

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

NEW ISSUE
BOOK-ENTRY-ONLY

PRELIMINARY OFFICIAL STATEMENT
June 28, 2022

S&P: "A+"
(See "RATINGS", "BOND
INSURANCE" and "BOND
INSURANCE RISK
FACTORS" herein.)

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

**THE CERTIFICATES ARE EXPECTED TO BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS**

\$2,400,000*
CITY OF EDNA, TEXAS
(Jackson County)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022

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

Due: March 15, as shown on page ii

The City of Edna, Texas (the "City") Combination Tax and Revenue Certificates of Obligation, Series 2022 (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 (see "THE CERTIFICATES – Authority for Issuance" herein).

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 pledge of the "Surplus Revenues" derived from the ownership and operation of the City's waterworks and sewer system, 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 herein) and will be payable March 15 and September 15 of each year until stated maturity or prior redemption, commencing March 15, 2023, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued only as fully registered obligations in denominations of \$5,000 or any integral multiple thereof within a stated maturity.

The definitive Certificates will be issued as fully registered Certificates in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by UMB Bank, N.A., Houston, Texas, as Paying Agent/Registrar, to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used to (i) acquire, construct and equip waterworks and sewer system improvements, including replacement of water meters; (ii) acquire and install software upgrades; and (iii) pay legal, fiscal, engineering and architectural fees in connection with these projects and costs of issuance (see "THE CERTIFICATES – Purpose").

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after March 15, _____, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 15, _____ or any date thereafter, at par value thereof plus accrued interest to the date of redemption. (See "THE CERTIFICATES – Redemption Provisions").

Application has been made to municipal bond insurance companies to have the payment of principal of and interest on the Certificates insured by a municipal bond insurance policy. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.

SEE MATURITY SCHEDULE ON PAGE II

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., San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter of the Certificates named below (the "Underwriter") by its counsel, Cantu Harden LLP, San Antonio, Texas. The Certificates are expected to be available for initial delivery to the Underwriter through the facilities of DTC on or about August 4, 2022 (the "Delivery Date").

SAMCO CAPITAL MARKETS

* Preliminary, subject to change.

STATED MATURITY SCHEDULE
CUSIP Base Number: 281330⁽¹⁾

\$2,400,000*
CITY OF EDNA, TEXAS
Combination Tax and Revenue Certificates of Obligation, Series 2022

| Maturity Date (3/15) | Principal Amount* | Interest Rate | Yield⁽²⁾ | CUSIP Suffix⁽¹⁾ |
|-------------------------------------|------------------------------|--------------------------|----------------------------|---------------------------------------|
| 2023 | \$ 5,000 | % | % | |
| 2024 | 5,000 | | | |
| 2025 | 5,000 | | | |
| 2026 | 30,000 | | | |
| 2027 | 100,000 | | | |
| 2028 | 105,000 | | | |
| 2029 | 110,000 | | | |
| 2030 | 115,000 | | | |
| 2031 | 120,000 | | | |
| 2032 | 130,000 | | | |
| 2033 | 135,000 | | | |
| 2034 | 140,000 | | | |
| 2035 | 145,000 | | | |
| 2036 | 155,000 | | | |
| 2037 | 160,000 | | | |
| 2038 | 170,000 | | | |
| 2039 | 180,000 | | | |
| 2040 | 190,000 | | | |
| 2041 | 195,000 | | | |
| 2042 | 205,000 | | | |

(Interest to accrue from the Delivery Date)

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after March 15, _____, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 15, _____ or any date thereafter, at par value thereof plus accrued interest to the date of redemption. (See "THE CERTIFICATES – Redemption Provisions").

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the City or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ Yield represents the initial offering yield to the public which has been established by the Underwriter for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter.

* Preliminary, subject to change.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purpose of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (“Rule 15c2-12”), this document, as the same may be supplemented or corrected from time to time, may be treated as an “official statement” with respect to the Certificates described herein that has been “deemed final” by the City as of the date hereof (or of any supplement or correction) except for the omission of no more than the information permitted by Subsection (b)(1) of Rule 15c2-12.

This Official Statement, which includes the cover page, and 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 the 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. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

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

The 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 OR ANY POTENTIAL BOND INSURER OR ITS MUNICIPAL BOND GUARANTY POLICY AS DESCRIBED HEREIN UNDER THE CAPTIONS “BOND INSURANCE” AND “BOND INSURANCE RISK FACTORS.”

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

| | |
|---|--|
| The City | The City of Edna, Texas (the "City") is the County seat of Jackson County. The City is located just off Interstate 69 at the head of Lavaca and Carancahua Bays and is 140 miles southeast of San Antonio, and 100 miles southwest of Houston. The City is a home-rule municipality and operates under a City Council-Manager form of government. |
| The Certificates | \$2,400,000* City of Edna, Texas Combination Tax and Revenue Certificates of Obligation, Series 2022, dated June 1, 2022, maturing as described on the inside cover page of this Official Statement. |
| Use of Proceeds | Proceeds from the sale of the Certificates will be used to (i) acquire, construct and equip waterworks and sewer system improvements, including replacement of water meters; (ii) acquire and install software upgrades; and (iii) pay legal, fiscal, engineering and architectural fees in connection with these projects and costs of issuance. |
| Paying Agent/Registrar | The initial Paying Agent/Registrar is UMB Bank, N.A., Houston, Texas (see "REGISTRATION, TRANSFER AND EXCHANGE – Initial Paying Agent/Registrar" herein). Initially, the City intends to use the Book-Entry-Only System of The Depository Trust Company (see "BOOK ENTRY-ONLY SYSTEM" herein.) |
| Authorization and Security | <p>The Certificates will constitute a direct obligation of the City 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.</p> <p>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 pledge of the "Surplus Revenues" derived from the ownership and operation of the City's waterworks and sewer system, as provided in the Ordinance.</p> |
| Redemption Provisions | The City reserves the right, at its option, to redeem Certificates having stated maturities on and after March 15, _____, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 15, _____ or any date thereafter, at par value thereof plus accrued interest to the date of redemption. |
| Tax Exemption | In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. |
| Qualified Tax-Exempt Obligations | The City expects to designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein. |
| Bond Insurance | The City is considering insuring payment of debt service on the Certificates with municipal bond insurance and has made application to several municipal bond insurance companies. No representation is hereby made that the City will use municipal bond insurance in connection with the issuance of the Certificates. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.) |
| Ratings | The Certificates have been assigned a rating of "A+" by S&P Global Ratings ("S&P"). An explanation of the significance of such rating may be obtained from the rating agency. (See "RATINGS", "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.) |
| Payment Record | The City has never defaulted on the payment of its bonded indebtedness. |
| Delivery | When issued, anticipated on or about August 4, 2022. |

*Preliminary, subject to change.

CITY OF EDNA, TEXAS

126 West Main
Edna, TX 77957
Telephone: (361) 782-3122

ELECTED OFFICIALS

CITY COUNCIL

| Name | Term Expires (May) | Occupation |
|----------------------|-------------------------------|---|
| Lance Smiga Mayor | 2023 | CEO/CFO, Jackson County Hospital District |
| Dustin Muncrief | 2023 | Insurance Agent – Texas Farm Bureau |
| Wayne Callis | 2023 | Retired |
| Chris Jackson | 2024 | Sales – Tiger Industrial |
| Mike Dodds | 2024 | Retired |
| Johnny Vasquez | 2024 | Retired |

APPOINTED OFFICIALS

| Name | Position | Time with the City | Years of Experience |
|--------------|------------------|-------------------------------|--------------------------------|
| Gary Broz | City Manager | 2 years | 36 years |
| Diane Pierce | Finance Director | 3 years | 30 years |
| Becky Miska | City Secretary | 27 years | 27 years |

BOND COUNSEL AND ADVISORS

Bond Counsel

McCall, Parkhurst & Horton L.L.P.
112 E. Pecan Street, Suite 1310
San Antonio, TX 78205

Certified Public Accountants

Harrison, Waldrop & Uherek, L.L.P.
101 S. Main, Suite 400
Victoria, Texas 77902

Financial Advisor

RBC Capital Markets, LLC
303 Pearl Parkway, Suite 220
San Antonio, Texas 78215

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OFFICIAL STATEMENT
relating to
CITY OF EDNA, TEXAS
(Jackson County)
\$2,400,000* Combination Tax and 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 Edna, 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 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 RBC Capital Markets, LLC, the Financial Advisor, upon payment of reasonable copying, handling, and delivery charges. Certain capitalized terms used in the Official Statement have meanings assigned to them in the ordinance authorizing issuance of the Certificates (the “Ordinance”), 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 declared a state of disaster for all counties in the State in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation and reopening of the State. Under executive orders in effect as of the date of this Official Statement, there are no COVID-19 related operating limits for any business or other establishment. The Governor retains the right to impose additional restrictions on activities. 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.

In general, the City, and the receipt of its overall primary revenue sources, including sales and use taxes, ad valorem taxes, and revenues from its waterworks and sewer systems, have not been significantly impacted by the Pandemic. In fact, revenues attributable to these sources have increased each fiscal year since FY 2019 (see Tables 4, 9, and 11 in Appendix A attached hereto for more information). Consequently, the City does not expect the Pandemic will have a negative impact on the City or its operations and the collection of revenues from its various sources; however, the City will continue to monitor the spread of COVID-19 and work with local, State, and national agencies to address the potential future impact of the Pandemic upon the City. The Certificates are secured, in part, by ad valorem taxes (within the limits prescribed by law), and, in part, by Surplus Revenues (defined herein) of the City’s waterworks and sewer system, and although, as mentioned above, the Pandemic has not had a material or negative impact on the City’s pledged revenue sources, a future reduction in property values or a reduction of water and sewer system revenues may require an increase in the ad valorem tax rate or utility system rates required in order to pay the Certificates.

THE CERTIFICATES

General Description

The Certificates will be dated June 1, 2022 (the “Dated Date”), and will be issued in fully-registered form, in principal 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 March 15 and September 15 of each year, commencing March 15, 2023. Interest on the Certificates will be calculated

¹*Preliminary, subject to change.

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 page ii hereof.

Principal and interest on the Certificates will be paid by UMB Bank, N.A., Houston, Texas (the "Paying Agent/Registrar"). Subject to the requirements associated with the use of the Book-Entry-Only System, 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 prior redemption upon presentation and surrender of the Certificates to the Paying Agent/Registrar. If the date for the payment of the principal 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, New York, New York ("DTC"), 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 the Ordinance to be adopted by the City Council of the City.

Purpose

Proceeds from the sale of the Certificates will be used to (i) acquire, construct and equip waterworks and sewer system improvements including replacement of water meters; (ii) acquire and install software upgrades; and (iii) pay legal, fiscal, engineering and architectural fees in connection with these projects and costs of issuance

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 McCall, Parkhurst & Horton, L.L.P., San Antonio, 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 pledge of surplus revenues ("Surplus Revenues") of the City's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system, as provided in the Ordinance.

Redemption Provisions

Optional Redemption . . . The City reserves the right, at its sole option, to redeem Certificates having stated maturities on and after March 15, _____, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof, on March 15, _____ or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

If less than all of the respective Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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 optional redemption

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 shall 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 AND FUNDS TO PAY THE REDEMPTION PRICE OF SAID CERTIFICATES HAVING BEEN PROVIDED, 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 Ordinances 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 act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificates for redemption (see "BOOK-ENTRY-ONLY SYSTEM" herein).

Defeasance

The Ordinance provides for the defeasance of the Certificates when the payment of the principal on the Certificates, plus interest on the Certificates to the due date thereof is provided by irrevocably depositing with the Paying Agent/Registrar or authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that the term "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (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, on the date the governing body of the City approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Certificates. City officials may restrict such eligible securities in connection with the sale of the Certificates. The City has 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.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, the City has the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, 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

In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance as may be required (i) by the provisions of the Ordinance, (ii) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission, or (iii) in connection with any other change which is not to the prejudice of the Registered Owners.

The Ordinance further provides that the holders of the respective Certificates aggregating in principal amount 51% of the outstanding Certificates shall have the right from time to time to amend, change, modify or rescind any provisions therein; provided, however, that without the consent of 100% of the holders affected, no such amendment, change, modification, or rescission shall: (i) extend the time or times of payment of the principal of and interest on the Certificates, reduce the principal amount thereof or the rate of interest thereon, (ii) give any preference to any Certificate over any other Certificate, (iii) extend any waiver of default to subsequent defaults, or (iv) reduce the aggregate principal amount of the Certificates required for consent to any such amendment, change, modification, or rescission.

Record Date

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

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.

Payment Record

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

Sources and Uses of Proceeds

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

| | | |
|-----------------|---|-----------|
| Sources: | Principal Amount of the Certificates | \$ |
| | Net Reoffering Premium/Discount on the Certificates | |
| | Total Sources of Funds | \$ |
| Uses: | Deposit to Construction Fund | \$ |
| | Costs of Issuance and Underwriter's Discount | |
| | Total Uses of Funds | \$ |

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 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 stated maturity of the Certificates, each in the aggregate principal amount thereof, and will be deposited with DTC.

