

OFFICIAL STATEMENT
August 22, 2022

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Certificates (defined below) with certain covenants contained in the Ordinance (defined below) and subject to the matters described under "TAX MATTERS" herein, interest on the Certificates under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code, as amended to the date of initial delivery of the Certificates and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. (See "TAX MATTERS" herein.)

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

\$4,930,000

CITY OF WATAUGA, TEXAS

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

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

Dated Date: August 15, 2022

Due: February 1, as shown on inside cover

The \$4,930,000 City of Watauga, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City of Watauga, Texas (the "City" or the "Issuer") on August 22, 2022, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "AD VALOREM PROPERTY TAXATION" herein.)

Interest on the Certificates will accrue from August 15, 2022 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2023, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent Registrar to 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 for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and traffic safety signalization and signage incidental thereto; (2) designing, constructing, renovating, improving, and equipping the City's parks and recreational facilities, including playground equipment; (3) constructing, acquiring, purchasing, renovating, enlarging, and improving the City's public works facilities, including a building for City vehicles; (4) the purchase of materials, supplies, equipment, digital signage, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (5) the purchase of fleet vehicles, technology improvements, HVAC improvements, public safety equipment, and a motorcycle; and (6) paying for the costs of issuance of the Certificates. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE CERTIFICATES

The Certificates are offered for delivery, when, as and if issued and received by Stifel, Nicolaus & Co., Inc. the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" as "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about September 21, 2022.

\$4,930,000
CITY OF WATAUGA, TEXAS
(A political subdivision of the State of Texas located in Tarrant County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022

MATURITY SCHEDULE
(Due February 1)

CUSIP Prefix No. 941097⁽¹⁾

\$3,105,000 Serial Certificates

<u>Maturity</u> <u>2/1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No. Suffix</u> ⁽¹⁾
2023	\$ 1,175,000	4.000	2.250	UX3
2024	295,000	4.000	2.300	UY1
2025	310,000	4.000	2.350	UZ8
2026	320,000	4.000	2.350	VA2
2027	330,000	4.000	2.400	VB0
2028	125,000	4.000	2.500	VC8
2029	130,000	4.000	2.600	VD6
2030	135,000	4.000	2.700	VE4
2031	140,000	4.000	2.800	VF1
2032	145,000	4.000	2.900	VG9

\$1,825,000 Term Certificates

\$310,000 4.000% Term Certificates due February 1, 2034 and priced to yield 3.100% ⁽²⁾ 941097VJ3
\$335,000 4.000% Term Certificates due February 1, 2036 and priced to yield 3.300% ⁽²⁾ 941097VL8
\$365,000 4.000% Term Certificates due February 1, 2038 and priced to yield 3.400% ⁽²⁾ 941097VN4
\$395,000 4.000% Term Certificates due February 1, 2040 and priced to yield 3.500% ⁽²⁾ 941097VQ7
\$420,000 4.000% Term Certificates due February 1, 2042 and priced to yield 3.600% ⁽²⁾ 941097VS3

(Interest to accrue from Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2032, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2031, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. Additionally, the Certificates stated to mature on February 1, 2034, February 1, 2036, February 1, 2038, February 1, 2040, and February 1, 2042 will also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

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

⁽²⁾ Yield calculated is based on the assumption that the Certificates denoted and sold at premium will be redeemed on February 1, 2031, the first optional call date for the Certificates, at a redemption price of par plus accrued interest to the date of redemption.

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CITY OF WATAUGA, TEXAS
7105 Whitley Road
Watauga, Texas 76148

ELECTED OFFICIALS

Name	Years Served	Term Expires (November)	Occupation
Arthur Miner Mayor	3	2023	Retired
Pat Shelbourne Councilmember, Place 1	7	2024	Retired
Tom Snyder Councilmember, Place 2	3	2024	Supervisor
Lovie Downey Mayor Pro Tem, Councilmember, Place 3	3	2023	Homemaker
Andrew Neal Councilmember, Place 4	3	2023	Superintendent
Malissa Minucci Councilmember, Place 5	1	2024	Supervisor
Mark Taylor Councilmember, Place 6	4	2024	Retired
Jan Hill Councilmember, Place 7	1	2024	Retired

