**

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

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

### **Additional Provisions**

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

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

## **TAX MATTERS**

### **Opinion**

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

In rendering its opinion, Bond Counsel will rely upon (a) the City's federal tax certificate and the Sufficiency Certificate of the City's financial advisor, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the 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 is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

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

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the property financed or refinanced with the proceeds of the Certificates. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

#### **Federal Income Tax Accounting Treatment of Original Issue Discount**

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

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering such initial owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below. In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

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

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

#### **Collateral Federal Income Tax Consequences**

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

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed earned income credit, certain S corporations with Subchapter C earnings and profits, foreign

corporations subject to the branch profit's tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE 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 IRS. Payments of interest and principal may be subject to backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

### **Future and Proposed Legislation**

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

### **Qualified Tax-Exempt Obligations for Financial Institutions**

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

The City will designate the Certificates as "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Code. In furtherance of that designation, the City will covenant to take such action that will assure, or to refrain from such action that will 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."**

## **LITIGATION**

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

## **REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE**

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

## **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

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

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

## **LEGAL MATTERS**

The City will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Certificates are a valid and legally binding general obligations of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding general obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. In its capacity as Bond Counsel, such firm has reviewed the information relating to the Certificates and the Ordinance contained in this Official Statement under the captions "THE CERTIFICATES" (except under the subcaption "Payment Record"), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "LEGAL MATTERS", and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings"), and such firm is of the opinion that the information contained under such captions is a fair and accurate summary of the information purported to be shown and is correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the 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 fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates. 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 its counsel, Norton Rose Fulbright US LLP, Austin, Texas.

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 out of the transaction.

## RATING

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

## 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 specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

### Annual Financial Information

The City will provide this updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in Appendix A of this Official Statement in Tables 1 and 3 through 12, and in Appendix C. The City will update and provide the information in Appendix A within twelve months after the end of each fiscal year, commencing in 2022. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The City will provide audited financial statements within twelve months after the end of each fiscal year, commencing in 2022, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements of the type described above by the required time and will provide audited financial statements when and if such audited financial statements become available. Any financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the City may be required to employ from time to time pursuant to Texas law or regulation.

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

### Notice of Occurrence of Certain Events

The City also will provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten (10) business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 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; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee or change of name of the trustee, if material; (15) incurrence of a "Financial Obligation" of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City, any of which reflect financial difficulties. Neither the Certificates nor the Ordinance make any provision for liquidity enhancement, credit enhancement, a trustee, or require the funding of debt service reserves.

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

or jurisdiction over substantially all of the assets or business of the City, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

#### **Notice of Failure to Timely File**

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

#### **Availability of Information**

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

#### **Limitations and Amendments**

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

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

#### **Compliance with Prior Undertakings**

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

### **AUTHENTICITY OF FINANCIAL INFORMATION**

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

### **UNDERWRITING**

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



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

#### **FINANCIAL ADVISOR**

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

#### **FORWARD LOOKING STATEMENTS**

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

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

#### **USE OF INFORMATION IN OFFICIAL STATEMENT**

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

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

**CITY OF GRANITE SHOALS, TEXAS**

/s/

\_\_\_\_\_  
Mayor

City of Granite Shoals, Texas

ATTEST:

/s/

\_\_\_\_\_  
City Secretary  
City of Granite Shoals, Texas

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**APPENDIX A**

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

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

**Table 1-Valuations, Exemptions and Tax Supported Debt**

2021/22 Market Valuation Established by Burnet County Appraisal District	\$ 839,192,207
Less: Exemptions/Reductions at 100% Market Value	
Veterans Exemption	\$ 6,561,157
10% Lost to Cap Adjustment	22,161,926
Homestead Exemption	5,928,448
Productivity Loss/Other	10,346,288
Frozen Value Loss	64,032,270
Total	\$ 109,030,089
2021/22 Net Taxable Assessed Valuation	<u>\$ 730,162,118</u>
<b>City Funded Debt Payable from Ad Valorem Taxes (As of June 1, 2022):</b>	
Combination Tax and Limited Revenue Certificates of Obligation, Series 2008	\$ 2,150,000
General Obligation Refunding Bonds, Series 2014	4,121,000
Limited Tax Notes, Series 2019	190,000
General Obligation and Refunding Bonds, Series 2020	8,805,000
Limited Tax Notes, Series 2021	1,030,000
The Certificates	1,750,000 <sup>(1)</sup>
Total General Obligation Debt Payable From Ad Valorem Taxes	<u>\$ 18,046,000</u>
Interest and Sinking Fund Balance as of September 30, 2021	\$ 638,403
Ratio Total General Obligation Debt to Taxable Assessed Valuation	2.47%
Estimated Population	4,995
Per Capita Total General Obligation Funded Debt	\$ 3,613
Per Capita Taxable Assessed Valuation	\$ 146,179

<sup>(1)</sup> Preliminary, subject to change.

**Table 2 - Estimated Overlapping Debt Statement**

<u>Taxing Body</u>	<u>Amount</u>	<u>As of</u>	<u>Percentage Overlapping</u>	<u>Amount Overlapping</u>
Burnet County	\$ 23,570,000	05/01/2022	8.71%	\$ 2,052,947
Marble Falls ISD	94,135,000	05/01/2022	13.78%	12,971,803
Total Overlapping Debt				\$ 15,024,750
<b>City of Granite Shoals</b>	<b>\$ 18,046,000 <sup>(1)</sup></b>	<b>06/01/2022</b>	<b>100.00%</b>	<b>\$ 18,046,000 <sup>(1)</sup></b>
Total Direct and Overlapping Debt				<u><u>\$ 33,070,750</u></u>
Ratio Direct and Overlapping Debt to Net Taxable Assessed Valuation				4.53%
Ratio Direct and Overlapping Debt to Market Valuation				3.94%
Per Capita Direct and Overlapping Debt				\$6,621

<sup>(1)</sup> Includes the Certificates. Preliminary, subject to change.

**Table 3 - Taxable Assessed Valuation by Category <sup>(1)</sup>**

<b>Category</b>	<b>Taxable Appraised Value for Fiscal Year Ended September 30,</b>					
	<b>2022</b>		<b>2021</b>		<b>2020</b>	
	<b>Value</b>	<b>% of Total</b>	<b>Value</b>	<b>% of Total</b>	<b>Value</b>	<b>% of Total</b>
Real, Residential, Single Family	\$ 741,797,848	88.39%	\$ 638,494,666	88.25%	\$ 619,072,727	89.36%
Real Residential, Multi-Family	795,238	0.09%	293,121	0.04%	292,121	0.04%
Real, Vacant Lots/Tracts	52,886,521	6.30%	42,819,804	5.92%	38,512,590	5.56%
Real, Acreage (Land Only)	10,470,803	1.25%	10,379,563	1.43%	6,094,259	0.88%
Real, Farm and Ranch Improvements	1,371,183	0.16%	1,200,256	0.17%	1,080,662	0.16%
Real, Commercial and Industrial	13,681,892	1.63%	13,695,463	1.89%	13,071,332	1.89%
Real, Minerals and Oil	1,342	0.00%	1,342	0.00%	1,342	0.00%
Real, Tangible Personal, Utilities	3,052,161	0.36%	2,812,149	0.39%	1,983,855	0.29%
Tangible Personal, Commercial	5,755,975	0.69%	5,715,750	0.79%	5,593,159	0.81%
Tangible Personal, Industrial	1,562,917	0.19%	1,659,219	0.23%	516,381	0.07%
Mobile Homes	7,811,651	0.93%	6,366,037	0.88%	6,510,849	0.94%
Real Inventory	4,676	0.00%	36,951	0.01%	32,361	0.00%
Intangible	-	0.00%	-	0.00%	-	0.00%
Special Inventory	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 839,192,207	100.00%	\$ 723,474,321	100.00%	\$ 692,761,638	100.00%
Less: Total Exemptions/ Reductions	109,030,089		85,426,557		83,329,903	
Taxable Assessed Value	<u>\$ 730,162,118</u>		<u>\$ 638,047,764</u>		<u>\$ 609,431,735</u>	

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

**Table 4 - City Sales Tax History**

<b>Fiscal Year</b>	<b>Sales Tax</b>	<b>% of</b>	<b>Equivalent Ad</b>
<b><u>Ending 9/30</u></b>	<b><u>Collections</u></b>	<b><u>Ad Valorem</u></b>	<b><u>Valorem Tax Rate</u></b>
2017	\$ 307,514	12.83%	\$ 0.07022
2018	321,268	12.53%	0.07054
2019	349,860	10.66%	0.06353
2020	416,396	11.40%	0.06833
2021	446,272	11.68%	0.06994

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

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

**Table 5 - Valuation and Tax Supported Debt History**

<b>Fiscal</b>	<b>Taxable</b>	<b>Percent</b>	<b>Tax Supported</b>	<b>Ratio of Debt</b>
<b><u>Year</u></b>	<b><u>Assessed</u></b>	<b><u>Increase Over</u></b>	<b><u>Debt at End</u></b>	<b><u>to Assessed</u></b>
<b><u>9/30</u></b>	<b><u>Valuation</u></b>	<b><u>Prior Year</u></b>	<b><u>of Year</u></b>	<b><u>Valuation</u></b>
2018	\$ 455,446,996	3.99%	\$ 11,393,000	2.50%
2019	550,707,869	20.92%	10,842,000	1.97%
2020	609,431,735	10.66%	16,338,000	2.68%
2021	638,047,764	4.70%	15,266,000	2.39%
2022	730,162,118	14.44%	16,731,000 <sup>(1)</sup>	2.29%

<sup>(1)</sup> Includes the Certificates. Preliminary, subject to change.