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

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the 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.

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).

Principal, interest and redemption payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, 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, Certificate 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, Certificate certificates will be printed and delivered to DTC.

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Certificates are in Book-Entry-Only form, 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, payment or notices that are to be given to Registered Owners under the Ordinance will be given only to DTC.

ENFORCEMENT OF REMEDIES

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Certificates, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 30 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous language." Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities under certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services.

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, holders of the Certificates of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

See "Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of the Certificates. Initially, the only registered owner of the Certificates will be Cede & Co., as DTC's nominee.

BOND INSURANCE

The City has applied for a bond insurance policy to guarantee the scheduled payment of principal of and interest on the Certificates. The City has yet to determine whether an insurance policy will be purchased on the Certificates. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Certificates when all or some becomes due, any owner of the Certificates shall have a claim under the applicable Bond Insurance Policy (the "Policy") from the provider of the Policy (the "Bond Insurer") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the certificate owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the City unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price of the Certificates or the marketability (liquidity) for the Certificates.

The long-term ratings on the Certificates are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Certificates insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Certificates or the marketability (liquidity) for the Certificates. See "RATINGS" herein.

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the City or Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

REGISTRATION, TRANSFER AND EXCHANGE

Initial Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Houston, 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, trust company 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 security certificates will be delivered to the registered owners of the Certificates affected thereby and thereafter such Certificates may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed security certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect to such registration and transfer. 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 registered owner's request, risk and expense. To the extent possible, new security 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 security 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).

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 satisfactory 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.

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. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Jackson County Central 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 – City and Taxpayer Remedies”).

State Mandated Homestead Exemptions

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

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.

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 Reinvestment 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. See “AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code” for descriptions of any TIRZ created in the City.

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See “AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code” for descriptions of any of the City’s tax abatement agreements.

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

Chapter 380 Agreements

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended (“Chapter 380”) to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes.

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% physically damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the City, adopting its tax rate for the tax year. A taxing unit, such as the City, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established by the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

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.

City and Taxpayer Remedies

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, \$50.6 million for the 2021 tax year, and \$52,978,200 for the 2022 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

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 grant a local option exemption of the appraised value of all residence homesteads.

The City does grant a local option exemption of the appraised 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 tax Freeport Property.

The City does tax Goods-in-Transit.

The City does offer tax abatements.

The City does not participate in a TIRZ.

The City does not participate in Chapter 380 agreements.

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 State law, the City is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "PFIA"), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clauses (1) or (12), which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party designated by the City, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

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 include 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 City funds, and 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 funds' 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 on the date of the report, (2) be prepared jointly by all investment officers of the City, (3) be signed by each investment officer of the City, (4) contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the: (a) beginning market value for the reporting period, (b) additions and changes to the market value during the period, (c) ending market value for the period, and (d) fully accrued interest for the reporting period, (5) state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested, (6) state the maturity date of each separately invested asset that has a maturity date, (7) state the account or fund or pooled group fund of the City for which each individual investment was acquired, and (8) state the compliance of the investment portfolio of the City as it related to (a) the investment strategy expressed in the City's investment policy, 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 by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the 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 no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

See Appendix A for a description of the City's current investments.

PENSION PLANS AND RETIREMENT FUND

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 10.84%. For additional information, refer to the notes to the Combined Financial Statements for the year ended September 30, 2021, in Appendix C herein.

TAX MATTERS

Opinion

On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton, L.L.P., San Antonio, 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"), (1) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel 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 Bond Counsel's Opinion.

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

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel 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 the 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 with proceeds of the Certificates. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the owners of the Certificates may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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.

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 maturity 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 made thereon. 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 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 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 each 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 Original Issue Discount 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 the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Certificate 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 Certificate.

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 statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT CERTIFICATES 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 bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the 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.

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Certificates are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, 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. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, the Texas Public Funds Investment Act, requires that the Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" 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 capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL MATTERS

The delivery of the Certificates is subject to the approval of the Attorney General of Texas to the effect that the Certificates are valid and legally binding obligations of the City and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix D.

Though it represents the Underwriter and the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions "THE CERTIFICATES" (except under the subcaption "Payment Record" and "Sources and Uses of Proceeds"), "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" (excluding the last sentence of the second paragraph thereof), and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings") and such firm is of the opinion that the information relating to the Certificates and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the Ordinance. Certain legal matters will be passed upon for the Underwriter by its counsel, Cantu Harden LLP, San Antonio, Texas, whose legal fee is contingent on the successful issuance of the Certificates.

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

RATINGS

The Certificates have been assigned a rating of "A+" by S&P Global Ratings ("S&P"). An explanation of the significance of such rating may be obtained from S&P.

The rating of the Certificates reflects only the view 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 while 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") via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information."

Annual Reports

The offering of the Certificates qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligations because the City does not have more than \$10,000,000 in aggregate amount of outstanding debt offered pursuant to SEC Rule 15c2-12 (the "Rule") and no person is committed by contract or other arrangement with respect to payment of the Certificates. Pursuant to the exemption, the City in the Ordinance has made the following agreement for the benefit of the holders and beneficial owners of the Certificates.

The City will provide certain updated financial information and operating data, which is customarily prepared by the City and is publicly available, to the MSRB on an annual basis. Such information to be provided consists of the City's financial statements. The City will update and provide this information within 12 months after the end of each fiscal year commencing with the fiscal year ending September 30, 2022. The financial statements of the City will be audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which it must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available. The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule.

The City's current fiscal year end is September 30. Accordingly, it must provide its audited financial statements by the last day 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.

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 paying agent/registrar or change of name of the paying agent/registrar, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of 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.

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

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 filings required to be made by the Issuer will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings is provided, without charge to the general public, by the MSRB through its EMMA system at www.emma.msrb.org. Pursuant to subsection (d)(2)(iii) of Rule 15c2-12, the forgoing information, data and notices can be obtained from the City Administrator, Gary Broz, 125 W. Main Street, Edna, Texas 77957, Telephone: (361) 782-3122.

Limitations and Amendments

The City has agreed to update information and to provide notices of significant 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.

The 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) determined 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 so amends the provisions of either of the agreements described above, it shall include with any financial information or operating data next provided in accordance with such agreement an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Compliance with Prior Undertakings

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

UNDERWRITER

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at the yields shown on page ii of this Official Statement 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 pursuant to its responsibilities to investors under the federal securities laws, 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 or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

CYBERSECURITY RISKS

The City relies on its information systems to provide security for processing, transmission and storage of confidential personal, health-related, credit and other information. It is possible that the City's security measures will not prevent improper or unauthorized access or disclosure of personally identifiable information resulting from cyber-attacks. Security breaches, including electronic break-ins, computer viruses, attacks by hackers and similar breaches can create disruptions or shutdowns of the City and the services it provides, or the unauthorized disclosure of confidential personal, health-related, credit and other information. If personal or otherwise protected information is improperly accessed, tampered with or distributed, the City may incur significant costs to remediate possible injury to the affected persons, and the City may be subject to sanctions and civil penalties if it is found to be in violation of federal or state laws or regulations. Any failure to maintain proper functionality and security of information systems could interrupt the City's operations, delay receipt of revenues, damage its reputation, subject it to liability claims or regulatory penalties and could have a material adverse effect on its operations, financial condition and results of operations.

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.

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.

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.

MISCELLANEOUS

The Ordinance will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the re-offering of the Certificates by the Underwriter.

This Official Statement will be approved by the City Council of the City for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2 12, as amended.

/s/
Mayor
City of Edna, Texas

ATTEST:

/s/
City Secretary
City of Edna, Texas

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APPENDIX A

**FINANCIAL INFORMATION REGARDING
THE CITY OF EDNA, TEXAS**

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**FINANCIAL INFORMATION REGARDING
THE CITY OF EDNA, TEXAS**

Table 1-Valuations, Exemptions and Tax Supported Debt

| | |
|---|---------------------------------|
| 2021/22 Market Valuation Established by Jackson County Appraisal District (Net of Totally Exempt Property) | \$ 285,383,063 |
| Less: Exemptions/Reductions at 100% Market Value | |
| Veterans Exemption | \$ 1,937,340 |
| 10% Lost to Cap Adjustment | 7,632,752 |
| Over 65/Disabled | 5,676,030 |
| Auto Exemption | 771,722 |
| Productivity Loss/Other | <u>1,362,520</u> |
| Total | \$ 17,380,364 |
| 2021/22 Net Taxable Assessed Valuation | <u>\$ 268,002,699</u> |
| City Funded Debt Payable from Ad Valorem Taxes (as of June 15, 2021): | |
| Outstanding Debt | \$ 4,526,000 |
| The Certificates | <u>2,400,000 ⁽¹⁾</u> |
| Total General Obligation Debt Payable From Ad Valorem Taxes | <u><u>\$ 6,926,000</u></u> |
| Less: Self-Supporting General Obligation Debt | |
| Outstanding Debt | \$ 3,745,000 |
| Net General Obligation Debt Payable From Ad Valorem Taxes | <u><u>\$ 3,181,000</u></u> |
| Interest and Sinking Fund Balance on of September 30, 2021 | \$ 37,807 |
| Ratio Total General Obligation Debt to 2021/22 Net Taxable Assessed Valuation | 2.58% |
| Estimated Population | 5,874 |
| Per Capita Net General Obligation Funded Debt | \$ 541.54 |
| Per Capita Net Taxable Assessed Valuation | \$ 45,625 |

⁽¹⁾ Preliminary, subject to change.

Table 2 - Taxable Assessed Valuation by Category⁽¹⁾

| Category | Taxable Appraised Value for Fiscal Year Ended September 30: | | | | | |
|--|---|------------|-----------------------|------------|-----------------------|------------|
| | 2022 | | 2021 | | 2020 | |
| | Value | % of Total | Value | % of Total | Value | % of Total |
| Real, Residential, Single Family | \$ 187,078,667 | 65.55% | \$ 178,935,585 | 66.39% | \$ 150,104,025 | 61.04% |
| Real Residential, Multi-Family | 8,371,546 | 2.93% | 8,249,999 | 3.06% | 4,647,422 | 1.89% |
| Real, Vacant Lots/Tracts | 6,284,670 | 2.20% | 6,586,620 | 2.44% | 6,373,500 | 2.59% |
| Real, Acreage (Land Only) | 1,389,400 | 0.49% | 1,369,950 | 0.51% | 1,405,280 | 0.57% |
| Real, Farm and Ranch Improvements | 1,055,690 | 0.37% | 1,093,330 | 0.41% | 914,280 | 0.37% |
| Real, Commercial and Industrial | 45,839,020 | 16.06% | 40,418,038 | 15.00% | 48,477,479 | 19.71% |
| Oil and Gas | - | 0.00% | - | 0.00% | - | 0.00% |
| Real, Tangible Personal, Utilities | 6,077,478 | 2.13% | 4,634,408 | 1.72% | 4,931,978 | 2.01% |
| Tangible Personal, Commercial and Industrial | 24,677,030 | 8.65% | 24,210,994 | 8.98% | 25,216,258 | 10.25% |
| Mobile Homes | 3,365,480 | 1.18% | 3,312,110 | 1.23% | 3,031,230 | 1.23% |
| Residential Inventory | 56,000 | 0.02% | 56,000 | 0.02% | 42,000 | 0.02% |
| Exempt Property | 1,177,282 | 0.41% | 645,791 | 0.24% | 713,648 | 0.29% |
| Special Inventory | 10,800 | 0.00% | 18,930 | 0.01% | 40,780 | 0.02% |
| Total Appraised Value Before Exemptions | \$ 285,383,063 | 100.00% | \$ 269,531,755 | 100.00% | \$ 245,897,880 | 100.00% |
| Less: Total Exemptions/ Reductions | (17,380,364) | | (20,492,487) | | (10,659,808) | |
| Taxable Assessed Value | <u>\$ 268,002,699</u> | | <u>\$ 249,039,268</u> | | <u>\$ 235,238,072</u> | |

| Category | Taxable Appraised Value for Year Ended September 30: | | | |
|--|--|------------|-----------------------|------------|
| | 2019 | | 2018 | |
| | Value | % of Total | Value | % of Total |
| Real, Residential, Single Family | \$ 147,555,042 | 61.91% | \$ 142,317,024 | 62.08% |
| Real Residential, Multi-Family | 4,685,442 | 1.97% | 4,735,571 | 2.07% |
| Real, Vacant Lots/Tracts | 6,514,160 | 2.73% | 6,381,370 | 2.78% |
| Real, Acreage (Land Only) | 1,377,390 | 0.58% | 1,474,360 | 0.64% |
| Real, Farm and Ranch Improvements | 928,940 | 0.39% | 876,040 | 0.38% |
| Real, Commercial and Industrial | 41,296,979 | 17.33% | 42,303,796 | 18.45% |
| Oil and Gas | - | 0.00% | - | 0.00% |
| Real, Tangible Personal, Utilities | 4,643,518 | 1.95% | 4,618,844 | 2.01% |
| Tangible Personal, Commercial and Industrial | 26,935,044 | 11.30% | 23,162,307 | 10.10% |
| Mobile Homes | 2,763,570 | 1.16% | 2,432,500 | 1.06% |
| Residential Inventory | 60,000 | 0.03% | 119,200 | 0.05% |
| Exempt Property | 937,449 | 0.39% | - | 0.00% |
| Special Inventory | 649,970 | 0.27% | 828,750 | 0.36% |
| Total Appraised Value Before Exemptions | \$ 238,347,504 | 100.00% | \$ 229,249,762 | 100.00% |
| Less: Total Exemptions/ Reductions | (13,215,969) | | (11,539,805) | |
| Taxable Assessed Value | <u>\$ 225,131,535</u> | | <u>\$ 217,709,957</u> | |

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

Table 3 - Valuation and Tax Supported Debt History

| Fiscal Year Ended 9/30 | Taxable Assessed Valuation | Percent Increase Over Prior Year | Tax Supported Debt at End of Year | Ratio of Direct Debt to Assessed Valuation |
|------------------------|----------------------------|----------------------------------|-----------------------------------|--|
| 2018 | \$ 217,709,957 | 4.16% | \$ 1,555,000 | 0.71% |
| 2019 | 225,131,535 | 3.41% | 1,372,000 | 0.61% |
| 2020 | 235,238,072 | 4.49% | 1,179,000 | 0.50% |
| 2021 | 249,039,268 | 5.87% | 4,730,000 | 1.90% |
| 2022 | 268,002,699 | 7.61% | 6,851,000 ⁽¹⁾ | 2.56% |

Source: City Records.