ADMINISTRATION

Name	Position	Length of Service (Years)
Joshua Jones	City Manager	<1
Linda Proskey	City Secretary	<1
Sandra Gibson	Director of Finance	18

CONSULTANTS AND ADVISORS

Bond Counsel..... Norton Rose Fulbright US LLP
Austin, Texas

Certified Public Accountants Weaver and Tidwell, L.L.P.
Fort Worth, Texas

Financial Advisor..... SAMCO Capital Markets, Inc.
San Antonio, Texas

For Additional Information Please Contact:

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City Manager
Ms. Sandra Gibson
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Mr. Andrew T. Friedman
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USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized to give any 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 as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the 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 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 or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE PURCHASER 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 AS SUCH INFORMATION IS PROVIDED BY DTC.

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

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

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of Watauga, Texas (the "City" or "Issuer") is located in Tarrant County, Texas, approximately 10 miles northeast of downtown Fort Worth, Texas and 25 miles northwest of downtown Dallas, Texas. The City's Home Rule Charter was adopted on January 19, 1980 and last amended on November 12, 2019. The City operates under a Mayor-Council-City Manager form of government, with the City Council comprised of eight members including the Mayor. The City's 2022 population estimate is 24,373 (See "APPENDIX B – General Information Regarding the City of Watauga and Tarrant County, Texas" herein.)
The Certificates	The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City, on August 22, 2022, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
Security	The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "AD VALOREM PROPERTY TAXATION" herein.)
Redemption Provisions of the Certificates	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2032, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2031, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. Additionally, the Certificates stated to mature on February 1, 2034, February 1, 2036, February 1, 2038, February 1, 2040, and February 1, 2042 will also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS". (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" herein.)
Qualified Tax-Exempt Obligations	The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and traffic safety signalization and signage incidental thereto; (2) designing, constructing, renovating, improving, and equipping the City's parks and recreational facilities, including playground equipment; (3) constructing, acquiring, purchasing, renovating, enlarging, and improving the City's public works facilities, including a building for City vehicles; (4) the purchase of materials, supplies, equipment, digital signage, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (5) the purchase of fleet vehicles, technology improvements, HVAC improvements, public safety equipment, and a motorcycle; and (6) paying for the costs of issuance of the Certificates.. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

Ratings

S&P Global Ratings ("S&P") has assigned an unenhanced, underlying rating of "AA" to the Certificates. (See "OTHER PERTINENT INFORMATION - Ratings" herein.)

Payment Record

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

Future Debt Issues

The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2022.

Delivery

When issued, anticipated on or about September 21, 2022.

Legality

Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel.

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OFFICIAL STATEMENT

relating to

\$4,930,000

CITY OF WATAUGA, TEXAS

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

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

INTRODUCTORY STATEMENT

This Official Statement, including the appendices hereto, provides certain information in connection with the issuance by the City of Watauga, Texas (the "City" or the "Issuer") of its \$4,930,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022 (the "Certificates") identified on the cover page.

The Issuer is a political subdivision of the State of Texas (the "State") and a municipal corporation organized and existing under the Constitution and laws of the State of Texas and its Home Rule Charter. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the Issuer and its finances. ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.*** Copies of such documents may be obtained upon request from the Issuer or its Financial Advisor, SAMCO Capital Markets, Inc., 1020 NE Loop 410, Suite 640, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

All financial and other information presented in this Official Statement has been provided by 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 financial position or other affairs of the City. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

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" herein 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 the State of Texas (the "State"). On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings and other activities.

The City collects a sales and use tax on all taxable transactions within the City's boundaries and other excise taxes and fees that depend on business activity. Actions taken to slow the Pandemic may continue to reduce economic activity within the City on which the City collects taxes, charges, and fees. A reduction in the collection of sales or other excise taxes and utility franchise and other fees and charges may negatively impact the City's operating budget and overall financial condition. In addition, the Pandemic has resulted in volatility of the value of investments in pension funds. Any prolonged continuation of the Pandemic could further weaken asset values or slow or prevent their recovery, which could require increased City contributions to fund or pay retirement and other post-employment benefits in the future.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the City. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency.