**Table 6 - Tax Rate, Levy and Collection History**

<b>Fiscal</b>	<b>General</b>	<b>Interest and</b>	<b>Total</b>	<b>Total</b>	<b>% Total</b>
<b><u>Year</u></b>	<b><u>Fund</u></b>	<b><u>Sinking Fund</u></b>	<b><u>Tax</u></b>	<b><u>Tax Levy</u></b>	<b><u>Collections</u></b>
<b><u>Ending 9/30</u></b>			<b><u>Rate</u></b>		
2017	\$ 0.32850	\$ 0.21870	\$ 0.54720	\$ 2,396,491	101.68%
2018	0.34828	0.21485	0.56313	2,564,759	101.26%
2019	0.34828	0.24772	0.59600	3,282,219	100.51%
2020	0.35150	0.24772	0.59922	3,651,837	100.45%
2021	0.35150	0.24710	0.59860	3,819,354	100.70%
2022	0.33450	0.26410	0.59860	4,370,750	(under collection)

**Table 7 - Other Obligations***Capital and Operating Leases*

<b>Ended</b>		<b><u>Amount</u></b>
<b><u>9/30</u></b>		
2022	\$	49,085
2023		48,118
2024		52,150
2025		<u>51,075</u>
	\$	200,428

---

Source: City's Certified Annual Financial Report for the Fiscal Year Ended September 30, 2021.

**Table 8 - Ten Largest Taxpayers**

<b><u>Name of Taxpayer</u></b>	<b><u>2021/22</u></b>	<b><u>Percent</u></b>
	<b><u>TAV</u></b>	<b><u>of Total</u></b>
KLB2 LP	\$ 3,005,586	0.41%
Romasko, Daniel & Ivette	2,516,791	0.34%
Pedernales Electric Co-Op	2,508,160	0.34%
Hollowell, John & Paula	2,403,670	0.33%
Cunningham Family Trust	2,277,757	0.31%
Satterfield, Pamela & Albert	2,239,572	0.31%
J&R Kidd Interests Ltd	2,147,415	0.29%
M&C Fonseca Contruction Co.	2,029,977	0.28%
Glendening, William & Cheryl	2,003,795	0.27%
Horan, Daniel & Timothy	<u>1,862,171</u>	<u>0.26%</u>
	\$ 22,994,894	3.15%



**Table 9 - Pro-Forma Outstanding Limited Tax General Obligation Debt Service Requirements**

<b>Fiscal Year Ended 9/30</b>	<b>Current Outstanding Debt Service</b>	<b>The Certificates<sup>(1)</sup></b>			<b>Less: Self-Supporting Debt Service</b>	<b>Net Current Outstanding Debt Service</b>
		<b>Principal</b>	<b>Interest</b>	<b>Total</b>		
2022	\$ 1,778,225				\$ 32,500	\$ 1,745,725
2023	1,783,285	\$ 25,000	\$ 69,198	\$ 94,198	126,698	1,750,785
2024	1,785,254	30,000	62,963	92,963	125,463	1,752,754
2025	1,780,950	30,000	61,868	91,868	124,368	1,748,450
2026	1,735,529	40,000	60,773	100,773	133,273	1,703,029
2027	1,520,816	45,000	59,313	104,313	136,813	1,488,316
2028	900,944	135,000	57,670	192,670	225,170	868,444
2029	895,906	140,000	52,743	192,743	225,243	863,406
2030	896,144	145,000	47,633	192,633	225,133	863,644
2031	898,374	150,000	42,340	192,340	224,840	865,874
2032	896,829	155,000	36,865	191,865	224,365	864,329
2033	897,794	160,000	31,208	191,208	223,708	865,294
2034	899,201	165,000	25,368	190,368	222,868	866,701
2035	502,019	170,000	19,345	189,345	221,845	469,519
2036	503,119	175,000	13,140	188,140	220,640	470,619
2037	504,019	185,000	6,753	191,753	224,253	471,519
2038	504,719	-	-	-	32,500	472,219
2039	505,219	-	-	-	32,500	472,719
2040	505,519	-	-	-	32,500	473,019
<b>TOTAL</b>	<b>\$ 19,693,864</b>	<b>\$ 1,750,000</b>	<b>\$ 647,175</b>	<b>\$ 2,397,175</b>	<b>\$ 3,014,675</b>	<b>\$ 19,076,364</b>

<sup>(1)</sup> Preliminary, subject to change. Interest calculated at an assumed rate for purposes of illustration only.

**Authorized but Unissued General Obligation Bonds**

The City does not currently have voter-authorized but unissued debt.

**Table 10- Tax Adequacy for General Obligations**

2021/22 Taxable Assessed Valuation	\$ 730,162,118
Maximum Net Debt Service for the Fiscal Year Ending September 30, 2024	\$ 1,752,754
Indicated Interest and Sinking Fund Tax Rate	\$ 0.24248
Indicated Interest and Sinking Fund Tax Levy	\$ 1,770,497
Estimated 99% Tax Collections	\$ 1,752,792
City's Interest and Sinking Fund Balance as of September 30, 2021	\$ 638,403

**Table 11 - General Fund Revenues and Expenditures**

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

	<b>Fiscal Years Ended September 30,</b>				
	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
<b><u>Revenues:</u></b>					
Property Taxes	\$ 2,269,787	\$ 2,154,306	\$ 1,926,964	\$ 1,601,779	\$ 1,455,862
Sales Tax	223,136	208,198	174,930	160,634	153,757
Franchise and Local Taxes	146,042	118,020	178,192	155,247	143,130
Intergovernmental	605,675	329,508	299,909	308,217	290,759
Charge for Services	82,426	21,463	171,183	359,984	374,134
License and Permits	233,272	214,283	177,825	117,274	101,406
Fines and Forfeitures	117,533	78,364	84,356	107,724	97,679
Sanitation Sales	-	-	-	-	-
Investment Income	16,405	42,874	55,958	18,301	7,076
Contributions and Donations	-	-	-	-	-
Other Revenue	63,226	93,275	72,393	48,866	81,023
<b>Total Revenues</b>	<b><u>\$ 3,757,502</u></b>	<b><u>\$ 3,260,291</u></b>	<b><u>\$ 3,141,710</u></b>	<b><u>\$ 2,878,026</u></b>	<b><u>\$ 2,704,826</u></b>
<b><u>Expenditures:</u></b>					
General Government	\$ 1,212,793	\$ 949,888	\$ 828,341	\$ 875,546	\$ 864,914
Public Safety	2,257,425	2,178,184	1,811,013	1,482,173	1,278,609
Streets and Parks	583,140	678,197	483,986	393,702	492,395
Animal Control	-	-	5,271	71,759	81,656
Code Compliance	-	-	-	136,620	136,408
Sanitation	-	-	-	-	-
Debt Service	-	50,251	16,205	-	9,767
Capital Outlay	-	-	134,110	11,308	28,074
<b>Total Expenditures</b>	<b><u>\$ 4,053,358</u></b>	<b><u>\$ 3,856,520</u></b>	<b><u>\$ 3,278,926</u></b>	<b><u>\$ 2,971,108</u></b>	<b><u>\$ 2,891,823</u></b>
Excess/(Deficiency) of Revenues Over Expenditures	\$ (295,856)	\$ (596,229)	\$ (137,216)	\$ (93,082)	\$ (186,997)
Other Financing Sources	932,602	550,000	290,040	534,355	442,971
Other Financing (Uses)	(167,899)	(50,000)	(41,360)	-	-
Beginning Fund Balance	1,286,018	1,363,654	1,252,190	810,917	554,943
Prior Period Adjustment	-	18,593	-	-	-
<b>Ending Fund Balance - Sept. 30</b>	<b><u>\$ 1,754,865</u></b>	<b><u>\$ 1,286,018</u></b>	<b><u>\$ 1,363,654</u></b>	<b><u>\$ 1,252,190</u></b>	<b><u>\$ 810,917</u></b>

Source: City's Certified Annual Financial Reports for the Fiscal Years Ended September 30, 2017 - 2021.

**Table 12 - Current Investments (as of September 30, 2021)**

<b><u>Investment Description</u></b>	<b><u>Total Invested</u></b>	<b><u>Percent</u></b>
External Investment Pools	\$ 10,030,977	98.96%
CDs	105,396	1.04%
<b>Total</b>	<b><u>\$ 10,136,373</u></b>	<b><u>100.00%</u></b>

Source: City's Certified Annual Financial Report for the Fiscal Year Ended September 30, 2021.

**APPENDIX B**

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

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

**THE CITY**

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

**BURNET COUNTY**

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

**EDUCATION**

The City is served by the Marble Falls Independent School District (the "District"). The District has two High Schools, one Middle School, and four Elementary Schools. The estimated 2021-22 enrollment is expected to be 4,014.

**HISTORICAL EMPLOYMENT DATA, BURNET COUNTY**

	<u><b>2022<sup>(1)</sup></b></u>	<u><b>2021</b></u>	<u><b>2020</b></u>	<u><b>2019</b></u>	<u><b>2018</b></u>
Labor Force	25,249	24,594	23,517	23,570	22,921
Employed	24,572	23,676	22,399	22,930	22,264
Unemployed	677	918	1,118	640	657
Percent of Labor Force Unemployed	2.7%	3.7%	4.8%	2.7%	2.9%

Source: Texas Workforce Commission.