⁽¹⁾ Includes the Certificates. Preliminary, subject to change.

Table 4 - Tax Rate, Levy and Collection History

| Fiscal Year Ending 9/30 | General Fund | Interest and Sinking Fund | Total Tax Rate | Total Tax Levy | % Total Collections |
|-------------------------|--------------|---------------------------|----------------|----------------|---------------------|
| 2017 | \$ 0.1015 | \$ 0.1160 | \$ 0.2175 | \$ 453,663 | 98.86% |
| 2018 | 0.1143 | 0.1070 | 0.2213 | 482,157 | 98.97% |
| 2019 | 0.1291 | 0.1154 | 0.2445 | 551,477 | 99.59% |
| 2020 | 0.1568 | 0.1119 | 0.2687 | 620,595 | 99.25% |
| 2021 | 0.1604 | 0.1032 | 0.2636 | 656,468 | 99.16% |
| 2022 | 0.1597 | 0.0869 | 0.2466 | 660,895 | (under collection) |

Source: City Records.

Table 5 - Overlapping Debt Statement

| Taxing Body | Gross Debt | As of | Percent Overlapping | Amount Overlapping |
|--|----------------------|-------------------|---------------------|----------------------|
| Edna ISD | \$ 16,505,000 | 04/30/2022 | 38.00% | \$ 6,271,900 |
| Jackson County | - | 04/30/2022 | 10.93% | - |
| Total Overlapping Debt | \$ 16,505,000 | | | \$ 6,271,900 |
| City of Edna⁽¹⁾ | \$ 6,926,000 | 06/15/2022 | 100.00% | \$ 6,926,000 |
| Total Direct and Overlapping Debt | | | | \$ 13,197,900 |

Ratio of Direct and Overlapping Debt to 2021/22 Net Taxable Assessed Valuation 4.92%

Ratio of Direct and Overlapping Debt to 2021/22 Appraised Market Value 4.62%

Per Capita Direct and Overlapping Debt \$2,247

⁽¹⁾ Includes the Certificates. Preliminary, subject to change.

Table 6 - Ten Largest Taxpayers

| <u>Name of Taxpayer</u> | 2021/22 <u>Assessed Valuation</u> | Percent <u>of Total</u> |
|------------------------------|--------------------------------------|----------------------------|
| AEP Texas | \$ 4,011,660 | 1.50% |
| Clvr Acquisitions Ltd | 3,185,737 | 1.19% |
| Edna, the Post Oak LP | 2,651,762 | 0.99% |
| Bay City Hospitality Ltd | 2,291,200 | 0.85% |
| Alamo Lumber Company | 2,076,640 | 0.77% |
| HEB Grocery | 1,970,847 | 0.74% |
| 675 New Brunswick Avenue LLC | 1,904,330 | 0.71% |
| Colere Real Estate LLC | 1,796,480 | 0.67% |
| 1401 West Main Street LLC | 1,546,160 | 0.58% |
| Mercer Construction Company | <u>1,456,620</u> | <u>0.54%</u> |
| | \$ 22,891,436 | 8.54% |

Source: Jackson County Appraisal District.

Table 7 - Pro-Forma Outstanding General Obligation Debt Service Requirements

| Fiscal Year Ended | Current Outstanding Debt Service | The Certificates ⁽¹⁾ | | | Less: Self-Supporting Debt Service ⁽¹⁾ | Net Outstanding Debt Service |
|-------------------------|--|---------------------------------|---------------------|---------------------|---|------------------------------------|
| | | Principal | Interest | Total | | |
| | | | | | | |
| 2022 | \$ 403,664 | | | | \$ 170,390 | \$ 233,274 |
| 2023 | 483,286 | \$ 5,000 | \$ 131,333 | \$ 136,333 | 255,400 | 364,219 |
| 2024 | 487,222 | 5,000 | 119,750 | 124,750 | 255,900 | 356,072 |
| 2025 | 482,274 | 5,000 | 119,500 | 124,500 | 252,800 | 353,974 |
| 2026 | 364,443 | 30,000 | 119,250 | 149,250 | 254,700 | 258,993 |
| 2027 | 268,752 | 100,000 | 117,750 | 217,750 | 256,500 | 230,002 |
| 2028 | 269,316 | 105,000 | 112,750 | 217,750 | 256,550 | 230,516 |
| 2029 | 268,703 | 110,000 | 107,500 | 217,500 | 256,450 | 229,753 |
| 2030 | 256,200 | 115,000 | 102,000 | 217,000 | 256,200 | 217,000 |
| 2031 | 255,800 | 120,000 | 96,250 | 216,250 | 255,800 | 216,250 |
| 2032 | 255,250 | 130,000 | 90,250 | 220,250 | 255,250 | 220,250 |
| 2033 | 254,550 | 135,000 | 83,750 | 218,750 | 254,550 | 218,750 |
| 2034 | 253,700 | 140,000 | 77,000 | 217,000 | 253,700 | 217,000 |
| 2035 | 252,700 | 145,000 | 70,000 | 215,000 | 252,700 | 215,000 |
| 2036 | 256,550 | 155,000 | 62,750 | 217,750 | 256,550 | 217,750 |
| 2037 | 255,100 | 160,000 | 55,000 | 215,000 | 255,100 | 215,000 |
| 2038 | 253,500 | 170,000 | 47,000 | 217,000 | 253,500 | 217,000 |
| 2039 | 256,750 | 180,000 | 38,500 | 218,500 | 256,750 | 218,500 |
| 2040 | 254,700 | 190,000 | 29,500 | 219,500 | 254,700 | 219,500 |
| 2041 | 257,500 | 195,000 | 20,000 | 215,000 | 257,500 | 215,000 |
| 2042 | - | 205,000 | 10,250 | 215,250 | - | 215,250 |
| TOTAL | \$ 6,089,958 | \$ 2,400,000 | \$ 1,610,083 | \$ 4,010,083 | \$ 5,020,990 | \$ 5,079,052 |

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

Authorized but Unissued General Obligation Bonds: The City has no voter-authorized but unissued general obligation bonds.

Table 8 - Tax Adequacy for General Obligation Debt

| | |
|--|----------------|
| 2021/22 Taxable Assessed Valuation (less exemptions) | \$ 268,002,699 |
| Maximum Net Debt Service for the Fiscal Year Ending September 30, 2022 | \$ 364,219 |
| Indicated Interest and Sinking Fund Tax Rate | \$ 0.13728 |
| Indicated Interest and Sinking Fund Tax Levy | \$ 367,914 |
| Estimated 99% Tax Collections | \$ 364,235 |

Table 9 - General Fund Revenues and Expenditures

| | Fiscal Years Ended September 30: | | | | |
|--|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Revenues: | | | | | |
| Taxes | \$ 2,015,983 | \$ 1,885,922 | \$ 1,674,261 | \$ 1,683,860 | \$ 1,502,614 |
| Licenses and Permits | 11,683 | 11,195 | 11,980 | 11,468 | 12,098 |
| Intergovernmental | 351,008 | 17,913 | 47,854 | 147,839 | 15,267 |
| Charges for Services | 74,287 | 1,320,608 | 1,296,964 | 1,293,088 | 1,233,262 |
| Fines and Forfeitures | 93,699 | 93,872 | 112,531 | 103,684 | 93,767 |
| Investment Earnings | 3,398 | 3,562 | 3,681 | 1,124 | 2,806 |
| Miscellaneous | 60,498 | 31,396 | 11,351 | 40,863 | 117,505 |
| Total Revenues | <u>\$ 2,610,556</u> | <u>\$ 3,364,468</u> | <u>\$ 3,158,622</u> | <u>\$ 3,281,926</u> | <u>\$ 2,977,319</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General Government | \$ 734,778 | \$ 514,876 | \$ 552,852 | \$ 581,600 | \$ 510,185 |
| Public Safety | 1,162,787 | 1,026,597 | 1,053,333 | 1,086,351 | 1,093,632 |
| Public Works | 763,753 | 650,267 | 735,850 | 578,912 | 741,618 |
| Public Health | 1,179 | 1,132,410 | 1,076,389 | 1,009,020 | 973,564 |
| Culture and Recreation | 146,000 | 118,751 | 132,919 | 216,185 | 187,205 |
| Debt Service | 39,327 | - | - | - | - |
| Capital Outlay | - | - | - | - | - |
| Total Expenditures | <u>\$ 2,847,824</u> | <u>\$ 3,442,901</u> | <u>\$ 3,551,343</u> | <u>\$ 3,472,068</u> | <u>\$ 3,506,204</u> |
| Excess/(Deficiency) of Revenues Over Expenditures | \$ (237,268) | \$ (78,433) | \$ (392,721) | \$ (190,142) | \$ (528,885) |
| Other Financing Sources/Uses: | | | | | |
| Operating Transfers In | 354,394 | 345,400 | 290,117 | 231,416 | 464,404 |
| Operating Transfers Out | (1,300) | (1,300) | (1,308) | - | (20,000) |
| Total Other Financing Sources/Uses | \$ 353,094 | \$ 344,100 | \$ 288,809 | \$ 231,416 | \$ 444,404 |
| Beginning Fund Balance | 1,186,419 | 920,752 | 1,024,664 | 983,390 | 1,067,871 |
| Residual Equity Transfers In/(Out) | - | - | - | - | - |
| Ending Fund Balance - Sept. 30 | <u>\$ 1,302,245</u> | <u>\$ 1,186,419</u> | <u>\$ 920,752</u> | <u>\$ 1,024,664</u> | <u>\$ 983,390</u> |

Source: City's Audited Financial Statements for the Fiscal Years Ended September 30, 2017-2021.

Table 10 - Current Investments (as of September 30, 2021)

| <u>Investment Description</u> | <u>Total Invested</u> | <u>Percent</u> |
|-------------------------------|-----------------------|----------------|
| Certificates of Deposit | \$ 1,996,165 | 100.00% |
| Total | <u>\$ 1,996,165</u> | <u>100.00%</u> |

Source: City's Audited Financial Statements for the Fiscal Year Ended September 30, 2021.

Table 11 - Water and Sewer Fund Revenues and Expenditure History

| | Fiscal Years Ended September 30, | | | | |
|--|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| <u>Operating Revenues:</u> | | | | | |
| Charges for Services | \$ 2,155,181 | \$ 2,025,269 | \$ 1,950,519 | \$ 1,918,575 | \$ 1,821,520 |
| Miscellaneous | 93,915 | 115,357 | 115,082 | 114,575 | 101,389 |
| Total Revenues | <u>\$ 2,249,096</u> | <u>\$ 2,140,626</u> | <u>\$ 2,065,601</u> | <u>\$ 2,033,150</u> | <u>\$ 1,922,909</u> |
| <u>Operating Expenses:</u> | | | | | |
| Personnel | \$ 552,887 | \$ 534,893 | \$ 646,817 | \$ 681,548 | \$ 755,552 |
| Materials and Supplies | 85,245 | 68,028 | 80,609 | 79,881 | 78,350 |
| Repairs and Maintenance | 119,146 | 198,898 | 174,219 | 203,268 | 189,019 |
| Other Services and Charges | 403,279 | 326,978 | 368,142 | 437,787 | 446,619 |
| Depreciation | 527,716 | 518,461 | 502,722 | 515,627 | 520,347 |
| Total Expenditures | <u>\$ 1,688,273</u> | <u>\$ 1,647,258</u> | <u>\$ 1,772,509</u> | <u>\$ 1,918,111</u> | <u>\$ 1,989,887</u> |
| Excess/(Deficiency) of Revenues Over Expenditures | \$ 560,823 | \$ 493,368 | \$ 293,092 | \$ 115,039 | \$ (66,978) |
| Non-Operating Revenues | \$ 4,788 | \$ 171,378 | \$ 378,415 | \$ 108,219 | \$ 102,897 |
| Non-Operating Expenses | (4,222) | (6,216) | (8,137) | (46,320) | (14,350) |
| Total Other Sources (Uses) | \$ 566 | \$ 165,162 | \$ 370,278 | \$ 61,899 | \$ 88,547 |
| Operating Transfer In | \$ 626,555 | \$ - | \$ 50 | \$ - | \$ 20,000 |
| Operating Transfer Out | (354,272) | (345,400) | (255,617) | (131,416) | (354,563) |
| Beginning Fund Balance | 11,432,080 | 11,118,950 | 10,711,147 | 10,715,797 | 11,028,791 |
| Prior Period Adjustment | - | - | - | (50,172) | - |
| Ending Fund Balance | <u>\$ 12,265,752</u> | <u>\$ 11,432,080</u> | <u>\$ 11,118,950</u> | <u>\$ 10,711,147</u> | <u>\$ 10,715,797</u> |

Source: City's Comprehensive Annual Financial Report for Fiscal Years Ended September 30, 2017 - September 30, 2021.