THE CERTIFICATES

General Description of the Certificates

The Certificates will be dated August 15, 2022 (the “Dated Date”), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2023, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under “BOOK-ENTRY-ONLY SYSTEM”. In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Dallas, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal or of interest on the Certificates is a Saturday, Sunday, a legal holiday or a day when 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 will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”) particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the “Ordinance”) adopted by the City Council of the City (the “City Council”) on August 22, 2022, and the City’s Home Rule Charter.

Security for Payment

Limited Pledge of Ad Valorem Taxes. The Certificates are general obligations of the City, payable from its collection of an ad valorem tax levied annually, within the legal limitations imposed by law, upon all taxable property located in the City. (See “AD VALOREM PROPERTY TAXATION” herein.)

Limited Revenue Pledge Benefiting the Certificates. Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are further secured by a lien on and pledge of the Pledged Revenues (being a limited amount of the Net Revenues derived from the operation of the Issuer’s combined utility system (the “System”) not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereinafter issued by the Issuer. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise.

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Redemption Provisions of the Certificates

Optional Redemption: The Issuer reserves the right, at its option, to redeem the Certificates maturing on and after February 1, 2032 on February 1, 2031, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Certificates maturing on February 1, 2034, February 1, 2036, February 1, 2038, February 1, 2040 and February 1, 2042 (the “Term Certificates”) will also be subject to mandatory sinking fund redemption. The Term Certificates are subject to mandatory sinking fund redemption in part prior to their stated maturity, and will be redeemed by the Issuer at the redemption prices equal to the principal amounts thereof plus interest accrued thereon to the redemption dates, on the dates and in the principal amounts shown in the following schedule:

Term Certificate February 1, 2034		Term Certificate February 1, 2036	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
February 1, 2033	\$150,000	February 1, 2035	\$165,000
February 1, 2034*	160,000	February 1, 2036*	170,000

Term Certificate February 1, 2038		Term Certificate February 1, 2040	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
February 1, 2037	\$180,000	February 1, 2039	\$195,000
February 1, 2038*	185,000	February 1, 2040*	200,000

Term Certificate February 1, 2042	
<u>Redemption Date</u>	<u>Principal Amount</u>
February 1, 2041	\$210,000
February 1, 2042*	210,000

* Payable at Stated Maturity

The principal amount of Term Certificates required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least forty-five (45) days prior to a mandatory redemption date (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

At least 30 days prior to the date fixed for any redemption of any Certificates or portions thereof prior to stated maturity, the Issuer shall cause notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Certificate or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Certificates or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE CERTIFICATEHOLDER, AND, PROVIDED THAT PROVISION FOR PAYMENT OF THE REDEMPTION PRICE IS MADE AND ANY OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST ON THE REDEEMED CERTIFICATES SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A CERTIFICATE HAS NOT BEEN PRESENTED FOR PAYMENT.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC

participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Selection of Certificates to be Redeemed

The Certificates of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Certificates to be partially redeemed must be surrendered in exchange for one or more new Certificates for the unredeemed portion of the principal. If less than all of the Certificates are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to select, at random and by lot, the particular Certificates, or portion thereof, to be redeemed. If a Certificate (or any portion of the principal sum thereof) will have been called for redemption and notice or such redemption will have been given, such Certificate (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will 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.

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and traffic safety signalization and signage incidental thereto; (2) designing, constructing, renovating, improving, and equipping the City’s parks and recreational facilities, including playground equipment; (3) constructing, acquiring, purchasing, renovating, enlarging, and improving the City’s public works facilities, including a building for City vehicles; (4) the purchase of materials, supplies, equipment, digital signage, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (5) the purchase of fleet vehicles, technology improvements, HVAC improvements, public safety equipment, and a motorcycle; and (6) paying for the costs of issuance of the Certificates.