<sup>(1)</sup>As of March 2022.

**COMPARATIVE UNEMPLOYMENT RATES**

	<u><b>2022<sup>(1)</sup></b></u>	<u><b>2021</b></u>	<u><b>2020</b></u>	<u><b>2019</b></u>	<u><b>2018</b></u>
Burnet County	2.7%	3.7%	4.8%	2.7%	2.9%
State of Texas	3.9	5.7	7.7	3.5	3.8
United States of America	3.8	5.3	8.1	3.7	3.9

Source: Texas Workforce Commission.

<sup>(1)</sup> As of March 2022

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## **APPENDIX C**

### **EXCERPTS FROM THE CITY OF GRANITE SHOALS, TEXAS ANNUAL FINANCIAL REPORT For the Year Ended September 30, 2021**

The information contained in this APPENDIX consists of excerpts from the City of Granite Shoals, Texas Annual Financial Report for the Year Ended September 30, 2021, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information

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# ANNUAL FINANCIAL REPORT 2021

FOR FISCAL YEAR ENDED  
SEPTEMBER 30, 2021

CITY OF  
**GRANITE SHOALS**

2221 N. PHILLIPS RANCH ROAD | GRANITE SHOALS, TX 78654  
[WWW.GRANITESHOALS.ORG](http://WWW.GRANITESHOALS.ORG) | 830.598.2424

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*ANNUAL FINANCIAL REPORT*

of the

**City of Granite Shoals, Texas**

**For the Year Ended  
September 30, 2021**

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# City of Granite Shoals, Texas

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## ***INDEPENDENT AUDITOR'S REPORT***

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Granite Shoals, Texas (the "City"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2021 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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



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

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

BrooksWatson & Co., PLLC  
Certified Public Accountants  
Houston, Texas  
February 4, 2022

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***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

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# City of Granite Shoals, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### September 30, 2021

As management of the City of Granite Shoals, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2021. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

#### **Financial Highlights**

- The City's total combined net position was \$13,701,284 at September 30, 2021. Of this, \$4,405,908 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$3,022,086, an increase of \$1,133,377.
- As of the end of the year, the unassigned fund balance of the general fund was \$1,747,798 or 43% of total general fund expenditures.
- The City had an overall increase in net position of \$2,783,382.

#### **Overview of the Financial Statements**

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

#### **Government-Wide Statements**

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

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

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

# City of Granite Shoals, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2021

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

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

### FUND FINANCIAL STATEMENTS

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

#### Governmental Funds

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

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

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

# City of Granite Shoals, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2021

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the respective budget.

### **Proprietary Funds**

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

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, utility equipment reserve and the meter reader project funds, of which only the water fund is considered to be a major fund of the City.

### **Notes to Financial Statements**

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

### **Other Information**

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Granite Shoals, assets exceed liabilities by \$13,701,284 as of September 30, 2021, in the primary government.

The largest portion of the City's net position, \$7,339,997, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although

**City of Granite Shoals, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2021**

the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

The following table reflects the condensed Statement of Net Position:

	2021			2020		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 3,417,499	\$ 9,898,426	\$ 13,315,925	\$ 2,218,956	\$ 9,677,352	\$ 11,896,308
Long-term assets	8,683,843	9,110,485	17,794,328	8,714,035	8,613,581	17,327,616
<b>Total Assets</b>	<b>12,101,342</b>	<b>19,008,911</b>	<b>31,110,253</b>	<b>10,932,991</b>	<b>18,290,933</b>	<b>29,223,924</b>
<b>Deferred Outflows of Resources</b>	<b>82,749</b>	<b>15,762</b>	<b>98,511</b>	<b>85,530</b>	<b>16,291</b>	<b>101,821</b>
Other liabilities	844,800	1,650,753	2,495,553	792,631	1,362,969	2,155,600
Long-term liabilities	4,202,939	10,676,469	14,879,408	4,677,102	11,386,116	16,063,218
<b>Total Liabilities</b>	<b>5,047,739</b>	<b>12,327,222</b>	<b>17,374,961</b>	<b>5,469,733</b>	<b>12,749,085</b>	<b>18,218,818</b>
<b>Deferred Inflows of Resources</b>	<b>111,316</b>	<b>21,203</b>	<b>132,519</b>	<b>158,781</b>	<b>30,244</b>	<b>189,025</b>
Net Position:						
Net investment in capital assets	3,992,168	3,347,829	7,339,997	3,895,032	3,309,654	7,204,686
Restricted	1,315,869	639,510	1,955,379	871,844	136	871,980
Unrestricted	1,716,999	2,688,909	4,405,908	623,131	2,218,105	2,841,236
<b>Total Net Position</b>	<b>\$ 7,025,036</b>	<b>\$ 6,676,248</b>	<b>\$ 13,701,284</b>	<b>\$ 5,390,007</b>	<b>\$ 5,527,895</b>	<b>\$ 10,917,902</b>



**City of Granite Shoals, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2021**

**Statement of Activities:**

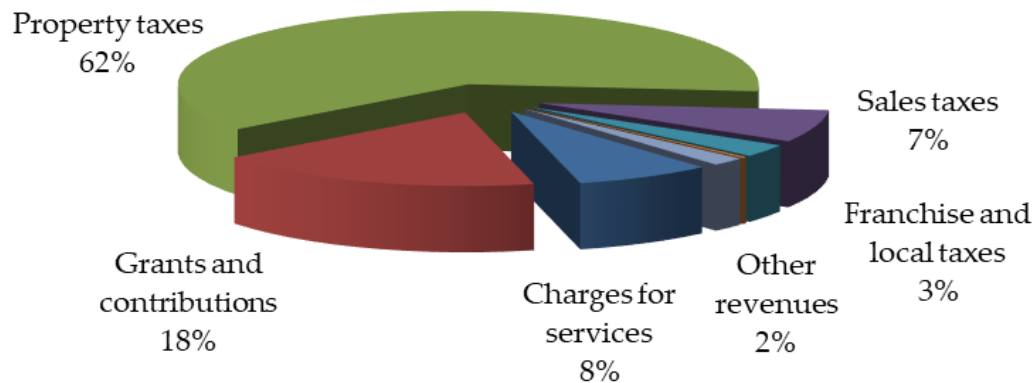
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2021			For the Year Ended September 30, 2020		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities	Primary Government	Activities	Activities	Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 472,415	\$ 2,780,898	\$ 3,253,313	\$ 376,941	\$ 2,828,822	\$ 3,205,763
Grants and contributions	1,146,371	630,244	1,776,615	381,237	14,500	395,737
General revenues:						
Property taxes	3,864,073	-	3,864,073	3,685,458	-	3,685,458
Sales taxes	446,272	-	446,272	416,396	-	416,396
Franchise and local taxes	175,501	-	175,501	139,176	-	139,176
Investment income	16,461	-	16,461	43,903	-	43,903
Other revenues	116,105	125,882	241,987	93,454	85,144	178,598
<b>Total Revenues</b>	<b>6,237,198</b>	<b>3,537,024</b>	<b>9,774,222</b>	<b>5,136,565</b>	<b>2,928,466</b>	<b>8,065,031</b>
<b>Expenses</b>						
General government	1,269,454	-	1,269,454	1,059,740	-	1,059,740
Public safety	2,781,480	-	2,781,480	2,167,236	-	2,167,236
Streets and parks	502,556	-	502,556	846,888	-	846,888
Animal control	-	-	-	5,916	-	5,916
Tourism	17,800	-	17,800	26,723	-	26,723
Interest and fiscal charges	160,125	283,979	444,104	269,771	347,368	617,139
Utility	-	1,975,446	1,975,446	-	1,934,475	1,934,475
<b>Total Expenses</b>	<b>4,731,415</b>	<b>2,259,425</b>	<b>6,990,840</b>	<b>4,376,274</b>	<b>2,281,843</b>	<b>6,658,117</b>
<b>Change in Net Position</b>						
<b>Before Transfers</b>	<b>1,505,783</b>	<b>1,277,599</b>	<b>2,783,382</b>	<b>760,291</b>	<b>646,623</b>	<b>1,406,914</b>
Transfers	129,246	(129,246)	-	346,052	(346,052)	-
<b>Total</b>	<b>129,246</b>	<b>(129,246)</b>	<b>-</b>	<b>346,052</b>	<b>(346,052)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>1,635,029</b>	<b>1,148,353</b>	<b>2,783,382</b>	<b>1,106,343</b>	<b>300,571</b>	<b>1,406,914</b>
Beginning Net Position	5,390,007	5,527,895	10,917,902	4,283,664	5,227,324	9,510,988
<b>Ending Net Position</b>	<b>\$ 7,025,036</b>	<b>\$ 6,676,248</b>	<b>\$ 13,701,284</b>	<b>\$ 5,390,007</b>	<b>\$ 5,527,895</b>	<b>\$ 10,917,902</b>