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APPENDIX B

**GENERAL INFORMATION REGARDING
THE CITY OF EDNA AND JACKSON COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING THE CITY OF EDNA AND
JACKSON COUNTY, TEXAS**

General Description

The City of Edna is the county seat and the largest city in Jackson County. The City is the commercial center for agribusiness in the County and is located in southern Texas at the head of Lavaca and Carancahua Bays and is the center of the Gulf Coast side of a Houston-San Antonio-Corpus Christi triangle. The City is governed by a Mayor, elected at-large, and five Council Members elected by place. All are elected for two-year, staggered terms. The City Manager is responsible for the day-to-day administration of the City and reports to the City Council of the City.

Jackson County

Jackson County is a southern coastal plains county with an economy based on mineral production, manufacturing and agriculture. The Texas Almanac designates rice, corn, grain, sorghum, cotton, and beef cattle as principal sources of agricultural income.

Jackson County is located at the head of the Lavaca and Carancahua Bays in southern Texas and is the center of the Gulf Coast side of a Houston-San Antonio-Corpus Christi triangle. Jackson County is 90 miles southwest of Houston, 100 miles northeast of Corpus Christi and 130 miles southeast of Austin and San Antonio.

Labor Force Statistics

State of Texas

| | <u>2022^(a)</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|-----------------|---------------------------|-------------|-------------|-------------|-------------|
| Labor Force | 14,536,934 | 14,220,446 | 13,983,319 | 14,037,537 | 13,848,080 |
| Employed | 13,973,965 | 13,413,036 | 12,915,337 | 13,541,936 | 13,314,203 |
| Unemployed | 562,969 | 807,410 | 1,067,982 | 495,601 | 533,877 |
| Unemployed Rate | 3.9% | 5.7% | 7.6% | 3.5% | 3.9% |

Jackson County

| | <u>2022^(a)</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|-----------------|---------------------------|-------------|-------------|-------------|-------------|
| Labor Force | 7,221 | 6,752 | 7,329 | 7,529 | 7,365 |
| Employed | 6,982 | 7,108 | 6,907 | 7,304 | 7,123 |
| Unemployed | 239 | 356 | 422 | 225 | 242 |
| Unemployed Rate | 3.3% | 5.0% | 5.8% | 3.0% | 3.3% |

^(a) As of March 2022.

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APPENDIX C

EXCERPTS FROM THE CITY OF EDNA ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2021

The information contained in this Appendix consists of excerpts from the City of Edna, Texas 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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CITY OF EDNA, TEXAS

ANNUAL FINANCIAL REPORT

For the fiscal year ended September 30, 2021

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
of the City Council
City of Edna, 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 Edna, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization'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.

The Honorable Mayor and Members
of the City Council
City of Edna, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 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, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of changes in total OPEB liability and related ratios, and the schedules of employer contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual major and nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate 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 combining and individual major and nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The Honorable Mayor and Members
of the City Council
City of Edna, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Harrison, Waldrop & Uherek, LLP

HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

January 21, 2022

The discussion and analysis of the City of Edna's (the "City") financial performance provides an overview of the City's financial activities for the year ended September 30, 2021. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year ended September 30, 2021, by \$15,023,888. Of this amount, \$2,294,382 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors.
- At September 30, 2021, the City's governmental funds reported combined ending fund balances of \$1,766,963, an increase of \$144,317 in comparison with prior year.
- At September 30, 2021, unassigned fund balance for the General Fund was \$1,270,393 or 45% of total General Fund expenditures.
- During the year, the City's general revenues and transfers exceeded net expenses of the governmental activities by \$56,878. This represents a 2% increase in net position from the previous fiscal year as a result of operations.
- The City's outstanding debt for governmental and business-type activities (including net pension liability, OPEB liability, and compensated absences) had a net decrease of \$489,894 or 22% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Organization and Flow of Financial Section Information

Independent Auditors' Report

Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.
Pages 4 to 12

Government-wide Financial Statements

Provides information on governmental and business-type activities of the primary government.
Pages 13 to 15

Fund Financial Statements

Provides information on the financial position of specific funds of the primary government.
Pages 16 to 23

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.
Pages 24 to 47

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

The government-wide financial statements, which consist of the following two 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, deferred outflows, and liabilities, with the difference between the three 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.

The *statement of activities* presents information showing how the City's net position changed during fiscal year 2021. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected and earned, but unused vacation leave).

Both of these 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, public health, culture and recreation, and interest on long-term debt. The business-type activities of the City include water and sewer services. The government-wide financial statements can be found immediately following the Management's Discussion and Analysis.

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 two categories: governmental funds and proprietary 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 available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 financial 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.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining and individual statements and schedules following the required supplementary information.

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. Budgetary comparison schedules have been provided to demonstrate compliance.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

The City maintains one type of *proprietary fund* known as an enterprise fund which is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for the fiscal activities relating to water and sewer services.

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

The basic proprietary fund financial statements follow the governmental fund financial statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 24 through 47 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund, a schedule of changes in net pension liability and related ratios, a schedule of changes in OPEB liability and related ratios, and schedules of employer contributions. Required supplementary information can be found on pages 48 through 58 of this report.

The combining fund statements and schedules referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 59 through 75 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$15,023,888 at the close of the fiscal year ended September 30, 2021.

At the end of fiscal year 2021, the City is able to report positive balances in all three categories of net position for the government as a whole.

| City of Edna, Texas | | | | | | |
|---|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
| Net Position | | | | | | |
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| ASSETS | | | | | | |
| Current and other assets | \$ 2,697,891 | \$ 2,166,726 | \$ 2,098,981 | \$ 1,685,370 | \$ 4,796,872 | \$ 3,852,096 |
| Capital assets (net) | <u>2,453,535</u> | <u>2,686,764</u> | <u>10,821,632</u> | <u>10,508,269</u> | <u>13,275,167</u> | <u>13,195,033</u> |
| Total assets | <u>5,151,426</u> | <u>4,853,490</u> | <u>12,920,613</u> | <u>12,193,639</u> | <u>18,072,039</u> | <u>17,047,129</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| | <u>89,040</u> | <u>73,004</u> | <u>77,444</u> | <u>71,317</u> | <u>166,484</u> | <u>144,321</u> |
| LIABILITIES | | | | | | |
| Current and other liabilities | 994,004 | 315,212 | 429,738 | 418,153 | 1,423,742 | 733,365 |
| Noncurrent liabilities | <u>1,300,386</u> | <u>1,655,073</u> | <u>186,476</u> | <u>274,570</u> | <u>1,486,862</u> | <u>1,929,643</u> |
| Total liabilities | <u>2,294,390</u> | <u>1,970,285</u> | <u>616,214</u> | <u>692,723</u> | <u>2,910,604</u> | <u>2,663,008</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| | <u>187,940</u> | <u>254,951</u> | <u>116,091</u> | <u>140,153</u> | <u>304,031</u> | <u>395,104</u> |
| NET POSITION | | | | | | |
| Net investment in capital assets | 1,618,483 | 1,556,402 | 10,765,578 | 10,390,986 | 12,384,061 | 11,947,388 |
| Restricted | 345,445 | 320,613 | - | - | 345,445 | 320,613 |
| Unrestricted | <u>794,208</u> | <u>824,243</u> | <u>1,500,174</u> | <u>1,041,094</u> | <u>2,294,382</u> | <u>1,865,337</u> |
| Total net position | <u>\$ 2,758,136</u> | <u>\$ 2,701,258</u> | <u>\$ 12,265,752</u> | <u>\$ 11,432,080</u> | <u>\$ 15,023,888</u> | <u>\$ 14,133,338</u> |

The largest portion of the City's net position (82%) reflects its investment in capital assets (e.g., land, buildings, streets, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City has restricted net position of \$345,445 for debt service and special projects. The remaining balance of \$2,294,382 may be used to meet the City's ongoing obligations to citizens and creditors.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Edna, Texas

Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| REVENUES | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 178,693 | \$1,426,133 | \$ 2,249,096 | \$ 2,140,626 | \$ 2,427,789 | \$ 3,566,759 |
| Operating grants and contributions | 27,911 | 335,324 | - | - | 27,911 | 335,324 |
| Capital grants and contributions | 9,165 | 26,992 | 625,162 | 165,686 | 634,327 | 192,678 |
| General revenues: | | | | | | |
| Property taxes | 650,933 | 586,328 | - | - | 650,933 | 586,328 |
| Sales taxes | 1,378,828 | 1,314,074 | - | - | 1,378,828 | 1,314,074 |
| Franchise taxes | 231,429 | 212,937 | - | - | 231,429 | 212,937 |
| Other taxes | 78,598 | 74,783 | - | - | 78,598 | 74,783 |
| Unrestricted investment earnings | 4,514 | 4,106 | 4,788 | 1,860 | 9,302 | 5,966 |
| Miscellaneous | 70,965 | 17,814 | - | - | 70,965 | 17,814 |
| Total revenues | 2,631,036 | 3,998,491 | 2,879,046 | 2,308,172 | 5,510,082 | 6,306,663 |
| EXPENSES | | | | | | |
| General government | 734,267 | 556,234 | - | - | 734,267 | 556,234 |
| Public safety | 1,167,740 | 1,080,654 | - | - | 1,167,740 | 1,080,654 |
| Public works | 866,422 | 912,670 | - | - | 866,422 | 912,670 |
| Public health | 1,179 | 1,132,410 | - | - | 1,179 | 1,132,410 |
| Culture and recreation | 119,735 | 113,954 | - | - | 119,735 | 113,954 |
| Interest on long-term debt | 37,694 | 45,196 | - | - | 37,694 | 45,196 |
| Water and sewer | - | - | 1,692,495 | 1,653,474 | 1,692,495 | 1,653,474 |
| Total expenses | 2,927,037 | 3,841,118 | 1,692,495 | 1,653,474 | 4,619,532 | 5,494,592 |
| Change in net position before transfers | (296,001) | 157,373 | 1,186,551 | 654,698 | 890,550 | 812,071 |
| Transfers | 352,879 | 341,568 | (352,879) | (341,568) | - | - |
| Change in net position | 56,878 | 498,941 | 833,672 | 313,130 | 890,550 | 812,071 |
| Net position - October 1 | 2,701,258 | 2,202,317 | 11,432,080 | 11,118,950 | 14,133,338 | 13,321,267 |
| Net position - September 30 | \$ 2,758,136 | \$ 2,701,258 | \$ 12,265,752 | \$ 11,432,080 | \$ 15,023,888 | \$ 14,133,338 |

Governmental activities increased the City's net position by \$56,878. There was a net increase of \$833,672 in net position reported in connection with the City's business-type activities. Therefore, there was an overall \$890,550 increase in the net position of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Governmental Activities

The increase in the net position of the governmental activities was primarily due to an overall increase in tax revenues. The decline in charges for services as well as public health expenses was due to the City no longer billing for commercial solid waste collection in fiscal year 2021.