Sources and Uses

Sources	
Par Amount of the Certificates	\$ 4,930,000.00
Accrued Interest on the Certificates	19,720.00
Reoffering Premium	<u>199,563.45</u>
Total Sources of Funds	<u>\$ 5,149,283.45</u>
Uses	
Project Fund Deposit	\$ 5,000,000.00
Purchaser’s Discount	45,775.05
Certificate Fund Deposit	21,033.40
Costs of Issuance	<u>82,475.00</u>
Total Uses	<u>\$ 5,149,283.45</u>

Payment Record

The Issuer has never defaulted on the payment of its ad valorem tax-backed indebtedness.

Amendments

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

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), 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. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City’s Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that “Government 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 of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates (“Defeasance Proceeds”), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such 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.

Default and Remedies

If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, 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 issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language.

Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the “Proprietary-Governmental Dichotomy”). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State’s sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

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

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

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. 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. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission. Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates affected by the change by United States mail, first-class, postage prepaid.

The Certificates will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or prior redemption upon presentation to the Paying Agent/Registrar; provided however, that so long as DTC's Book-Entry-Only System is used, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. 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 when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Record Date

The record date ("Record Date") for determining the party to whom interest is payable on a Certificate on any interest payment date means the fifteenth (15th) day of the month next preceding each interest payment date. 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 will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment" herein.)

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 Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall 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.

Future Registration

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

Limitation on Transfer of Certificates

Neither the Issuer nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (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 prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Certificate redeemed in part.

Replacement Certificates

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement. The person requesting the authentication of and delivery of a replacement Certificate must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

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 The Depository Trust Company (“DTC”), New York, New York, 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 Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City, the Financial Advisor, and the Purchaser cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or any 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 any notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the “SEC”), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the

Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices 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).

Redemption proceeds, principal, and interest 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 nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, 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 Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to the holder of such Certificates and will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" hereinabove.

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 Purchaser believe to be reliable, but none of the City, the Financial Advisor, or the Purchaser take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Certificates, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates representing the Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE – Future Registration."

INVESTMENT POLICIES

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

Legal Investments

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

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

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

Investment Policies

Under State law, the Issuer 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 Issuer funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All Issuer funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Current Investments ⁽¹⁾

TABLE 1

As of March 31, 2022 the City held investments as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Cash, Money Markets, and Certificates of Deposit	\$29,550,883	72.28%
Investment Pools	<u>11,331,254</u>	<u>27.72%</u>
Total	<u>\$40,882,136</u>	<u>100.00%</u>

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

⁽¹⁾ Unaudited.

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

Local Option Freeze for the Elderly and Disabled

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Tax Increment 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.

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.

City and Taxpayer Remedies

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

Owners of certain property with a taxable value 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 was set at \$50 million for the 2020 tax year, \$50.6 million for the 2021 tax year, \$52.9 million 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 District 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. 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. 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 each taxing unit, including the City, having power to tax the property. The City’s tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer’s debt.

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.

Public Hearing and Maintenance and Operations 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 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.

The Property Tax Code as Applied to the City

The City has not elected to grant an exemption of up to 20% of the appraised value of residence homesteads (but not less than \$5,000).

The City has elected to grant a Local Option Homestead Exemption of at least \$3,000 of the appraised value of the residence homestead of persons 65 year of age or older and the disabled, up to a maximum of \$40,000.

On December 1, 2003, the City approved an election granting the Local Option Freeze for the elderly or disabled.

On December 17, 2011, the City Council took official action to again tax Goods-in-Transit.

The City does not allow split payments but does allow discounts for early payment of ad valorem property taxes.

TAX MATTERS

Tax Exemption

The delivery of the Certificates is subject to the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is reproduced as APPENDIX C.

In rendering the foregoing opinions, Bond Counsel will rely upon the certifications of the Issuer made in a certificate of even date with the initial delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance with the provisions of the Ordinance by the Issuer subsequent to the issuance of the Certificates. The Ordinance contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the Issuer may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to Certificate holders of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability

of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations” herein), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a financial asset securitization investment trust (“FASIT”), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer’s applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Certificates. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Certificates.