**City of Granite Shoals, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2021**

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

**Governmental Activities - Revenues**

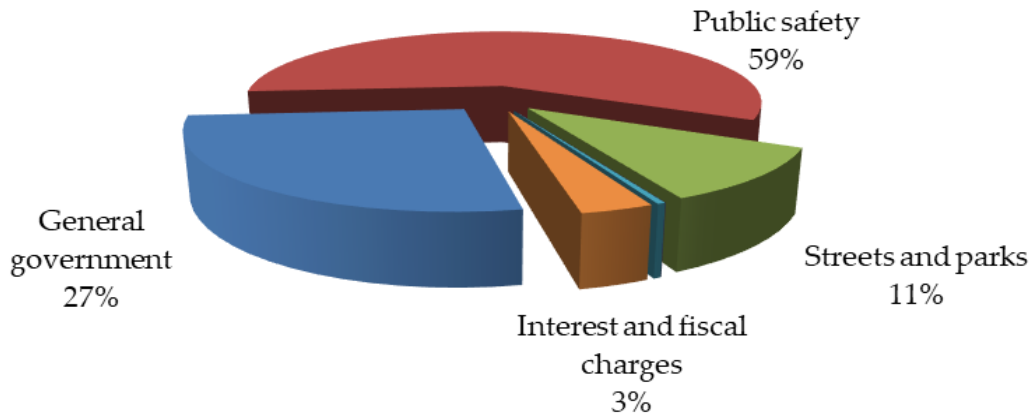


For the year ended September 30, 2021, revenues from governmental activities totaled \$6,237,198. Property tax and sales tax revenues are the City's largest general revenue sources. Grants and contributions increased \$765,134 due to nonrecurring grant funds from FEMA and the Texas Parks and Wildlife, in the amounts of \$225,848 and \$459,114, respectively. Property tax increased by \$178,615 or 5% when compared to 2020 due to an increase in overall assessed property values and an increase in the property tax rate. Sales taxes increased by \$29,876 or 7%. This is a result of a continuation of the number of citizens staying and shopping online and locally, which is a residual impact from the pandemic. Charges for services increased by \$95,474 or 25% primarily due to tower lease fees, which consisted of the current year tower lease fees and the unpaid lease fees from the previous year not received until the current year. Franchise taxes increased \$36,325 or 26% primarily due to the recovery of the nonpayment of fees by two telephone service companies in the previous year, as well as growth of activity within the City. Investment income decreased by \$27,442 or 63% due to the change in the utilization of interest-bearing accounts. Other revenues increased \$22,651 or 24% due to nonrecurring insurance recoveries received in the current year for ice storm damages.

**City of Granite Shoals, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2021**

This graph shows the governmental function expenses of the City:

**Governmental Activities - Expenses**

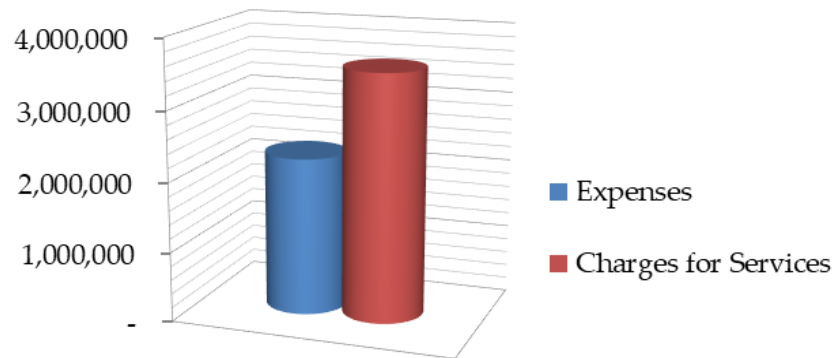


For the year ended September 30, 2021, expenses for governmental activities totaled \$4,731,415. This represents an increase of \$355,141 from the prior year. The City's largest functional expense is public safety of \$2,781,480, which increased by \$614,244 or 28% from the prior year. The increase was primarily related to the addition of new fire department personnel and the purchase of equipment for new fire personnel. General government expenses increased by \$209,714 or 20% primarily due to increased personnel costs and professional consultant services necessary in the interim prior to filling the Finance Director position. Streets and parks expenses decreased by \$344,332 or 41%. This decrease is primarily due to the completion of a road maintenance project in the previous year. Tourism expenses decreased by \$8,923 or 33% due to the nonrecurring cost of local events hosted in the prior year to draw visitors to the city. Interest and fiscal charges decreased \$109,646 or 41%, due primarily to the issuance costs caused by the bond refunding in the previous year. All other expenses remained relatively consistent with the previous year.

**City of Granite Shoals, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2021**

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

**Business-Type Activities - Revenues and Expenses**



For the year ended September 30, 2021, charges for services by business-type activities totaled \$2,780,898, a decrease of \$47,924 or 2% from the previous year. This change is primarily a result of a reduction in water consumption compared to the previous year, as well as the City no longer directly billing for commercial garbage and letting the waste management company manage and charge for commercial accounts.

Total operating expenses increased by \$40,971 or 2% during the year, which is primarily a result of increased utility maintenance and repair related expenses in the current year. Interest and fiscal charges decreased by \$63,389 due to the nonrecurring recognition of bond issuance costs in the previous year.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

As of the end of the year the general fund reflected a total fund balance of \$1,754,865, which is entirely unassigned. The general fund increased by \$468,847 primarily as a result of transfers in from the water fund, which is consistent with the amount budgeted for the year.

# City of Granite Shoals, Texas

## *MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*

September 30, 2021

The debt service fund had an ending fund balance of \$638,403 at year end, an increase of \$30,471 from the prior year. The increase was due to property tax revenues exceeding debt service payments and other financing uses. In addition to transfers out, total governmental principal and interest payments made during the year were \$493,132 and \$174,691, respectively.

There was an overall increase in governmental fund balance of \$1,133,377 from the prior year. The increase was a result of revenues exceeding expenditures by \$954,767 in addition to net other sources of \$178,610.

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

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

There was a total positive revenue variance of \$44,721, in addition to a positive expenditure variance of \$54,564 for the year. Other financing sources had an overall negative budget variance of \$29,633. There was a total positive net budget variance of \$69,652. General fund expenditures were within appropriations at the legal level of control by \$54,564.

### **CAPITAL ASSETS**

As of the end of the year, the City's governmental activities funds had invested \$8,595,211 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$9,093,603 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- City Hall improvements totaling \$50,656.
- Park and sport complex improvements totaling \$336,078.
- Water infrastructure development and improvements totaling \$922,537.

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

### **LONG-TERM DEBT**

At the end of the current year, the City had total long-term debt outstanding of \$15,957,471, consisting of General Obligation Refunding Bonds of \$12,926,000, Certificates of Obligation of \$2,150,000, notes payable of \$468,385, and bond premiums of \$413,086. During the year, the City made governmental and business-type payments on the long-term debt of \$493,132 and \$671,652, respectively. More

**City of Granite Shoals, Texas**  
***MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued***  
**September 30, 2021**

detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Granite Shoals and improving services provided to their public citizens. The City is budgeting to maintain services in the upcoming year and regularly considers local and national economic conditions and how they may have an impact.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

## ***FINANCIAL STATEMENTS***

**City of Granite Shoals, Texas**  
**STATEMENT OF NET POSITION (Page 1 of 2)**  
**September 30, 2021**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 3,041,546	\$ 8,484,159	\$ 11,525,705
Investments	105,396	-	105,396
Restricted cash	-	1,026,113	1,026,113
Receivables, net	240,504	409,677	650,181
Internal balances	22,986	(22,986)	-
Inventories	2,572	-	2,572
Prepaid items	4,495	1,463	5,958
<b>Total Current Assets</b>	<b>3,417,499</b>	<b>9,898,426</b>	<b>13,315,925</b>
Capital assets:			
Non-depreciable	2,138,009	1,160,913	3,298,922
Net depreciable capital assets	6,457,202	7,932,690	14,389,892
Net pension asset	88,632	16,882	105,514
<b>Total Noncurrent Assets</b>	<b>8,683,843</b>	<b>9,110,485</b>	<b>17,794,328</b>
<b>Total Assets</b>	<b>12,101,342</b>	<b>19,008,911</b>	<b>31,110,253</b>
<b><u>Deferred Outflows of Resources</u></b>			
Pension contributions	61,818	11,775	73,593
Pension changes in assumptions	2,672	509	3,181
OPEB contributions	2,141	408	2,549
OPEB changes in assumptions	16,118	3,070	19,188
<b>Total Deferred Outflows of Resources</b>	<b>82,749</b>	<b>15,762</b>	<b>98,511</b>



**City of Granite Shoals, Texas**  
**STATEMENT OF NET POSITION (Page 2 of 2)**  
**September 30, 2021**

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable and			
accrued liabilities	225,214	497,718	722,932
Customer deposits	11,475	395,869	407,344
Accrued interest payable	25,106	41,762	66,868
Long-term debt - current	485,189	696,573	1,181,762
Compensated absences - current	97,816	18,831	116,647
<b>Total Current Liabilities</b>	<b>844,800</b>	<b>1,650,753</b>	<b>2,495,553</b>
Noncurrent liabilities:			
Long-term debt - noncurrent	4,115,851	10,659,859	14,775,710
Compensated absences - noncurrent	10,868	2,092	12,960
OPEB liability	76,220	14,518	90,738
<b>Total Noncurrent Liabilities</b>	<b>4,202,939</b>	<b>10,676,469</b>	<b>14,879,408</b>
<b>Total Liabilities</b>	<b>5,047,739</b>	<b>12,327,222</b>	<b>17,374,961</b>
<b><u>Deferred Inflows of Resources</u></b>			
Pension difference in experience	59,391	11,313	70,704
Pension investment returns	45,083	8,587	53,670
OPEB difference in experience	6,842	1,303	8,145
<b>Total Deferred Inflows of Resources</b>	<b>111,316</b>	<b>21,203</b>	<b>132,519</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	3,992,168	3,347,829	7,339,997
Restricted for:			
Streets and parks	523,153	-	523,153
Tourism	89,506	-	89,506
Municipal court	16,159	-	16,159
Debt service	638,403	-	638,403
Capital projects	-	630,244	630,244
Pensions	48,648	9,266	57,914
Unrestricted	1,716,999	2,688,909	4,405,908
<b>Total Net Position</b>	<b>\$ 7,025,036</b>	<b>\$ 6,676,248</b>	<b>\$ 13,701,284</b>

See Notes to Financial Statements.