City of Edna, Texas
Expenses and Program Revenues - Governmental Activities

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>% of Total</u> | <u>Revenues</u> | <u>% of Total</u> | <u>Net (Expense) Revenue</u> |
|----------------------------|---------------------|-----------------------|-------------------|-----------------------|----------------------------------|
| General government | \$ 734,267 | 25.09% | \$ 135,029 | 62.58% | \$ (599,238) |
| Public safety | 1,167,740 | 39.89% | 51,528 | 23.88% | (1,116,212) |
| Public works | 866,422 | 29.60% | 20,047 | 9.29% | (846,375) |
| Public health | 1,179 | 0.04% | - | 0.00% | (1,179) |
| Culture and recreation | 119,735 | 4.09% | 9,165 | 4.25% | (110,570) |
| Interest on long-term debt | 37,694 | 1.29% | - | 0.00% | (37,694) |
| Total | \$ 2,927,037 | | \$ 215,769 | | \$ (2,711,268) |

City of Edna, Texas
Revenue by Source - Governmental Activities

| <u>Description</u> | <u>Revenues</u> | <u>% of Total</u> |
|------------------------------------|---------------------|-----------------------|
| Charges for services | \$ 178,693 | 5.98% |
| Operating grants and contributions | 27,911 | 0.94% |
| Capital grants and contributions | 9,165 | 0.31% |
| Property taxes | 650,933 | 21.81% |
| Sales taxes | 1,378,828 | 46.21% |
| Franchise taxes | 231,429 | 7.76% |
| Other taxes | 78,598 | 2.63% |
| Unrestricted investment earnings | 4,514 | 0.15% |
| Miscellaneous | 70,965 | 2.38% |
| Transfers | 352,879 | 11.83% |
| Total | \$ 2,983,915 | |

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Business-type Activities

Business-type activities increased the City's net position by \$833,672. The main reason for the increase is due to an increase in capital grants and contributions in the amount of \$459,476 relating to CDBG sewer improvements project. Also, there was an increase in charges for water and sewer services in the amount of \$108,471 as compared to the 2020 fiscal year as a result of an increase in billing rates.

City of Edna, Texas
Revenue by Source - Business-type Activities

| <u>Description</u> | <u>Revenues</u> | <u>% of Total</u> |
|----------------------------------|---------------------|-------------------|
| Charges for services | \$ 2,249,096 | 89.03% |
| Capital grants and contributions | 625,162 | 24.75% |
| Unrestricted investment earnings | 4,788 | 0.19% |
| Transfers | <u>(352,879)</u> | -13.97% |
| Total | <u>\$ 2,526,167</u> | |

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of fiscal year 2021, the City's governmental funds reported combined ending fund balances of \$1,766,963, an increase of \$144,317 in comparison with prior year. The net increase in fund balance was made up of an increase of \$115,826 in the General Fund, a \$18,750 increase in the Special Revenue Funds, a \$9,762 increase in the Debt Service Fund, and a decrease of \$21 in the Capital Project Funds.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2021, unassigned fund balance of the General Fund was \$1,270,393, while total fund balance was \$1,302,245. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 45% of the total General Fund expenditures, while total fund balance also represents 46% of that same amount.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS - (Continued)

Governmental Funds - (Continued)

The fund balance of the City's General Fund increased by \$115,826 during the current fiscal year. The anticipated decrease in fund balance was \$245,200, a positive difference of \$361,026. The key factor in this variance was Coronavirus relief funds received in the current fiscal year in the amount of \$324,940.

Proprietary Fund

The City's proprietary fund, the Water and Sewer Fund, provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at September 30, 2021, was \$1,500,174.

Factors concerning the finances of this fund have been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues earned were greater than budgetary expectations by \$612,551. The positive variance in actual revenues compared to the budget is primarily due to \$337,508 more in intergovernmental revenues and \$178,828 more in sales tax revenues. Actual expenditures were \$255,919 more than budget. This was greatly due to increased costs for police personnel and capital outlay, as well as increased costs for street and bridge maintenance.

Differences between the General Fund's original budget and final amended budget was a net increase of \$95,500 to expenditures and other financing uses, with no effect on revenues and other financing sources. A few of the changes are summarized as follows:

- \$20,000 increase in administration expenditures, largely due to an anticipated increase in professional services needed.
- \$75,500 increase in public works expenditures, primarily due to anticipated capital outlay projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2021, amounts to \$13,275,167 (net of accumulated depreciation). This investment in capital assets includes land, machinery and equipment, buildings, infrastructure, and water and sewer system. The total net increase in the City's investment in capital assets for the current fiscal year was 1% (a 9% decrease for governmental activities and a 3% increase for business-type activities). Major capital asset events during the current fiscal year included the following:

- The City purchased various equipment in fiscal year 2021.
- The City completed construction of the cowboy statue that was previously classified as construction in progress.
- The City made water and sewer line improvements in fiscal year 2021.

Additional information on the City's capital assets can be found in Note 6 of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)

Long-term Debt

At the end of fiscal year 2021, the City had total bonded debt outstanding of \$900,000 of which 100% is backed by the full faith and credit of the City. The City also had outstanding loans payable in the amount of \$85,000 and \$56,054 related to its governmental and business-type activities, respectively.

In addition, the City had \$55,544 in compensated absences, \$458,959 in net pension liability, and \$196,913 in OPEB liability as of September 30, 2021.

Additional information on the City's debt can be found in Note 10 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Net taxable value for tax year 2021 increased by \$19,132,171 or 7% to \$268,171,439.
- The City's overall tax rate for the 2021 tax year decreased from \$0.2636 to \$.2466 per \$100 of assessed valuation.
- The total minimum water and sewer utility rates for fiscal year 2022 were increased from fiscal year 2021. The water rate increased \$1.26 and the sewer rate increased \$1.22.
- The fiscal year 2022 budget calls for various capital outlay purchases.
- The City's General and Water and Sewer Funds' projected ending unassigned fund balance and unrestricted net position for fiscal year 2022 are to remain stable.

Requests for Information

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Office of the Finance Director, 126 West Main, Edna, Texas 77957.

Basic Financial Statements

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CITY OF EDNA, TEXAS
STATEMENT OF NET POSITION
September 30, 2021

| | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 2,066,058 | \$ 1,312,538 | \$ 3,378,596 |
| Receivables (net) | 197,579 | 523,911 | 721,490 |
| Due from other governments | 248,352 | 162,235 | 410,587 |
| Interfund balances | 154,050 | (154,050) | - |
| Inventory | 31,852 | 93,960 | 125,812 |
| Restricted assets - cash and cash equivalents | - | 160,387 | 160,387 |
| Total current assets | 2,697,891 | 2,098,981 | 4,796,872 |
| Noncurrent assets | | | |
| Capital assets | | | |
| Land and other assets not being depreciated | 333,103 | 835,808 | 1,168,911 |
| Buildings, infrastructure, and equipment (net) | 2,120,432 | 9,985,824 | 12,106,256 |
| Total noncurrent assets | 2,453,535 | 10,821,632 | 13,275,167 |
| Total assets | 5,151,426 | 12,920,613 | 18,072,039 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflow related to pension | 61,139 | 66,250 | 127,389 |
| Deferred outflow related to OPEB | 27,901 | 11,194 | 39,095 |
| Total deferred outflows of resources | 89,040 | 77,444 | 166,484 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 27,821 | 185,170 | 212,991 |
| Wages payable | 35,200 | 12,642 | 47,842 |
| Deposits | - | 169,753 | 169,753 |
| Due to other governments | 6,794 | 4,653 | 11,447 |
| Unearned revenue | 716,101 | - | 716,101 |
| Accrued compensated absences | 4,088 | 1,466 | 5,554 |
| Current portion of long-term obligations | 204,000 | 56,054 | 260,054 |
| Total current liabilities | 994,004 | 429,738 | 1,423,742 |
| Noncurrent liabilities | | | |
| Accrued compensated absences | 36,795 | 13,195 | 49,990 |
| Net pension liability | 337,702 | 121,257 | 458,959 |
| OPEB liability | 144,889 | 52,024 | 196,913 |
| Noncurrent portion of long-term obligations | 781,000 | - | 781,000 |
| Total noncurrent liabilities | 1,300,386 | 186,476 | 1,486,862 |
| Total liabilities | 2,294,390 | 616,214 | 2,910,604 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflow related to pension | 182,059 | 111,280 | 293,339 |
| Deferred inflow related to OPEB | 5,881 | 4,811 | 10,692 |
| Total deferred inflows of resources | 187,940 | 116,091 | 304,031 |
| NET POSITION | | | |
| Net investment in capital assets | 1,618,483 | 10,765,578 | 12,384,061 |
| Restricted for: | | | |
| Debt service | 68,482 | - | 68,482 |
| Arts and tourism | 266,971 | - | 266,971 |
| Public safety | 9,992 | - | 9,992 |
| Unrestricted | 794,208 | 1,500,174 | 2,294,382 |
| Total net position | \$ 2,758,136 | \$ 12,265,752 | \$ 15,023,888 |

The accompanying notes are an integral part of this statement.

CITY OF EDNA, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2021

| Function/Programs | Expenses | Program Revenues | | |
|--------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental activities | | | | |
| General government | \$ 734,267 | \$ 135,029 | \$ - | \$ - |
| Public safety | 1,167,740 | 33,617 | 17,911 | - |
| Public works | 866,422 | 10,047 | 10,000 | - |
| Public health | 1,179 | - | - | - |
| Culture and recreation | 119,735 | - | - | 9,165 |
| Interest on long-term debt | 37,694 | - | - | - |
| Total governmental activities | <u>2,927,037</u> | <u>178,693</u> | <u>27,911</u> | <u>9,165</u> |
| Business-type activities | | | | |
| Water and sewer | 1,692,495 | 2,249,096 | - | 625,162 |
| Total business-type activities | <u>1,692,495</u> | <u>2,249,096</u> | <u>-</u> | <u>625,162</u> |
| Total primary government | <u>\$ 4,619,532</u> | <u>\$ 2,427,789</u> | <u>\$ 27,911</u> | <u>\$ 634,327</u> |

General revenues:
Taxes:
 Property taxes, levied for general purposes
 Property taxes, levied for debt service
 Sales taxes
 Franchise taxes
 Other taxes
Unrestricted investment earnings
Miscellaneous
Transfers
Total general revenues and transfers
Change in net position
Net position - beginning
Net position - ending

The accompanying notes are an integral part of this statement.

| Net (Expense) Revenue and Changes in Net Position | | |
|--|---------------------------------|----------------------|
| Primary Government | | |
| Governmental Activities | Business- type Activities | Total |
| \$ (599,238) | \$ - | \$ (599,238) |
| (1,116,212) | - | (1,116,212) |
| (846,375) | - | (846,375) |
| (1,179) | - | (1,179) |
| (110,570) | - | (110,570) |
| (37,694) | - | (37,694) |
| <u>(2,711,268)</u> | <u>-</u> | <u>(2,711,268)</u> |
| - | 1,181,763 | 1,181,763 |
| - | 1,181,763 | 1,181,763 |
| <u>(2,711,268)</u> | <u>1,181,763</u> | <u>(1,529,505)</u> |
| 395,109 | - | 395,109 |
| 255,824 | - | 255,824 |
| 1,378,828 | - | 1,378,828 |
| 231,429 | - | 231,429 |
| 78,598 | - | 78,598 |
| 4,514 | 4,788 | 9,302 |
| 70,965 | - | 70,965 |
| 352,879 | (352,879) | - |
| <u>2,768,146</u> | <u>(348,091)</u> | <u>2,420,055</u> |
| 56,878 | 833,672 | 890,550 |
| <u>2,701,258</u> | <u>11,432,080</u> | <u>14,133,338</u> |
| <u>\$ 2,758,136</u> | <u>\$ 12,265,752</u> | <u>\$ 15,023,888</u> |

CITY OF EDNA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2021

| | <u>General</u> | <u>Debt Service</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-------------------------|---|---|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 1,706,290 | \$ 81,932 | \$ 277,836 | \$ 2,066,058 |
| Receivables (net) | 147,829 | 30,675 | 19,075 | 197,579 |
| Due from other governments | 247,477 | 875 | - | 248,352 |
| Due from other funds | 69,050 | - | 130,000 | 199,050 |
| Inventory | 31,852 | - | - | 31,852 |
| Total assets | <u>\$ 2,202,498</u> | <u>\$ 113,482</u> | <u>\$ 426,911</u> | <u>\$ 2,742,891</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 27,821 | \$ - | \$ - | \$ 27,821 |
| Wages payable | 35,200 | - | - | 35,200 |
| Due to other funds | - | 45,000 | - | 45,000 |
| Due to other governments | 6,794 | - | - | 6,794 |
| Unearned revenue | 716,101 | - | - | 716,101 |
| Total liabilities | <u>785,916</u> | <u>45,000</u> | <u>-</u> | <u>830,916</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue | 114,337 | 30,675 | - | 145,012 |
| Total deferred inflows | <u>114,337</u> | <u>30,675</u> | <u>-</u> | <u>145,012</u> |
| FUND BALANCES | | | | |
| Nonspendable | 31,852 | - | - | 31,852 |
| Restricted | - | 37,807 | 426,911 | 464,718 |
| Unassigned | 1,270,393 | - | - | 1,270,393 |
| Total fund balances | <u>1,302,245</u> | <u>37,807</u> | <u>426,911</u> | <u>1,766,963</u> |
| Total liabilities, deferred inflows and fund balances | <u>\$ 2,202,498</u> | <u>\$ 113,482</u> | <u>\$ 426,911</u> | <u>\$ 2,742,891</u> |

The accompanying notes are an integral part of this statement.