Tax Accounting Treatment of Discount Certificates

The initial public offering price to be paid for certain Certificates may be less than the amount payable on such Certificates at maturity (the “Discount Certificates”). An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificates. A portion of such original issue discount, allocable to the holding period of a Discount Certificate by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Certificates. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations” herein), life insurance companies, property and casualty insurance companies, S corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Certificates and with respect to the state and local tax consequences of owning Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Certificates

The initial public offering price to be paid for certain Certificates may be greater than the stated redemption price on such Certificates at maturity (the “Premium Certificates”). An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable Certificate premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable Certificate premium with respect to the Premium Certificates. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable Certificate premium on Premium Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

Qualified Tax-Exempt Obligations

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by “financial institutions” described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity Certificates that are not qualified 501(c)(3) bonds) which are designated by an issuer as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The City has designated the Certificates as “qualified tax-exempt obligations” and will certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Certificates will not be subject to the 100% disallowance of interest expense allocable to interest on the Certificates under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Certificates will be reduced by 20% pursuant to section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

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

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

The City shall provide annually to the MSRB (1) within six months after the end of each fiscal year of the City beginning in the year 2022, financial information and operating data with respect to the City of the general type included in the body of this Official Statement under "Investment Authority and Investment Practices of the Issuer - Current Investments" and in Tables 1 through 14 of “Appendix A - Financial Information of the Issuer” to this Official Statement (the “Annual Financial Information”), and (2) within six months after the end of each fiscal year of the City beginning in the year 2022, the audited financial statements of the City (the “Audited Financial Statements”). If the audit of such financial statements is not complete within six (6) months after any such fiscal year end, then the City shall file unaudited financial statements by the required time and audited financial statements for the applicable fiscal year, when and if the audit report becomes available. Any financial statements to be provided shall be prepared in accordance with the accounting principles described in APPENDIX D to this Official Statement, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and shall be in substantially the form included in this Official Statement as APPENDIX D.

The Issuer may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements for the Issuer, if the Issuer commissions an audit and it is completed by the required time. If audited financial statements are not available by that time, the Issuer will provide by the required time unaudited financial statements for the applicable fiscal year to the MSRB with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Issuer's annual financial statements or such other accounting principles as the Issuer may be required to employ from time to time pursuant to state law or regulation.

The Issuer's current fiscal year end is September 30. Accordingly, it must provide updated information by the end of March in each year following end of its fiscal year, unless the Issuer changes its fiscal year. If the Issuer changes its fiscal year, it will notify the MSRB through EMMA of the change.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights

of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, 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. In the Ordinance, the City adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

All information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

Limitations and Amendments

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

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Certificates. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. The City may also amend or repeal the provisions of this 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 any Purchasers from lawfully purchasing or selling Certificates, respectively, in the primary offering of the Certificates.

Compliance with Prior Agreements

During the past five years, the City has complied in all material respects in accordance with SEC Rule 15c2-12.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchasers with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents 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. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, San Antonio,

Texas has reviewed (except for numerical, statistical or technical data) the information under the captions “THE CERTIFICATES” (except under the subcaptions “Use of Certificate Proceeds”, “Sources and Uses” “Payment Record”, and “Default and Remedies”, as to which no opinion is expressed), “REGISTRATION, TRANSFER AND EXCHANGE”, “TAX MATTERS”, “CONTINUING DISCLOSURE OF INFORMATION” (except under the subheading “Compliance with Prior Agreements” as to which no opinion is expressed), “LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas”, and “OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale” in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

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.

Litigation

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

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) and Section 271.051, as amended, Texas Local Government Code, each, provide that the Certificates are negotiable instruments governed by Chapter 8, as amended, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code, the Certificates must have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See “OTHER PERTINENT 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 least \$1 million of capital, and savings and loan associations.

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

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 hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City’s actual results could differ materially from those 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 will prove to be accurate.

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

The sale of the Certificates has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Certificates have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Certificates been qualified under the securities acts of any other jurisdiction. The Issuer 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 Purchaser 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 Purchaser'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 consent to service of process in any jurisdiction.