# City of Granite Shoals, Texas

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government	\$ 1,269,454	\$ 114,725	\$ 1,146,371
Public safety	2,781,480	124,418	-
Streets and parks	502,556	233,272	-
Tourism	17,800	-	-
Interest and fiscal charges	160,125	-	-
<b>Total Governmental Activities</b>	<b>4,731,415</b>	<b>472,415</b>	<b>1,146,371</b>
<b>Business-Type Activities</b>			
Water	1,805,306	2,237,410	630,244
Solid Waste	454,119	638,937	-
Nonmajor proprietary funds	-	30,433	-
<b>Total Business-Type Activities</b>	<b>2,259,425</b>	<b>2,906,780</b>	<b>630,244</b>
<b>Total Primary Government</b>	<b>\$ 6,990,840</b>	<b>\$ 3,379,195</b>	<b>\$ 1,776,615</b>

### General Revenues:

Taxes  
     Property taxes  
     Sales taxes  
     Franchise and local taxes  
 Investment income  
 Other revenues

### Transfers

### Total General Revenues and Transfers

### Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

**Net (Expense) Revenue and Changes in Net Position**

<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (8,358)	\$ -	\$ (8,358)
(2,657,062)	-	(2,657,062)
(269,284)	-	(269,284)
(17,800)	-	(17,800)
(160,125)	-	(160,125)
(3,112,629)	-	(3,112,629)
-	1,062,348	1,062,348
-	184,818	184,818
-	30,433	30,433
-	1,277,599	1,277,599
(3,112,629)	1,277,599	(1,835,030)
3,864,073	-	3,864,073
446,272	-	446,272
175,501	-	175,501
16,461	-	16,461
116,105	-	116,105
129,246	(129,246)	-
4,747,658	(129,246)	4,618,412
1,635,029	1,148,353	2,783,382
5,390,007	5,527,895	10,917,902
\$ 7,025,036	\$ 6,676,248	\$ 13,701,284

# City of Granite Shoals, Texas

## BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2021

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,810,135	\$ 638,403	\$ 593,008	\$ 3,041,546
Investments	105,396	-	-	105,396
Receivables, net	129,816	69,252	41,436	240,504
Due from other funds	22,986	-	-	22,986
Inventories	2,572	-	-	2,572
Prepays	4,495	-	-	4,495
<b>Total Assets</b>	<b>\$ 2,075,400</b>	<b>\$ 707,655</b>	<b>\$ 634,444</b>	<b>\$ 3,417,499</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 219,588	\$ -	\$ 5,626	\$ 225,214
Customer deposits	11,475	-	-	11,475
<b>Total Liabilities</b>	<b>231,063</b>	<b>-</b>	<b>5,626</b>	<b>236,689</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue:				
Property tax	89,472	69,252	-	158,724
<b>Total Deferred Inflows of</b>	<b>89,472</b>	<b>69,252</b>	<b>-</b>	<b>158,724</b>
<b><u>Fund Balances</u></b>				
Nonspendable:				
Inventories	2,572	-	-	2,572
Prepays	4,495	-	-	4,495
Restricted for:				
Streets and parks	-	-	523,153	523,153
Tourism	-	-	89,506	89,506
Municipal court	-	-	16,159	16,159
Debt service	-	638,403	-	638,403
Unassigned	1,747,798	-	-	1,747,798
<b>Total Fund Balances</b>	<b>1,754,865</b>	<b>638,403</b>	<b>628,818</b>	<b>3,022,086</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 2,075,400</b>	<b>\$ 707,655</b>	<b>\$ 634,444</b>	<b>\$ 3,417,499</b>

See Notes to Financial Statements.

# City of Granite Shoals, Texas

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

September 30, 2021

<b>Fund Balances - Total Governmental Funds</b>	<b>\$ 3,022,086</b>
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### Adjustments for the Statement of Net Position:

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

Capital assets - non-depreciable	2,138,009
Capital assets - net depreciable	6,457,202

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

Property tax receivable	158,724
Net pension asset	88,632

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

Pension contributions	61,818
Pension difference in experience	(59,391)
Pension changes in assumptions	2,672
Pension investment returns	(45,083)
OPEB contributions	2,141
OPEB difference in experience	(6,842)
OPEB changes in assumptions	16,118

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

Accrued interest	(25,106)
Compensated absences	(108,684)
Long-term debt	(4,601,040)
OPEB liability	(76,220)

<b>Net Position of Governmental Activities</b>	<b>\$ <u>7,025,036</u></b>
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See Notes to Financial Statements.

# City of Granite Shoals, Texas

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

For the Year Ended September 30, 2021

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Revenues</u></b>				
Property tax	\$ 2,269,787	\$ 1,594,286	\$ -	\$ 3,864,073
Sales tax	223,136	-	223,136	446,272
Franchise and local taxes	146,042	-	29,459	175,501
Intergovernmental	605,675	-	475,614	1,081,289
Charges for services	82,426	-	32,299	114,725
License and permits	233,272	-	-	233,272
Fines and forfeitures	117,533	-	6,885	124,418
Investment income	16,405	-	56	16,461
Contributions and donations	-	-	65,082	65,082
Other revenue	63,226	-	3,515	66,741
<b>Total Revenues</b>	<u>3,757,502</u>	<u>1,594,286</u>	<u>836,046</u>	<u>6,187,834</u>
<b><u>Expenditures</u></b>				
Current:				
General government	1,212,793	-	-	1,212,793
Public safety	2,257,425	-	428,202	2,685,627
Streets and parks	583,140	-	58,587	641,727
Tourism	-	-	17,800	17,800
Debt Service:				
Principal	-	493,132	-	493,132
Interest and fiscal charges	-	174,691	-	174,691
Capital outlay	-	-	7,297	7,297
<b>Total Expenditures</b>	<u>4,053,358</u>	<u>667,823</u>	<u>511,886</u>	<u>5,233,067</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(295,856)	926,463	324,160	954,767
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	883,238	-	309,899	1,193,137
Transfers (out)	(167,899)	(895,992)	-	(1,063,891)
Insurance recoveries	49,364	-	-	49,364
<b>Total Other Financing Sources (Uses)</b>	<u>764,703</u>	<u>(895,992)</u>	<u>309,899</u>	<u>178,610</u>
<b>Net Change in Fund Balances</b>	468,847	30,471	634,059	1,133,377
Beginning fund balances	1,286,018	607,932	(5,241)	1,888,709
<b>Ending Fund Balances (Deficits)</b>	<u>\$ 1,754,865</u>	<u>\$ 638,403</u>	<u>\$ 628,818</u>	<u>\$ 3,022,086</u>

See Notes to Financial Statements.

**City of Granite Shoals, Texas**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2021**

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

Net changes in fund balances - total governmental funds	\$ 1,133,377
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	386,734
Depreciation expense	(428,521)

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

Compensated absences	(4,643)
Accrued interest	9,233
Pension expense	47,933
OPEB expense	(7,549)

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

Principal payments	493,132
Amortization of bond premium	5,333

<b>Change in Net Position of Governmental Activities</b>	<b>\$ 1,635,029</b>
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See Notes to Financial Statements.

**City of Granite Shoals, Texas**  
**STATEMENT OF NET POSITION (Page 1 of 2)**  
**PROPRIETARY FUNDS**  
**September 30, 2021**

	<b>Water</b>	<b>Solid Waste</b>	<b>Nonmajor Proprietary Funds</b>	<b>Total</b>
<b><u>Assets</u></b>				
<b><u>Current Assets</u></b>				
Cash and cash equivalents	\$ 7,818,152	\$ 245,942	\$ 420,065	\$ 8,484,159
Restricted cash - deposits	395,869	-	-	395,869
Restricted cash - grants	630,244	-	-	630,244
Receivables, net	309,445	100,232	-	409,677
Prepaid items	1,463	-	-	1,463
<b>Total Current Assets</b>	<b>9,155,173</b>	<b>346,174</b>	<b>420,065</b>	<b>9,921,412</b>
<b><u>Noncurrent Assets</u></b>				
Capital assets:				
Non-depreciable	1,160,913	-	-	1,160,913
Net depreciable capital assets	7,932,690	-	-	7,932,690
Net pension asset	16,882	-	-	16,882
<b>Total Noncurrent Assets</b>	<b>9,110,485</b>	<b>-</b>	<b>-</b>	<b>9,110,485</b>
<b>Total Assets</b>	<b>18,265,658</b>	<b>346,174</b>	<b>420,065</b>	<b>19,031,897</b>
<b><u>Deferred Outflows of Resources</u></b>				
Pension contributions	11,775	-	-	11,775
Pension changes in assumption	509	-	-	509
OPEB contributions	408	-	-	408
OPEB changes in assumption	3,070	-	-	3,070
<b>Total Deferred Outflows of Resources</b>	<b>15,762</b>	<b>-</b>	<b>-</b>	<b>15,762</b>