CITY OF EDNA, TEXAS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES**

September 30, 2021

| | | |
|---|---------------------|----------------------------|
| Total governmental fund balances | | \$ 1,766,963 |
| <i>Amounts reported for governmental activities in the statement of net position are different because:</i> | | |
| Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unavailable" in the funds. | | 67,709 |
| Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance. | | 77,303 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of: | | |
| Governmental capital assets costs | \$ 15,615,206 | |
| Accumulated depreciation of governmental capital assets | <u>(13,161,671)</u> | 2,453,535 |
| Deferred outflows of resources are not reported in the governmental funds: | | |
| Deferred amount on pensions | 61,139 | |
| Deferred amount on OPEB | <u>27,901</u> | 89,040 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | | |
| Certificates of obligation | (900,000) | |
| Loan payable | (85,000) | |
| Net pension liability | (337,702) | |
| OPEB liability | (144,889) | |
| Compensated absences | <u>(40,883)</u> | (1,508,474) |
| Deferred inflows of resources are not reported in the governmental funds: | | |
| Deferred amount on pensions | (182,059) | |
| Deferred amount on OPEB | <u>(5,881)</u> | <u>(187,940)</u> |
| Net position of governmental activities | | <u>\$ 2,758,136</u> |

The accompanying notes are an integral part of this statement.

CITY OF EDNA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended September 30, 2021

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | \$ 2,015,983 | \$ 261,986 | \$ 78,598 | \$ 2,356,567 |
| Licenses and permits | 11,683 | - | - | 11,683 |
| Intergovernmental | 351,008 | - | 1,843 | 352,851 |
| Charges for services | 74,287 | - | - | 74,287 |
| Fines and forfeitures | 93,699 | - | - | 93,699 |
| Investment income | 3,398 | 143 | 973 | 4,514 |
| Miscellaneous | 60,498 | - | 10,357 | 70,855 |
| Total revenues | <u>2,610,556</u> | <u>262,129</u> | <u>91,771</u> | <u>2,964,456</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 734,778 | - | 65,804 | 800,582 |
| Public safety | 1,162,787 | - | 7,023 | 1,169,810 |
| Public works | 763,753 | - | - | 763,753 |
| Public health | 1,179 | - | - | 1,179 |
| Culture and recreation | 146,000 | - | - | 146,000 |
| Debt service | | | | |
| Principal retirement | 39,327 | 214,673 | - | 254,000 |
| Interest and fiscal charges | - | 37,694 | - | 37,694 |
| Total expenditures | <u>2,847,824</u> | <u>252,367</u> | <u>72,827</u> | <u>3,173,018</u> |
| Excess (deficiency) of revenues over expenditures | (237,268) | 9,762 | 18,944 | (208,562) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 354,394 | - | 1,300 | 355,694 |
| Transfers out | (1,300) | - | (1,515) | (2,815) |
| Total other financing sources (uses) | <u>353,094</u> | <u>-</u> | <u>(215)</u> | <u>352,879</u> |
| Net change in fund balances | 115,826 | 9,762 | 18,729 | 144,317 |
| Fund balances at beginning of year | <u>1,186,419</u> | <u>28,045</u> | <u>408,182</u> | <u>1,622,646</u> |
| Fund balances at end of year | <u>\$ 1,302,245</u> | <u>\$ 37,807</u> | <u>\$ 426,911</u> | <u>\$ 1,766,963</u> |

The accompanying notes are an integral part of this statement.

CITY OF EDNA, TEXAS

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the year ended September 30, 2021*

| | | |
|---|------------------|-------------------------|
| Total net change in fund balances - governmental funds | | \$ 144,317 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | | |
| Increase in capital assets | \$ 159,253 | |
| Depreciation expense | <u>(392,482)</u> | (233,229) |
| Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of: | | |
| Certificates principal retirement | 185,000 | |
| Loan principal retirement | <u>110,331</u> | 295,331 |
| Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds. | | |
| Property taxes | (7,505) | |
| Other revenues | <u>(325,916)</u> | (333,421) |
| Some items 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. These activities consist of: | | |
| Net pension costs | 178,117 | |
| Net OPEB costs | (10,691) | |
| Decrease in compensated absences | <u>16,454</u> | <u>183,880</u> |
| Change in net position of governmental activities | | \$ <u>56,878</u> |

The accompanying notes are an integral part of this statement.

CITY OF EDNA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2021

| | <u>Business-type Activities</u> <u>Water and Sewer Fund</u> |
|--|--|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 1,312,538 |
| Receivables (net) | 523,911 |
| Due from other governments | 162,235 |
| Inventory | 93,960 |
| Restricted assets | |
| Cash and cash equivalents | 160,387 |
| Total current assets | <u>2,253,031</u> |
| Noncurrent assets | |
| Capital assets | |
| Land and other assets not being depreciated | 835,808 |
| Buildings, improvements, and equipment (net) | 9,985,824 |
| Total noncurrent assets | <u>10,821,632</u> |
| Total assets | <u>13,074,663</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflow related to pension | 66,250 |
| Deferred outflow related to OPEB | 11,194 |
| Total deferred outflows of resources | <u>77,444</u> |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | 185,170 |
| Wages payable | 12,642 |
| Deposits | 169,753 |
| Due to other funds | 154,050 |
| Due to other governments | 4,653 |
| Accrued compensated absences | 1,466 |
| Current portion of loans payable | 56,054 |
| Total current liabilities | <u>583,788</u> |
| Noncurrent liabilities | |
| Accrued compensated absences | 13,195 |
| Net pension liability | 121,257 |
| OPEB liability | 52,024 |
| Total noncurrent liabilities | <u>186,476</u> |
| Total liabilities | <u>770,264</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflow related to pension | 111,280 |
| Deferred inflow related to OPEB | 4,811 |
| Total deferred inflows of resources | <u>116,091</u> |
| NET POSITION | |
| Net investment in capital assets | 10,765,578 |
| Unrestricted net position | 1,500,174 |
| Total net position | <u>\$ 12,265,752</u> |

The accompanying notes are an integral part of this statement.

CITY OF EDNA, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION****PROPRIETARY FUND**

For the year ended September 30, 2021

| | <u>Business-type Activities</u> <u>Water and Sewer Fund</u> |
|---|--|
| OPERATING REVENUES | |
| Charges for services | \$ 2,155,181 |
| Miscellaneous | 93,915 |
| Total operating revenues | <u>2,249,096</u> |
| OPERATING EXPENSES | |
| Personnel | 552,887 |
| Materials and supplies | 85,245 |
| Repairs and maintenance | 119,146 |
| Other services and charges | 403,279 |
| Depreciation | 527,716 |
| Total operating expenses | <u>1,688,273</u> |
| Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers | 560,823 |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment income | 4,788 |
| Interest charges | (4,222) |
| Total nonoperating revenues (expenses) | <u>566</u> |
| Income before contributions and transfers | 561,389 |
| Contributions and transfers | |
| Capital grants and contributions | 625,162 |
| Transfers in | 1,393 |
| Transfers out | (354,272) |
| Total contributions and transfers | <u>272,283</u> |
| Change in net position | 833,672 |
| Total net position at beginning of year | <u>11,432,080</u> |
| Total net position at end of year | <u>\$ 12,265,752</u> |

The accompanying notes are an integral part of this statement.

CITY OF EDNA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended September 30, 2021

| | <u>Business-type Activities</u> |
|---|---------------------------------|
| | <u>Water and Sewer Fund</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 2,344,661 |
| Cash paid to suppliers for goods and services | (651,982) |
| Cash paid to employees for services | (614,524) |
| Net cash provided (used) by operating activities | <u>1,078,155</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfers in to other funds | 1,393 |
| Transfers (out) to other funds | (354,272) |
| Net cash provided (used) by noncapital financing activities | <u>(352,879)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Principal paid on capital debt | (61,229) |
| Interest paid on capital debt | (4,222) |
| Proceeds from capital grants and contributions | 508,423 |
| Acquisition and construction of capital assets | (841,079) |
| Net cash provided (used) by capital and related financing activities | <u>(398,107)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment income | 4,788 |
| Net cash provided (used) by investing activities | <u>4,788</u> |
| Net increase (decrease) in cash and cash equivalents | 331,957 |
| Cash and cash equivalents at beginning of year | <u>1,140,968</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,472,925</u> |

The accompanying notes are an integral part of this statement.

CITY OF EDNA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended September 30, 2021

| | <u>Business-type Activities</u> <u>Water and Sewer Fund</u> |
|---|--|
| RECONCILIATION OF OPERATING INCOME TO | |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Operating income (loss) | \$ 560,823 |
| Adjustments to reconcile operating income to net cash provided by operating activities | |
| Depreciation | 527,716 |
| Changes in assets and liabilities | |
| (Increase) decrease in accounts receivable | 76,293 |
| (Increase) decrease in inventory | (41,206) |
| (Increase) decrease in deferred outflow related to pension | (2,901) |
| (Increase) decrease in deferred outflow related to OPEB | (3,227) |
| Increase (decrease) in accounts payable | (352) |
| Increase (decrease) in wages payable | 1,054 |
| Increase (decrease) in deposits | 19,272 |
| Increase (decrease) in due to other governments | (2,754) |
| Increase (decrease) in compensated absences | (4,604) |
| Increase (decrease) in net pension liability | (35,541) |
| Increase (decrease) in OPEB liability | 7,644 |
| Increase (decrease) in deferred inflow related to pension | (24,009) |
| Increase (decrease) in deferred inflow related to OPEB | <u>(53)</u> |
| Total adjustments | <u>517,332</u> |
| Net cash provided (used) by operating activities | <u>\$ 1,078,155</u> |
| Reconciliation of cash and cash equivalents | |
| Unrestricted | |
| Cash and cash equivalents | \$ 1,312,538 |
| Restricted | |
| Cash and cash equivalents | <u>160,387</u> |
| Total | <u>\$ 1,472,925</u> |

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Edna, Texas (the "City") was incorporated in 1926 and adopted a Home Rule Charter in 1966. The City now operates under a council-manager form of government. The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the City Council for the administration of all the affairs of the City. The City Manager is responsible for law enforcement, appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The Mayor presides at meetings of the City Council. The City provides the following services: public safety to include police, fire, and emergency medical services, highways and streets, water and wastewater, sanitation, recreation, public improvements, planning, and general administration.

A. Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including legally separate organizations as component units within the City's reporting entity are set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). No legally separate organizations met the necessary criteria for inclusion as component units for the year ended September 30, 2021.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for general government debt principal and interest.

The City reports the following major proprietary funds:

The Water and Sewer Fund, an enterprise fund, accounts for the activities of the City related to its sewage treatment plant and water distribution system.

Enterprise funds are used to account for operations: 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Additionally, the City reports the following fund types:

The Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The Capital Project Funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets. Capital Project Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

The proprietary fund is accounted for on a flow of *economic resources measurement focus* and utilizes the *accrual basis of accounting*. This basis of accounting recognizes revenues 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. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets and Budgetary Accounting

Procedures in establishing budgetary data reflected in the financial statements are as follows:

1. Between 60 and 90 days prior to the beginning of the fiscal year, the City Manager submits a proposed operating budget to the City Council for the next fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. At least 15 days prior to the beginning of the fiscal year, the budget is legally adopted by the City Council.
3. Any revisions that alter the total departmental expenditures of any fund must be approved by the City Council. Therefore, the level of control (level at which expenditures may not exceed budget) is the departmental level.
4. Formal budgetary integration is employed as a management control device by expenditure category during the year for the General Fund, Debt Service Fund, and the Water and Sewer Fund.
5. Legally adopted annual budgets for the General and Debt Service Funds are prepared on a basis consistent with generally accepted accounting principles (GAAP) at the departmental level. An annual budget is also adopted for the Water and Sewer Fund on a non-GAAP budgetary basis.

E. 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.

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; 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; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid items in the fund financial statements as well as in the government-wide statements. Prepaid items are recorded when purchased rather than when consumed.

H. Inventories

Inventories of materials and supplies held by the General Fund and the Water and Sewer Fund are valued at cost (first-in, first-out). Estimated cost is used when actual cost figures are not available.

I. Restricted Assets

Certain assets of the City's Water and Sewer Fund are classified as restricted assets on the balance sheet because they are restricted for utility customer meter deposits.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. The City defines capital assets as assets with an initial, individual cost of more than \$500 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 acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings | 50-75 |
| Improvements other than buildings | 20-75 |
| Infrastructure | 20-75 |
| Machinery and equipment | 5-20 |

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Compensated Absences

All full-time regular employees accumulate vacation benefits beginning on the first day of employment but may not be taken during the first year of employment. Vacation is earned at the rate of 80 hours for the first year of employment with an additional eight hours credited to an employee upon the completion of each additional year of service. Unused vacation time can be accumulated up to a maximum of 168 hours unless approved by the City Manager. Employees are permitted to carry over a maximum of 48 hours into a new calendar year that begins on their original hire date. In the event of termination, an employee is reimbursed for all accumulated vacation days up to the maximum accrued time.

Sick leave benefits are earned by all full-time employees at a rate of 12 days per year and may be accumulated to a maximum of 720 hours. Sick leave will begin to accrue at the beginning of the first full month of employment. Payment for accumulated unused sick leave is not probable and the amount of future liability arising from the accumulation cannot be reasonably estimated; therefore, no liability is reported herein.