Ratings

S&P Global Ratings ("S&P") has assigned an unenhanced, underlying rating of "AA" to the Certificates. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the Issuer 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.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Financial Advisor

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

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

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of Stifel, Nicolaus & Co., Inc. (previously defined as the "Purchaser" or the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a reoffering premium of \$199,563.45, less a Purchaser's discount of \$45,775.05, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such

statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2021, the date of the last financial statements of the City appearing in the Official Statement.

Information from External Sources

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

Concluding Statement

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

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

The Ordinance authorizing the issuance of the Certificates approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Certificates by the Purchaser.

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

CITY OF WATAUGA, TEXAS

/s/ Arthur Miner

Mayor
City of Watauga, Texas

ATTEST:

/s/ Linda Proskey

City Secretary
City of Watauga, Texas

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APPENDIX A
FINANCIAL INFORMATION RELATING TO
THE CITY OF WATAUGA, TEXAS

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2021 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 1,894,653,093
Less Exemptions:	
Optional Over-65 or Disabled.....	\$ 65,137,508
Veterans' Exemptions.....	12,421,862
Pollution Control.....	-
Other/Misc Exemptions.....	88,015,644
Absolute Exempt.....	85,315,693
Misc. Personal Property.....	1,958,853
Nominal Value.....	<u>152,494</u>
TOTAL EXEMPTIONS	<u>253,002,054</u>
2021 Assessed Value of Taxable Property.....	<u>\$ 1,641,651,039</u>
 2022 Certified Net Taxable Value.....	 <u>\$ 1,838,871,369</u>

Source: Tarrant Appraisal District.

GENERAL OBLIGATION BONDED DEBT

(as of July 1, 2022)

General Obligation Debt Principal Outstanding

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007	\$ 1,180,000
General Obligation Refunding Bonds, Series 2013	190,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014	1,325,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016	4,360,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017	5,905,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	5,235,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019	7,815,000
Tax Notes, Series 2020	285,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020	2,675,000
General Obligation Refunding Bonds, Series 2020	1,380,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021	4,275,000
General Obligation Refunding Bonds, Series 2021	<u>4,200,000</u>
	\$ 38,825,000
 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022 (the "Certificates")	 <u>\$ 4,930,000</u>
Total Gross General Obligation Debt	<u>\$ 43,755,000</u>
 Less: Self Supporting Debt	
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017 (100% Utility)	\$ 5,905,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (22.73% EDC)	1,190,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (96.99% Utility)	7,580,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020 (14.39% EDC)	385,000
General Obligation Refunding Bonds, Series 2020 (66.67% Utility)	920,000
General Obligation Refunding Bonds, Series 2021 (100% Utility)	4,200,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022 (11.05% UF) (the "Certificates")	<u>545,000</u>
Total Self-Supporting Debt	<u>\$ 20,725,000</u>
 Total Net General Obligation Debt Outstanding	 <u>\$ 23,030,000</u>
 2021 Net Assessed Valuation	 <u>\$ 1,641,651,039</u>
Ratio of Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	2.67%
Ratio of Net General Obligation Debt to Certified Net Taxable Assessed Valuation	1.40%

Population: 2000 -21,908; 2010 - 23,497; 2020 - 23,650; est. 2022 - 24,373
Per Capita Certified Net Taxable Assessed Valuation - \$67,355.31
Per Capita Gross General Obligation Debt Principal - \$1,795.22
Per Capita Net General Obligation Debt Principal - \$944.90

CITY DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE

TABLE 2

(As of September 30, 2021)

Note payable to City of North Richland Hills annual installments of \$63,068, including interest at 4.5%, maturing October 2024.	\$ 173,371.00
Total Notes Payable	<u>\$ 173,371.00</u>

Source: The Issuer's Annual Comprehensive Financial Report.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 3