**City of Granite Shoals, Texas**  
**STATEMENT OF NET POSITION (Page 2 of 2)**  
**PROPRIETARY FUNDS**  
**September 30, 2021**

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<b><u>Liabilities</u></b>				
<b><u>Current Liabilities</u></b>				
Accounts payable				
and accrued liabilities	460,077	37,641	-	497,718
Customer deposits	395,869	-	-	395,869
Accrued interest payable	41,762	-	-	41,762
Long-term debt - current	696,573	-	-	696,573
Compensated absences - current	18,831	-	-	18,831
Due to other funds	-	22,986	-	22,986
<b>Total Current Liabilities</b>	<b>1,613,112</b>	<b>60,627</b>	<b>-</b>	<b>1,673,739</b>
<b><u>Noncurrent Liabilities</u></b>				
Long-term debt - noncurrent	10,659,859	-	-	10,659,859
Compensated absences - noncurrent	2,092	-	-	2,092
OPEB liability	14,518	-	-	14,518
<b>Total Liabilities</b>	<b>12,289,581</b>	<b>60,627</b>	<b>-</b>	<b>12,350,208</b>
<b><u>Deferred Inflows of Resources</u></b>				
Pension difference in experience	11,313	-	-	11,313
Pension investment returns	8,587	-	-	8,587
OPEB difference in experience	1,303	-	-	1,303
<b>Total Deferred Inflows of</b>	<b>21,203</b>	<b>-</b>	<b>-</b>	<b>21,203</b>
<b><u>Net Position</u></b>				
Net investment in capital assets	3,347,829	-	-	3,347,829
Capital projects	630,244	-	-	630,244
Pensions	9,266	-	-	9,266
Unrestricted	1,983,297	285,547	420,065	2,688,909
<b>Total Net Position</b>	<b>\$ 5,970,636</b>	<b>\$ 285,547</b>	<b>\$ 420,065</b>	<b>\$ 6,676,248</b>

See Notes to Financial Statements.

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# City of Granite Shoals, Texas

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

For the Year Ended September 30, 2021

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<b><u>Operating Revenues</u></b>				
Charges for services	\$ 2,111,528	\$ 638,937	\$ 30,433	\$ 2,780,898
Other revenue	125,882	-	-	125,882
<b>Total Operating Revenues</b>	<u>2,237,410</u>	<u>638,937</u>	<u>30,433</u>	<u>2,906,780</u>
<b><u>Operating Expenses</u></b>				
Salaries and wages	378,644	-	-	378,644
Employee benefits	104,172	-	-	104,172
Professional services	80,472	454,119	-	534,591
Other operating expenses	348,057	-	-	348,057
Supplies	119,249	-	-	119,249
Water purchase	61,177	-	-	61,177
Depreciation	427,841	-	-	427,841
Capital outlay	1,715	-	-	1,715
<b>Total Operating Expenses</b>	<u>1,521,327</u>	<u>454,119</u>	<u>-</u>	<u>1,975,446</u>
<b>Operating Income (Loss)</b>	<u>716,083</u>	<u>184,818</u>	<u>30,433</u>	<u>931,334</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Investment earnings	-	-	-	-
Grant revenue	630,244	-	-	630,244
Interest expense	(283,979)	-	-	(283,979)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>346,265</u>	<u>-</u>	<u>-</u>	<u>346,265</u>
<b>Income (Loss) Before Transfers</b>	1,062,348	184,818	30,433	1,277,599
Transfers in	895,992	-	60,809	956,801
Transfers (out)	(944,047)	(142,000)	-	(1,086,047)
<b>Change in Net Position</b>	1,014,293	42,818	91,242	1,148,353
Beginning net position	4,956,343	242,729	328,823	5,527,895
<b>Ending Net Position</b>	<u><u>\$ 5,970,636</u></u>	<u><u>\$ 285,547</u></u>	<u><u>\$ 420,065</u></u>	<u><u>\$ 6,676,248</u></u>

See Notes to Financial Statements.

# City of Granite Shoals, Texas

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2021

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<b><u>Cash Flows from Operating Activities</u></b>				
Receipts from customers	\$ 2,287,050	\$ 660,730	\$ 30,433	\$ 2,978,213
Payments to suppliers	(160,208)	(452,317)	-	(612,525)
Payments to employees	(383,266)	-	-	(383,266)
<b>Net Cash Provided by Operating Activities</b>	<b>1,743,576</b>	<b>208,413</b>	<b>30,433</b>	<b>1,982,422</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>				
Transfer in	895,992	-	60,809	956,801
Transfer (out)	(944,047)	(142,000)	-	(1,086,047)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>(48,055)</b>	<b>(142,000)</b>	<b>60,809</b>	<b>(129,246)</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>				
Capital purchases	(922,537)	-	-	(922,537)
Capital grants	630,244	-	-	630,244
Principal paid on debt	(671,652)	-	-	(671,652)
Interest paid on debt	(331,440)	-	-	(331,440)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(1,295,385)</b>	<b>-</b>	<b>-</b>	<b>(1,295,385)</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>400,136</b>	<b>66,413</b>	<b>91,242</b>	<b>557,791</b>
Beginning cash and cash equivalents	8,444,129	179,529	328,823	8,952,481
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 8,844,265</b>	<b>\$ 245,942</b>	<b>\$ 420,065</b>	<b>\$ 9,510,272</b>

See Notes to Financial Statements.

# City of Granite Shoals, Texas

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2021

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<b><u>Reconciliation of Operating</u></b>				
<b><u>Income (Loss) to Net Cash Provided by</u></b>				
<b><u>Operating Activities</u></b>				
Operating Income (Loss)	\$ 716,083	\$ 184,818	\$ 30,433	\$ 931,334
Adjustments to reconcile operating income (loss) to net cash provided:				
Depreciation	427,841	-	-	427,841
<b>Changes in Operating Assets and Liabilities:</b>				
<b>(Increase) Decrease in:</b>				
Accounts receivable	23,035	21,793	-	44,828
Prepaid expenses	(97)	-	-	(97)
Due from other funds	269,000	22,986	-	291,986
Deferred Outflows of Resources:				
Pension contributions	1,260	-	-	1,260
Pension changes in assumption	791	-	-	791
OPEB changes in assumption	(1,250)	-	-	(1,250)
OPEB contributions	(272)	-	-	(272)
Deferred Inflows of Resources:				
Pension difference in experience	(8,597)	-	-	(8,597)
OPEB difference in experience	(68)	-	-	(68)
Pension investment returns	(376)	-	-	(376)
<b>Increase (Decrease) in:</b>				
Accounts payable and accrued liabilities	285,731	(21,184)	-	264,547
Customer deposits	26,605	-	-	26,605
Compensated absences	3,071	-	-	3,071
OPEB liability	3,027	-	-	3,027
Net pension liability (asset)	(2,208)	-	-	(2,208)
<b>Net Cash Provided by Operating</b>				
<b>Activities</b>	<b>\$ 1,743,576</b>	<b>\$ 208,413</b>	<b>\$ 30,433</b>	<b>\$ 1,982,422</b>

See Notes to Financial Statements.

# City of Granite Shoals, Texas

## NOTES TO FINANCIAL STATEMENTS

September 30, 2021

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

#### B. Reporting Entity

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

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

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

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

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

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

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

The government reports the following major governmental funds:

**General Fund**

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

**Debt Service Fund**

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

**Proprietary Fund Types**

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

**Water Fund**

The water fund is used to account for the City's water utility operations. Activities of the fund include administration, operations and maintenance of the water system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

**Solid Waste Fund**

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

Additionally, the government reports the following fund types:

**Special Revenue Funds**

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

**Capital Projects Fund**

The City's capital projects fund accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds.



**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

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

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

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

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

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

All governmental funds and component units are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

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

**E. Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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

**1. Deposits and Investments**

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

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

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

**2. Fair Value Measurement**

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

**3. Receivables and Interfund Transactions**

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

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

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

**4. Property Taxes**

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

**5. Inventories and Prepaid Items**

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

**6. Capital Assets**

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

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

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

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

**7. Deferred Outflows/Inflows of Resources**

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

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

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

**8. Net Position Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, *Continued***  
**September 30, 2021**

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

**9. Fund Balance Flow Assumptions**

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

**10. Fund Balance Policies**

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

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

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

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

**11. Compensated Absences**

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

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

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

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

**12. Long-Term Obligations**

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

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

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

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

**13. Pensions**

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

**14. Other Postemployment Benefits ("OPEB")**

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



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**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

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

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

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

**City of Granite Shoals, Texas**  
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issued, whereas these amounts are deferred and amortized in the statement of activities." A reconciliation has been presented in the basic financial statements.

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2021, the primary government had the following investments:

<b>Investment Type</b>	<b>Carrying Value</b>	<b>Weighted Average Maturity (Years)</b>
External investment pools	\$ 10,030,977	0.10
Certificates of deposit	105,396	0.68
Total fair value	<u>\$ 10,136,373</u>	
Portfolio weighted average maturity		0.11

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

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

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*Custodial credit risk – deposits* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's investment policy requires funds on bank deposit at the depository bank to be collateralized by securities with a collective market value (market value of the principal and accrued interest) of at least 102%. As of September 30, 2021, the market values of pledged securities and FDIC exceeded bank balances.