All compensated absence pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

L. Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet reports 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. The City has the following items that qualify for reporting in this category.

- Pension/OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Differences between actuarial assumptions used and actual experience for determination of pension or OPEB liability – These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Deferred Outflows/Inflows of Resources - (Continued)

In addition to liabilities, the statement of financial position and/or balance sheet 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. This year, the City has the following items that qualify for reporting in this category.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension or OPEB experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

N. Pensions and OPEB

For purposes of measuring the net pension liability, OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEBs, and pension and OPEB 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. Information regarding the City's pension and OPEB liability is obtained from TMRS through reports prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68 and No. 75.

O. Fund Equity

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The City did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2021. This Statement did not have an impact on the City's functions, financial position or results of operations.

For the classification of governmental fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

P. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Compliance

Budgetary compliance is monitored at the departmental level. There were six instances of expenditures exceeding the amount appropriated during the fiscal year 2020-2021.

| <u>Department</u> | <u>Budget</u> | <u>Actual</u> | <u>Negative Variance</u> |
|-------------------|---------------|---------------|------------------------------|
| General Fund | | | |
| City Council | \$ 37,325 | \$ 46,776 | \$ 9,451 |
| Administration | 462,986 | 493,448 | 30,462 |
| Tax Office | 20,078 | 23,020 | 2,942 |
| Police | 923,366 | 1,033,220 | 109,854 |
| Streets | 659,623 | 763,753 | 104,130 |
| Debt Service | - | 39,327 | 39,327 |

These over expenditures were funded by available fund balance in the respective fund.

NOTE 3: DEPOSITS AND INVESTMENTS

Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to less than two years from the time of purchase. However, the City may purchase investments with a longer maturity when it is determined that it can be held to maturity.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. As of September 30, 2021, and for the year then ended, the City was not exposed to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of September 30, 2021, and for the year then ended, the City was not exposed to concentration of credit risk.

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. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the City was not exposed to custodial credit risk.

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. During fiscal year 2021, the City purchased \$1,996,165 of certificates of deposit with TDECU, which are insured by the National Credit Union Association up to \$250,000. As of September 30, 2021, the value of the certificates of deposit held in excess of the limit was uninsured.

NOTE 4: RECEIVABLES

Receivables at September 30, 2021, consist of the following:

| | <u>General</u> | <u>Debt Service</u> | <u>Water and Sewer</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|-------------------------|-------------------|-------------------------|----------------------------|---------------------------|-------------------|
| Gross receivables: | | | | | |
| Ad valorem taxes | \$ 52,021 | \$ 44,021 | \$ - | \$ - | \$ 96,042 |
| Franchise taxes | 33,284 | - | - | - | 33,284 |
| Accounts | 74,939 | - | 708,380 | 19,075 | 802,394 |
| Fines | 773,028 | - | - | - | 773,028 |
| Other | 208 | - | - | - | 208 |
| Total gross receivables | 933,480 | 44,021 | 708,380 | 19,075 | 1,704,956 |
| Less: Allowances | <u>785,651</u> | <u>13,346</u> | <u>184,469</u> | <u>-</u> | <u>983,466</u> |
| Total net receivables | <u>\$ 147,829</u> | <u>\$ 30,675</u> | <u>\$ 523,911</u> | <u>\$ 19,075</u> | <u>\$ 721,490</u> |

The City's governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

| | <u>Unavailable</u> | <u>Unearned</u> | <u>Total</u> |
|-------------------|--------------------|-------------------|-------------------|
| General Fund | | | |
| Ad valorem taxes | \$ 37,034 | \$ - | \$ 37,034 |
| Fines | 77,303 | - | 77,303 |
| Grants | - | 716,101 | 716,101 |
| Debt Service Fund | | | |
| Ad valorem taxes | <u>30,675</u> | <u>-</u> | <u>30,675</u> |
| | <u>\$ 145,012</u> | <u>\$ 716,101</u> | <u>\$ 861,113</u> |

The City's property taxes are levied annually on October 1st on the basis of the Appraisal District's assessed values as of January 1st of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. Taxes are levied on October 1st and payable by the following January 31st, which comprise the collection dates for the current tax roll. The Jackson County Tax Assessor and Collector bills, collects, and remits all ad valorem taxes.

Property taxes are prorated between operations and debt service based on rates adopted for the year of the levy. For the current year, the City levied property taxes of \$0.2636 per \$100 of assessed valuation, which were prorated between operations and debt service in the amounts of \$0.1604 and \$0.1032, respectively. The resulting adjusted total tax levy was \$655,885 on the total adjusted taxable valuation of \$249,015,268 for the 2020 tax year.

NOTE 5: DUE FROM OTHER GOVERNMENTS

The City reported amounts due from other governments as of the end of the current fiscal year. These amounts are comprised of the following at September 30, 2021:

| | <u>General</u> | <u>Debt Service</u> | <u>Water and Sewer</u> | <u>Total</u> |
|----------------|-------------------|-------------------------|----------------------------|-------------------|
| Property taxes | \$ 1,304 | \$ 875 | \$ - | \$ 2,179 |
| Sales taxes | 246,173 | - | - | 246,173 |
| Grants | - | - | 162,235 | 162,235 |
| | <u>\$ 247,477</u> | <u>\$ 875</u> | <u>\$ 162,235</u> | <u>\$ 410,587</u> |

NOTE 6: CAPITAL ASSETS

The City's capital asset activity for the year ended September 30, 2021, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 285,103 | \$ - | \$ - | \$ 285,103 |
| Construction in progress | 36,666 | 48,000 | 36,666 | 48,000 |
| Total capital assets not being depreciated | <u>321,769</u> | <u>48,000</u> | <u>36,666</u> | <u>333,103</u> |
| Capital assets, being depreciated | | | | |
| Machinery and equipment | 1,937,039 | 14,174 | 179,298 | 1,771,915 |
| Buildings and improvements | 2,788,474 | 98,255 | - | 2,886,729 |
| Infrastructure | 10,587,969 | 35,490 | - | 10,623,459 |
| Total capital assets being depreciated | <u>15,313,482</u> | <u>147,919</u> | <u>179,298</u> | <u>15,282,103</u> |
| Less accumulated depreciation for | | | | |
| Machinery and equipment | 1,650,785 | 76,512 | 179,298 | 1,547,999 |
| Buildings and improvements | 1,776,108 | 59,165 | - | 1,835,273 |
| Infrastructure | 9,521,594 | 256,805 | - | 9,778,399 |
| Total accumulated depreciation | <u>12,948,487</u> | <u>392,482</u> | <u>179,298</u> | <u>13,161,671</u> |
| Total capital assets being depreciated, net | <u>2,364,995</u> | <u>(244,563)</u> | <u>-</u> | <u>2,120,432</u> |
| Governmental activities capital assets, net | <u>\$ 2,686,764</u> | <u>\$ (196,563)</u> | <u>\$ 36,666</u> | <u>\$ 2,453,535</u> |

NOTE 6: CAPITAL ASSETS - (Continued)

Business-type activities

Capital assets, not being depreciated

| | | | | |
|--|----------------|----------------|----------|----------------|
| Land | \$ 19,183 | \$ - | \$ - | \$ 19,183 |
| Construction in progress | 116,712 | 699,913 | - | 816,625 |
| Total capital assets not being depreciated | <u>135,895</u> | <u>699,913</u> | <u>-</u> | <u>835,808</u> |

Capital assets, being depreciated

| | | | | |
|--|-------------------|----------------|----------|-------------------|
| Machinery and equipment | 825,558 | 68,352 | - | 893,910 |
| Buildings and improvements | 42,053 | - | - | 42,053 |
| Infrastructure | 20,109,663 | 72,814 | - | 20,182,477 |
| Total capital assets being depreciated | <u>20,977,274</u> | <u>141,166</u> | <u>-</u> | <u>21,118,440</u> |

Less accumulated depreciation for

| | | | | |
|--------------------------------|-------------------|----------------|----------|-------------------|
| Machinery and equipment | 603,152 | 42,061 | - | 645,213 |
| Buildings and improvements | 29,124 | 5,472 | - | 34,596 |
| Infrastructure | 9,972,624 | 480,183 | - | 10,452,807 |
| Total accumulated depreciation | <u>10,604,900</u> | <u>527,716</u> | <u>-</u> | <u>11,132,616</u> |

Total capital assets being depreciated, net 10,372,374 (386,550) - 9,985,824

Business-type activities capital assets, net \$10,508,269 \$ 313,363 \$ - \$10,821,632

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

Governmental activities

| | |
|--|-------------------|
| General government | \$ 27,473 |
| Public safety | 98,120 |
| Public works | 231,565 |
| Culture and recreation | <u>35,324</u> |
| Total depreciation expense - governmental activities | <u>\$ 392,482</u> |

Business-type activities

| | |
|---|-------------------|
| Water and sewer | <u>\$ 527,716</u> |
| Total depreciation expense - business-type activities | <u>\$ 527,716</u> |

NOTE 7: DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 895 plans in the defined benefit cash-balance plan administered by the TMRS. TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of the TMRS with a six-member, Governor appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (Annual report) that can be obtained at www.tmr.com.

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

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

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 member's benefit is calculated as if the sum of the member's contributions, with interest, and the City-financed monetary credits with interest. The retiring member may select one of seven monthly benefit payment options. 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 lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total member contributions 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 of the City for plan year 2020 were as follows:

| | |
|---|---|
| Employee deposit rate | 5.0% |
| Matching ratio (City to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/20 |
| Updated service credit | Last adopted 2008 – Auto Readoption – 100% - Transfers |
| COLA (for retirees) | Last adopted 2008 – Auto Readoption – 70% |
| Military service credit | Yes, adopted 10-1989 |
| Restricted prior service credit | Yes, adopted 1-1999 |
| Buy back last adopted | 11-1992 |

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

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 32 |
| Inactive employees entitled to but not yet receiving benefits | 35 |
| Active employees | <u>31</u> |
| | <u>98</u> |

Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the member's total compensation, 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 City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 5.00% of their annual compensation during the fiscal year. The contribution rates for the City were 10.67% and 10.84% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2021 were \$176,667, and were equal to the required contributions.

Net Pension Liability

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

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability - (Continued)

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, adjusted down for population declines, if any |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members 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 are 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 through 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 Rate (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability - (Continued)***Actuarial Assumptions - (Continued)*

The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2021 are summarized in the following table:

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

Discount Rate

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

| | Increase (Decrease) | | |
|---|--------------------------------|------------------------------------|------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability</u> |
| | (a) | (b) | (a) - (b) |
| Balance at 12/31/2019 | \$ 8,858,824 | \$ 8,260,131 | \$ 598,693 |
| Changes for the year: | | | |
| Service cost | 178,114 | - | 178,114 |
| Interest | 592,131 | - | 592,131 |
| Changes of benefit terms | (10,278) | - | (10,278) |
| Difference between expected and actual experience | (31,935) | - | (31,935) |
| Change of assumptions | - | - | - |
| Contributions - Employer | - | 166,709 | (166,709) |
| Contributions - Employee | - | 78,120 | (78,120) |
| Net investment income | - | 627,153 | (627,153) |
| Benefit payments, including refunds of employee contributions | (330,594) | (330,594) | - |
| Administrative expense | - | (4,057) | 4,057 |
| Other changes | - | (159) | 159 |
| Net changes | <u>397,438</u> | <u>537,172</u> | <u>(139,734)</u> |
| Balance at 12/31/2020 | <u>\$ 9,256,262</u> | <u>\$ 8,797,303</u> | <u>\$ 458,959</u> |

NOTE 6: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability - (Continued)

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

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

| | 1.0% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1.0% Increase in Discount Rate (7.75%) |
|-------------------------------|---|-----------------------|---|
| City's Net Pension Liability: | \$1,738,111 | \$458,959 | \$(583,294) |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

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 (income) of \$(63,903).

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 53,631 |
| Changes in actuarial assumptions | - | 4,773 |
| Difference between projected and actual investment earnings | - | 234,935 |
| Contributions subsequent to the measurement date | 127,389 | - |
| Total | \$ 127,389 | \$ 293,339 |

\$127,389 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | Pension Expense Amount |
|-------------------------|------------------------|
| 2021 | \$ (139,770) |
| 2022 | (327) |
| 2023 | (139,321) |
| 2024 | (13,921) |
| 2025 | - |
| Thereafter | - |
| Total | \$ (293,339) |

NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB)

Plan Description and Benefits Provided

TMRS administers an optional death benefit plan known as the Supplemental Death Benefits Fund (SDBF), which operates like a group-term life insurance plan. This voluntary program allows participating cities to provide supplemental death benefits for their active members, with optional coverage for their retirees. A City may terminate coverage in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF had 777 participating cities on December 31, 2020.

Benefits payable from SDBF become due after the death of a covered active member or retiree and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active members provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the member's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Membership

At the December 31, 2020 valuation and measurement date, the following is the number of members in the plan:

| | |
|---|-----------|
| Inactive employees currently receiving benefits | 23 |
| Inactive employees entitled to but not yet receiving benefits | 9 |
| Active employees | <u>31</u> |
| Total | <u>63</u> |

Contributions

Contributions to the SDBF are made monthly based on the payroll of covered members of the cities participating in the SDBF. The required contribution rate is actuarially determined annually for each City participating in the SDBF. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the City's contribution rate and the calendar year when the rate goes into effect. 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 retired term life insurance during employees' entire careers. Therefore, there are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The SDBF is considered an unfunded OPEB plan and benefit payments made by the City are treated as being equal to the City's yearly contribution for retirees.

The City's contribution rates for the program are as follows:

| Plan/Calendar Year | Total SDB Contribution (Rate) | Retiree Portion of SDB Contribution (Rate) |
|--------------------|-------------------------------|--|
| 2017 | 0.22% | 0.06% |
| 2018 | 0.25% | 0.08% |
| 2019 | 0.27% | 0.08% |
| 2020 | 0.29% | 0.08% |
| 2021 | 0.41% | 0.26% |

NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)

Total OPEB Liability

The City's total OPEB liability and the OPEB expense is recognized on the City's financial statements. The OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability.

Actuarial Assumptions

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

| | |
|--|--|
| Inflation | 2.5% |
| Salary increases | 3.5% to 11.5 % including inflation |
| 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 |
| Mortality rates-service retirees | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| Mortality rates-disabled retirees | 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

Changes in Total OPEB Liability

The following details the changes in the Total OPEB liability:

| | |
|---|--------------------------|
| Balance at 12/31/19 | \$ 169,455 |
| Changes for the year: | |
| Service cost | 3,906 |
| Interest | 4,697 |
| Change of benefit terms | - |
| Difference between expected and actual experience | (5,142) |
| Change of assumptions | 25,247 |
| Benefit payments | <u>(1,250)</u> |
| Net changes | <u>27,458</u> |
| Balance at 12/31/20 | <u>\$ 196,913</u> |

NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)

Total OPEB Liability - (Continued)

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 2.00%, 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 (1.00%) or 1-percentage-point higher (3.00%) than the current rate:

| | 1.0% Decrease in Discount Rate (1.00%) | Discount Rate (2.00%) | 1.0% Increase in Discount Rate (3.00%) |
|------------------------------|---|-----------------------|---|
| City's Total OPEB Liability: | \$239,855 | \$196,913 | \$164,365 |

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 \$18,500.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 7,147 |
| Changes in actuarial assumptions | 36,023 | 3,545 |
| Contributions subsequent to the measurement date | 3,072 | - |
| Total | \$ 39,095 | \$ 10,692 |

Deferred outflows and inflows of resources to be recognized in future OPEB expense (excluding City contributions subsequent to the measurement date) are as follows:

| Year ended December 31: | OPEB Expense Amount |
|-------------------------|---------------------|
| 2021 | \$ 9,178 |
| 2022 | 8,561 |
| 2023 | 7,591 |
| 2024 | - |
| 2025 | - |
| Thereafter | - |
| Total | \$ 25,330 |

NOTE 8: RISK MANAGEMENT

The City is exposed to various risks of loss encompassed in the areas of general liabilities and workers compensation claims. The City has purchased commercial insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool coverage. Through the payment of contributions to the Texas Municipal League Intergovernmental Risk Pool, the City has transferred these risks to the pool. The City has not retained any risks other than the deductibles and is covered up to the limits of coverage after the deductible. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The City has also entered into an interlocal agreement with the Texas Municipal League Intergovernmental Employees Benefit Pool for health benefits coverage for its employees. The City pays the premiums for full-time employees. Dependent coverage is available at additional premiums paid by the employee.

NOTE 9: LONG-TERM DEBT**A. Changes In Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2021, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Governmental activities | | | | | |
| Certificates payable | | | | | |
| Certificates of obligation | \$ 1,085,000 | \$ - | \$ 185,000 | \$ 900,000 | \$ 195,000 |
| Total certificates payable | <u>1,085,000</u> | <u>-</u> | <u>185,000</u> | <u>900,000</u> | <u>195,000</u> |
| Loans payable | 195,331 | - | 110,331 | 85,000 | 9,000 |
| Net pension liability | 441,895 | - | 104,193 | 337,702 | - |
| OPEB liability | 125,075 | 19,814 | - | 144,889 | - |
| Compensated absences | <u>57,337</u> | <u>72,646</u> | <u>89,100</u> | <u>40,883</u> | <u>4,088</u> |
| Total governmental activity long-term liabilities | <u>\$ 1,904,638</u> | <u>\$ 92,460</u> | <u>\$ 488,624</u> | <u>\$ 1,508,474</u> | <u>\$ 208,088</u> |
| Business-type activities | | | | | |
| Loans payable | \$ 117,283 | \$ - | \$ 61,229 | \$ 56,054 | \$ 56,054 |
| Net pension liability | 156,798 | - | 35,541 | 121,257 | - |
| OPEB liability | 44,380 | 7,644 | - | 52,024 | - |
| Compensated absences | <u>19,265</u> | <u>18,077</u> | <u>22,681</u> | <u>14,661</u> | <u>1,466</u> |
| Total business-type activity long-term liabilities | <u>\$ 337,726</u> | <u>\$ 25,721</u> | <u>\$ 119,451</u> | <u>\$ 243,996</u> | <u>\$ 57,520</u> |

The debt agreements contain certain requirements regarding the establishment and funding of an interest and sinking fund. The City complied in all aspects as of September 30, 2021.

Compensated absences are generally liquidated by the General Fund for the governmental activities and by the Water and Sewer Fund for the business-type activities.

NOTE 10: LONG-TERM DEBT - (Continued)

B. Combination Tax and Revenue Certificates of Obligation

The City also issues combination tax and revenue certificates of obligation (C.O.'s) to provide funds for the acquisition and construction of major capital facilities payable from the proceeds of an annual ad valorem tax and further payable from a junior and subordinate pledge of the net revenues of the City's water and sewer system. C.O.'s currently outstanding are as follows:

| | <u>Term</u> | <u>Interest Rate</u> | <u>Original Amount</u> |
|-------------|-------------|----------------------|------------------------|
| Series 2006 | 3/07 - 3/26 | 4.26% | \$ 1,000,000 |
| Series 2015 | 9/16 - 9/25 | 2.24% | 1,100,000 |

Annual debt service requirements to maturity for C.O.'s are as follows:

| <u>Year</u> | <u>Governmental Activities</u> | | |
|-------------|--------------------------------|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2022 | \$ 195,000 | \$ 25,854 | \$ 220,854 |
| 2023 | 195,000 | 19,870 | 214,870 |
| 2024 | 205,000 | 13,724 | 218,724 |
| 2025 | 210,000 | 7,308 | 217,308 |
| 2026 | 95,000 | 2,024 | 97,024 |
| | <u>\$ 900,000</u> | <u>\$ 68,780</u> | <u>\$ 968,780</u> |

C. Loans Payable

The City has a loan outstanding from the United States Department of Agriculture Rural Development (USDA) entered into in October 2009 to purchase a fire truck. In fiscal year 2021, the City paid off multiple loans that related to purchase of police vehicles and a backhoe, as well as various City capital improvements.

Loans payable currently outstanding are as follows:

| | <u>Term</u> | <u>Interest Rate</u> | <u>Original Amount</u> |
|------|--------------|----------------------|------------------------|
| USDA | 10/09 - 3/29 | 4.250% | \$ 170,000 |

NOTE 10: LONG-TERM DEBT - (Continued)

C. Loans Payable - (Continued)

Annual debt service requirements to maturity for the loan payable are as follows:

| <u>Year</u> | <u>Governmental Activities</u> | | |
|-------------|--------------------------------|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2022 | \$ 9,000 | \$ 3,421 | \$ 12,421 |
| 2023 | 10,000 | 3,018 | 13,018 |
| 2024 | 10,000 | 2,593 | 12,593 |
| 2025 | 10,000 | 2,168 | 12,168 |
| 2026 | 11,000 | 1,721 | 12,721 |
| 2027-2029 | <u>35,000</u> | <u>2,273</u> | <u>37,273</u> |
| | <u>\$ 85,000</u> | <u>\$ 15,194</u> | <u>\$ 100,194</u> |

The City also has the following loan outstanding for the financing of various water and sewer projects and/or equipment at September 30, 2021:

| | <u>Term</u> | <u>Interest Rate</u> | <u>Original Amount</u> |
|---------------------|-------------|----------------------|------------------------|
| Govt. Capital Corp. | 8/12 - 8/22 | 3.837% | \$ 475,953 |

Annual debt service requirements to maturity for the loan are as follows:

| <u>Year</u> | <u>Business-type Activities</u> | | |
|-------------|---------------------------------|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2022 | <u>\$ 56,054</u> | <u>\$ 2,151</u> | <u>\$ 58,205</u> |
| | <u>\$ 56,054</u> | <u>\$ 2,151</u> | <u>\$ 58,205</u> |

NOTE 10: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. The balances at year-end relate to tax collections deposited in the Debt Service Fund that were owed to the General Fund, as well as expenditures incurred by funds on behalf of other funds. Interfund receivable and payable balances as of September 30, 2021, were as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|-------------------|
| General | Debt Service | \$ 45,000 |
| | Water and Sewer | 24,050 |
| Nonmajor Funds | Water and Sewer | 130,000 |
| | | <u>\$ 199,050</u> |

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these is the planned transfers from the City's Water and Sewer Fund to the General Fund. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the General Fund. During the current fiscal year, transfers between funds consisted of the following:

| <u>Transfers Out</u> | <u>Transfers In</u> | | | <u>Total</u> |
|----------------------|---------------------|------------------------|-----------------------|-------------------|
| | <u>General</u> | <u>Water and Sewer</u> | <u>Nonmajor Funds</u> | |
| General | \$ - | \$ - | \$ 1,300 | \$ 1,300 |
| Water and Sewer | 354,272 | - | - | 354,272 |
| Nonmajor Funds | 122 | 1,393 | - | 1,515 |
| | <u>\$ 354,394</u> | <u>\$ 1,393</u> | <u>\$ 1,300</u> | <u>\$ 357,087</u> |

NOTE 11: COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in numerous state and federal 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 has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2021, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 12: FUND BALANCES

The following is a detail of the governmental fund balances as of September 30, 2021:

| | Governmental Fund Balances | | | Total |
|------------------------------|----------------------------|-------------------|---------------------|---------------------|
| | <u>Nonspendable</u> | <u>Restricted</u> | <u>Unassigned</u> | |
| General | | | | |
| Inventory | \$ 31,852 | \$ - | \$ - | \$ 31,852 |
| Unassigned | - | - | 1,270,393 | 1,270,393 |
| Debt service | | | | |
| Retirement of long-term debt | - | 37,807 | - | 37,807 |
| Nonmajor governmental | | | | |
| Arts and tourism | - | 266,971 | - | 266,971 |
| Public safety | - | 9,992 | - | 9,992 |
| Various capital projects | - | 149,948 | - | 149,948 |
| | <u>\$ 31,852</u> | <u>\$ 464,718</u> | <u>\$ 1,270,393</u> | <u>\$ 1,766,963</u> |

NOTE 13: SUBSEQUENT EVENT

On October 26, 2021, the City issued combination tax and revenue certificates of obligation (C.O.s) in the amount of \$3,745,000 to provide funds for the water wastewater and street project. The C.O.s will be payable from ad valorem taxes and a pledge of certain surplus revenues of the City's municipal waterworks and sewer system. The C.O.s will bear an interest rate of 3.0% and will mature on September 15, 2041.

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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.]

August __, 2022

CITY OF EDNA, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022
DATED AS OF JUNE 1, 2022
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$_____

AS BOND COUNSEL FOR THE CITY OF EDNA, TEXAS (the "**City**") in connection with the issuance of the certificates of obligation described above (the "**Certificates**"), we have examined into the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates until maturity or prior redemption at the rates and payable on the dates as stated in the text of the Certificates, and which are subject to redemption, all in accordance with the terms and conditions stated in the text of the Certificates. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the City authorizing the issuance and sale of the Certificates (the "**Ordinance**").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Certificates including (i) the Ordinance, (ii) one of the executed Certificates (Certificate No. T-1), and (iii) the City's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been authorized, issued and delivered in accordance with law; that the Certificates constitute valid and legally binding general obligations of the City in accordance with their terms except as the enforceability thereof may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion; that the City has the legal authority to issue the Certificates and to repay the Certificates; that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Certificates, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the City, and have been pledged for such payment, within the limits prescribed by law; and that "**Surplus Revenues**" (as such term is defined and described in the Ordinance) received by the City from the ownership and operation



of the City's waterworks and sewer system have been pledged to further secure the payment of the Certificates in the manner set forth 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 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. In expressing the aforementioned opinions, we have relied on certain representations of the City, the accuracy of which we have not independently verified, and have assumed compliance by the City 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, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further given, and are based on our knowledge of facts, as of the date hereof. We assume no duty or obligation to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter 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.

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. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Certificates, and we 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 we have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

Respectfully,

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Capital
Markets