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

**TexPool**

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. At September 30, 2021, the fair value of the position in TexPool approximates fair value of the shares. There are no limitation or restrictions on withdrawals.

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

**B. Receivables**

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

	<b>General</b>	<b>Debt Service</b>	<b>Water</b>	<b>Solid Waste</b>	<b>Nonmajor Governmental</b>	<b>Total</b>
Property taxes	\$ 89,472	\$ 69,252	\$ -	\$ -	\$ -	\$ 158,724
Sales tax	39,739	-	-	-	39,739	79,478
Accounts	605	-	321,225	105,418	1,697	428,945
Allowance	-	-	(11,780)	(5,186)	-	(16,966)
	<u>\$ 129,816</u>	<u>\$ 69,252</u>	<u>\$ 309,445</u>	<u>\$ 100,232</u>	<u>\$ 41,436</u>	<u>\$ 650,181</u>

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

**C. Capital Assets**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,725,805	\$ -	\$ -	\$ 1,725,805
Construction in progress	370,073	17,454	(370,073)	17,454
Mineral rights	394,750	-	-	394,750
Total capital assets not being depreciated	<u>2,490,628</u>	<u>17,454</u>	<u>(370,073)</u>	<u>2,138,009</u>
Capital assets, being depreciated:				
Buildings and improvements	4,059,300	50,656	370,073	4,480,029
Improvements & infrastructure	3,573,371	-	-	3,573,371
Machinery & equipment	2,379,633	318,624	-	2,698,257
Total capital assets being depreciated	<u>10,012,304</u>	<u>369,280</u>	<u>370,073</u>	<u>10,751,657</u>
Less accumulated depreciation				
Buildings and improvements	1,312,654	104,231	-	1,416,885
Improvements & infrastructure	598,357	174,551	-	772,908
Machinery & equipment	1,954,923	149,739	-	2,104,662
Total accumulated depreciation	<u>3,865,934</u>	<u>428,521</u>	<u>-</u>	<u>4,294,455</u>
Net capital assets being depreciated	<u>6,146,370</u>	<u>(59,241)</u>	<u>370,073</u>	<u>6,457,202</u>
<b>Total Net Capital Assets</b>	<u><u>\$ 8,636,998</u></u>	<u><u>\$ (41,787)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,595,211</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 97,395
Public safety	118,910
Streets and parks	203,937
Animal control	8,279
<b>Total Governmental Activities Depreciation Expense</b>	<u><u>\$ 428,521</u></u>

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases/ Reclassifications</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 19,802	\$ -	\$ -	\$ 19,802
Construction in progress	244,574	896,537	-	1,141,111
Total capital assets not being depreciated	<u>264,376</u>	<u>896,537</u>	<u>-</u>	<u>1,160,913</u>
Capital assets, being depreciated:				
Buildings	19,589	-	-	19,589
Improvements and infrastructure	11,882,422	26,000	-	11,908,422
Machinery and equipment	1,065,551	-	-	1,065,551
Total capital assets being depreciated	<u>12,967,562</u>	<u>26,000</u>	<u>-</u>	<u>12,993,562</u>
Less accumulated depreciation				
Buildings	11,356	2,595	-	13,951
Improvements and infrastructure	4,307,711	331,790	-	4,639,501
Machinery and equipment	313,964	93,456	-	407,420
Total accumulated depreciation	<u>4,633,031</u>	<u>427,841</u>	<u>-</u>	<u>5,060,872</u>
Net capital assets being depreciated	<u>8,334,531</u>	<u>(401,841)</u>	<u>-</u>	<u>7,932,690</u>
<b>Total Net Capital Assets</b>	<u><u>\$ 8,598,907</u></u>	<u><u>\$ 494,696</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,093,603</u></u>

Depreciation was charged to business-type functions as follows:

Water fund	<u>\$ 427,841</u>
<b>Total Business-type Activities Depreciation Expense</b>	<u><u>\$ 427,841</u></u>

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

**D. Long-term Debt**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due within One Year</b>
<b>Governmental Activities:</b>					
Bonds, notes and other payables:					
Certificates of Obligation	\$ 2,455,000	\$ -	\$ (305,000)	\$ 2,150,000	\$ 320,000
General Obligation Refunding Bonds Premium	2,275,000	-	(115,283)	2,159,717	120,189
	106,656	-	(5,333)	101,323	-
<b>Total Bonds Payable</b>	<b>4,836,656</b>	<b>-</b>	<b>(425,616)</b>	<b>4,411,040</b>	<b>440,189</b>
Other liabilities:					
Notes payable	262,849	-	(72,849)	190,000	45,000
<b>Total Governmental Activities</b>	<b>\$ 5,099,505</b>	<b>\$ -</b>	<b>\$ (498,465)</b>	<b>\$ 4,601,040</b>	<b>\$ 485,189</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 4,115,851</b>	
<b>Business-Type Activities:</b>					
General Obligation Refunding Bonds Premium	\$ 11,373,000	\$ -	\$ (606,717)	\$ 10,766,283	\$ 629,811
	328,172	-	(16,408)	311,764	-
<b>Total Bonds Payable</b>	<b>11,701,172</b>	<b>-</b>	<b>(623,125)</b>	<b>11,078,047</b>	<b>629,811</b>
Other liabilities:					
Notes payable	343,320	-	(64,935)	278,385	66,762
<b>Total Business-Type Activities</b>	<b>\$ 12,044,492</b>	<b>\$ -</b>	<b>\$ (688,060)</b>	<b>\$ 11,356,432</b>	<b>\$ 696,573</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 10,659,859</b>	

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

On June 23, 2020, the City issued \$9,275,000 worth of General Obligation Refunding Bonds, Series 2020. The issuance qualifies as an advance refunding as the funds will be placed in escrow to pay off a portion of two separate issuances. The bonds were used to pay \$430,000 of the 2010 Certificates of Obligation Bonds and \$2,415,000 of the 2018 General Obligation Bonds. The new debt matures in 2040.

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

	<b>Governmental Activities</b>	<b>Business - Type Activities</b>	<b>Total</b>
<b>General Obligation Refunding Bonds:</b>			
\$5,725,000 General Obligation Refunding Bonds, Series 2014, due in installments through 2034, interest at 3.25%	\$ -	\$ 4,121,000	\$ 4,121,000
\$3,000,000 General Obligation Refunding Bonds, Series 2018, due in annual installments through 2027, interest at 2.80%	2,159,717	6,645,283	8,805,000
<b>Total General Obligation Refunding Bonds</b>	<b>\$ 2,159,717</b>	<b>\$ 10,766,283</b>	<b>\$ 12,926,000</b>
<b>Certificates of Obligation:</b>			
\$5,000,000 Certificates of Obligation, Series 2008, due in annual installments through 2027, interest at 4.49%	\$ 2,150,000	\$ -	\$ 2,150,000
<b>Total Certificates of Obligation</b>	<b>\$ 2,150,000</b>	<b>\$ -</b>	<b>\$ 2,150,000</b>
<b>Notes Payable</b>			
\$629,690 Note Payable, Spirit of Texas Bank, due in installments through 2025, interest at 2.81%	\$ -	\$ 278,385	\$ 278,385
\$280,000 Note Payable, BB&T Governmental Finance, due in installments through 2025, interest at 2.15%	190,000	-	190,000
<b>Total Notes Payable</b>	<b>\$ 190,000</b>	<b>\$ 278,385</b>	<b>\$ 468,385</b>
<b>Less Deferred Amounts:</b>			
Premiums	\$ 101,323	\$ 311,763	\$ 413,086
<b>Total Debt</b>	<b>\$ 4,601,040</b>	<b>\$ 11,356,431</b>	<b>\$ 15,957,471</b>



**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
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The annual requirements to amortize debt issues outstanding at year ending were as follows:

<b>Governmental Activities</b>				
<b>Year ending September 30,</b>	<b>General Obligation Bonds</b>		<b>Certificates of Obligation</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2022	\$ 120,189	\$ 54,102	\$ 320,000	\$ 96,535
2023	125,094	49,294	335,000	82,167
2024	127,547	46,792	350,000	67,126
2025	128,774	44,241	365,000	51,411
2026	133,679	41,666	380,000	35,022
2027	134,906	38,992	400,000	17,960
2028	90,755	33,596	-	-
2029	93,208	29,966	-	-
2030	96,887	26,237	-	-
2031	100,566	23,331	-	-
2032	103,019	20,314	-	-
2033	105,472	18,253	-	-
2034	107,925	16,144	-	-
2035	109,151	13,986	-	-
2036	111,604	11,803	-	-
2037	114,057	9,570	-	-
2038	116,509	7,289	-	-
2039	118,962	4,959	-	-
2040	121,413	2,580	-	-
<b>Total</b>	<b>\$ 2,159,717</b>	<b>\$ 493,115</b>	<b>\$ 2,150,000</b>	<b>\$ 350,221</b>

<b>Governmental Activities</b>		
<b>Year ending September 30,</b>	<b>Notes Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2022	\$ 45,000	\$ 4,085
2023	45,000	3,118
2024	50,000	2,150
2025	50,000	1,075
<b>Total</b>	<b>\$ 190,000</b>	<b>\$ 10,428</b>

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

<b>Business-Type Activities</b>		
<b>Year ending September 30,</b>	<b>General Obligation Bonds</b>	
	<b>Principal</b>	<b>Interest</b>
2022	\$ 629,811	\$ 300,399
2023	652,906	277,157
2024	669,453	260,749
2025	682,226	243,897
2026	706,321	226,677
2027	720,094	208,864
2028	594,245	182,347
2029	611,792	160,940
2030	634,113	138,906
2031	655,434	119,042
2032	674,981	98,514
2033	693,528	80,540
2034	713,075	62,057
2035	335,849	43,032
2036	343,396	36,315
2037	350,943	29,448
2038	358,491	22,429
2039	366,038	15,259
2040	373,587	7,938
<b>Total</b>	<b>\$ 10,766,283</b>	<b>\$ 2,514,510</b>

<b>Business-Type Activities</b>		
<b>Year ending September 30,</b>	<b>Notes Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2022	\$ 66,762	\$ 7,838
2023	68,641	5,959
2024	70,572	4,028
2025	72,410	2,042
<b>Total</b>	<b>\$ 278,385</b>	<b>\$ 19,867</b>

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

**E. Compensated Absences**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 104,041	\$ 97,207	\$ (92,564)	\$ 108,684	\$ 97,816
<b>Total Governmental Activities</b>	<u>\$ 104,041</u>	<u>\$ 97,207</u>	<u>\$ (92,564)</u>	<u>\$ 108,684</u>	<u>\$ 97,816</u>
<b>Other long-term liabilities due in more than one year</b>				<u>\$ 10,868</u>	
<b>Business-Type Activities:</b>					
Compensated absences	\$ 17,852	\$ 16,713	\$ (13,642)	\$ 20,923	\$ 18,831
<b>Total Business-Type Activities</b>	<u>\$ 17,852</u>	<u>\$ 16,713</u>	<u>\$ (13,642)</u>	<u>\$ 20,923</u>	<u>\$ 18,831</u>
<b>Other long-term liabilities due in more than one year</b>				<u>\$ 2,092</u>	

**F. Customer Deposits**

The City had customer deposits of \$395,869 in the water fund as of year end. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued and all outstanding utility expenses are paid. The City also had customer deposits of \$11,475 in the general fund as of year end. These deposits were related to building permit fees and park services.

**G. Interfund Transactions**

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

Transfers between the primary government funds during the 2021 year were as follows:

<b>Transfers In:</b>	<b>Transfers Out:</b>					<b>Total</b>
	<b>General</b>	<b>Debt Service</b>	<b>Water</b>	<b>Solid Waste</b>	<b>Nonmajor Proprietary</b>	
General	\$ -	\$ -	\$ 883,238	\$ -	\$ -	\$ 883,238
Water	-	895,992	-	-	60,809	956,801
Nonmajor						
Governmental	167,899	-	-	142,000	-	309,899
<b>Total</b>	<b>\$ 167,899</b>	<b>\$ 895,992</b>	<b>\$ 883,238</b>	<b>\$ 142,000</b>	<b>\$ 60,809</b>	<b>\$ 2,149,938</b>

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

The compositions of interfund balances as of the year ended September 30, 2021 were as follows:

<b>Due from:</b>	<b>Due to:</b>	
	<b>Solid Waste</b>	<b>Total</b>
General Fund	\$ 22,986	\$ 22,986
<b>Total</b>	<b>\$ 22,986</b>	<b>\$ 22,986</b>

## H. Fund Equity

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

The following is a list of restricted fund balances:

	<b>Restricted</b>
Streets and parks	\$ 523,153
Tourism	89,506
Municipal court	13,415 *
Debt service	638,403
<b>Total</b>	<b>\$ 1,264,477</b>

\*Restricted by enabling legislation

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
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**V. OTHER INFORMATION**

**A. Risk Management**

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

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

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

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

**B. Contingent Liabilities**

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

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

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

**C. Arbitrage**

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

**D. Defined Benefit Pension Plans**

Texas Municipal Retirement System

**1. Plan Description**

The City of Granite Shoals, Texas participates as one of 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.tmrs.com](http://www.tmrs.com).

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

**2. Benefits Provided**

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity.

# City of Granite Shoals, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

### September 30, 2021

Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	<u>Plan Year 2020</u>	<u>Plan Year 2019</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility		
(expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

#### **Employees covered by benefit terms**

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	20
Active employees	<u>41</u>
<b>Total</b>	<b><u>74</u></b>

### **3. Contributions**

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

# City of Granite Shoals, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

### September 30, 2021

Employees for the City of Granite Shoals, Texas were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Granite Shoals, Texas were 4.80% and 4.33% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021, were \$105,100, and were equal to the required contributions.

#### **4. Net Pension Liability (Asset)**

The City's Net Pension Liability (Asset) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

#### **Actuarial assumptions**

The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year
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.

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, 2019 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. Plan assets are managed on a total return basis with an emphasis on both capital



**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

**Discount Rate**

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate**

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 203,393	\$ (105,514)	\$ (360,530)

**Changes in the Net Pension Liability (Asset)**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
<b>Balance at 12/31/19</b>	\$ 1,807,509	\$ 1,899,220	\$ (91,711)
Changes for the year:			
Service cost	219,408	-	219,408
Interest	127,572	-	127,572
Difference between expected and actual experience	12,588	-	12,588
Changes of assumptions	-	-	-
Contributions – employer	-	112,617	(112,617)
Contributions – employee	-	117,310	(117,310)
Net investment income	-	144,413	(144,413)
Benefit payments, including refunds of emp. contributions	(54,527)	(54,527)	-
Administrative expense	-	(933)	933
Other changes	-	(36)	36
Net changes	305,041	318,844	(13,803)
<b>Balance at 12/31/20</b>	<b>\$ 2,112,550</b>	<b>\$ 2,218,064</b>	<b>\$ (105,514)</b>

**Pension Plan Fiduciary Net Position**

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

For the year ended September 30, 2021, the City recognized pension expense of \$47,674.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Contributions subsequent to the measurement date	\$ 73,593	\$ -
Difference in experience	-	70,704
Changes in actuarial assumptions	3,181	-
Pension investment returns	-	53,670
<b>Total</b>	<b>\$ 76,774</b>	<b>\$ 124,374</b>

The City reported \$73,593 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Plan Year</b>	
2021	\$ (53,937)
2022	(31,842)
2023	(33,519)
2024	(1,895)
2025	-
<b>Total</b>	<b>\$ (121,193)</b>

**Other Postemployment Benefits**

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

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

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

**Employees covered by benefit terms**

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	3
Active employees	41
Total	53

The City's contributions to the TMRS SDBF for the years ended 2021, 2020 and 2019 were \$2,878, \$1,063, and \$819, respectively, which equaled the required contributions each year.

Three-Year Contribution Information

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2019	0.05%	0.05%	100.0%
2020	0.05%	0.05%	100.0%
2021	0.15%	0.15%	100.0%

**Total OPEB Liability**

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2020, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

# City of Granite Shoals, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

### September 30, 2021

#### Actuarial assumptions:

The Total OPEB Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5%, including inflation per year
Discount rate	2.00%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

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

#### Discount Rate:

The discount rate used to measure the Total OPEB Liability was 2.00%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

#### 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 1.00%	Current Single Rate Assumption 2.00%	1% Increase 3.00%
\$ 110,190	\$ 90,738	\$ 75,657

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

**Changes in the Total OPEB Liability:**

	<b>Total OPEB Liability</b>
<b>Balance at 12/31/19</b>	<b>\$ 71,816</b>
Changes for the year:	
Service Cost	7,686
Interest	2,065
Difference between expected and actual experience	(1,335)
Changes of assumptions	11,671
Benefit payments	(1,165)
Net changes	18,922
<b>Balance at 12/31/20</b>	<b>\$ 90,738</b>

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$11,851.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Contributions subsequent to the measurement date	\$ 2,549	\$ -
Difference in experience	-	8,145
Changes in actuarial assumptions	19,188	-
<b>Total</b>	<b>\$ 21,737</b>	<b>\$ 8,145</b>

The City reported \$2,549 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2022.

**City of Granite Shoals, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2021**

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

<b>Year ended December 31:</b>		
2021	\$	2,100
2022		2,100
2023		2,100
2024		1,600
2025		2,234
Thereafter		909
	\$	<u>11,043</u>

**E. Subsequent Events**

On October 26, 2021, the City entered into a Limited Tax in the amount of \$1,030,000. The note has an interest rate of 1.03% and a maturity date of August 1, 2026.

There were no other material subsequent events through February 4, 2022, the date the financial statements were issued.

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**APPENDIX D**

**FORM OF BOND COUNSEL'S OPINION**

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

**CITY OF GRANITE SHOALS, TEXAS,  
COMBINATION TAX AND LIMITED REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2022  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$1,750,000\***

**AS BOND COUNSEL FOR THE CITY OF GRANITE SHOALS, TEXAS** (the "City") in connection with the issuance of the certificates described above (the "Certificates"), we have examined the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates, until maturity or redemption, at the rates and payable on the dates specified in the text of the Certificates and in the ordinance of the City adopted on June 14, 2022 authorizing the issuance of the Certificates (the "Ordinance").

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

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the City fails to comply with such covenants,

\*Preliminary, subject to change.



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

**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 City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

**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 City, and, in that capacity, we have been engaged by the City 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. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the 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 City as to the current outstanding indebtedness of the City and the assessed valuation of taxable property within the City and the sufficiency of the revenues pledged by the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.



**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

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Capital  
Markets