Fiscal Year Ending (9/30)	Current Total Outstanding Debt ⁽¹⁾	The Certificates			Total Combined Debt Service	Less: Self Supporting Debt Service	Total Net Debt Service
		Principal	Interest	Total			
2022	\$ 4,808,994				\$ 4,808,994	\$ 1,817,151	\$ 2,991,843
2023	4,078,328	\$ 1,175,000	\$ 166,031	\$ 1,341,031	5,419,359	1,958,925	3,460,434
2024	3,772,680	295,000	144,300	439,300	4,211,980	1,947,240	2,264,740
2025	3,714,428	310,000	132,200	442,200	4,156,628	1,949,574	2,207,054
2026	3,608,694	320,000	119,600	439,600	4,048,294	1,950,325	2,097,969
2027	3,261,850	330,000	106,600	436,600	3,698,450	1,852,725	1,845,725
2028	2,939,088	125,000	97,500	222,500	3,161,588	1,679,700	1,481,888
2029	2,939,944	130,000	92,400	222,400	3,162,344	1,680,925	1,481,419
2030	2,915,116	135,000	87,100	222,100	3,137,216	1,683,550	1,453,666
2031	2,844,294	140,000	81,600	221,600	3,065,894	1,633,225	1,432,669
2032	2,801,375	145,000	75,900	220,900	3,022,275	1,629,750	1,392,525
2033	2,322,247	150,000	70,000	220,000	2,542,247	1,150,350	1,391,897
2034	2,330,864	160,000	63,800	223,800	2,554,664	1,154,624	1,400,041
2035	2,194,323	165,000	57,300	222,300	2,416,623	1,152,429	1,264,194
2036	2,188,357	170,000	50,600	220,600	2,408,957	1,149,204	1,259,753
2037	1,823,924	180,000	43,600	223,600	2,047,524	1,154,774	892,750
2038	1,338,278	185,000	36,300	221,300	1,559,578	666,403	893,175
2039	916,291	195,000	28,700	223,700	1,139,991	561,591	578,400
2040	357,800	200,000	20,800	220,800	578,600	-	578,600
2041	217,150	210,000	12,600	222,600	439,750	-	439,750
2042	-	210,000	4,200	214,200	214,200	-	214,200
Total	<u>\$ 51,374,023</u>	<u>\$ 4,930,000</u>	<u>\$ 1,491,131</u>	<u>\$ 6,421,131</u>	<u>\$ 57,795,154</u>	<u>\$ 26,772,464</u>	<u>\$ 31,022,690</u>

⁽¹⁾ Includes self-supporting debt.

TAX ADEQUACY (Includes Self-Supporting Debt)

2021 Certified Net Taxable Value	\$ 1,641,651,039
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2023)	5,419,359
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.33685

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

TAX ADEQUACY (Excludes Self-Supporting Debt)

2021 Certified Net Taxable Value	\$ 1,641,651,039
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2023)	3,460,434
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.21509

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

INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2021	\$ 758,689
2022 Anticipated Interest and Sinking Fund Tax Levy at 98% Collections Produce ⁽¹⁾	<u>2,976,313</u>
Total Available for General Obligation Debt	<u>\$ 3,735,002</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/22	<u>\$ 2,991,843</u>
Estimated Surplus at Fiscal Year Ending 9/30/2022 ⁽¹⁾	<u>\$ 743,159</u>

⁽¹⁾ Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(As of August 1, 2022)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year	Percent of Principal Retired (%)
	Currently Outstanding ^(a)	The Certificates	Total		
2023	\$ 3,020,000	\$ 1,175,000	\$ 4,195,000	\$ 39,560,000	9.59%
2024	2,815,000	295,000	3,110,000	36,450,000	16.70%
2025	2,845,000	310,000	3,155,000	33,295,000	23.91%
2026	2,825,000	320,000	3,145,000	30,150,000	31.09%
2027	2,570,000	330,000	2,900,000	27,250,000	37.72%
2028	2,335,000	125,000	2,460,000	24,790,000	43.34%
2029	2,410,000	130,000	2,540,000	22,250,000	49.15%
2030	2,450,000	135,000	2,585,000	19,665,000	55.06%
2031	2,440,000	140,000	2,580,000	17,085,000	60.95%
2032	2,455,000	145,000	2,600,000	14,485,000	66.90%
2033	2,030,000	150,000	2,180,000	12,305,000	71.88%
2034	2,090,000	160,000	2,250,000	10,055,000	77.02%
2035	2,005,000	165,000	2,170,000	7,885,000	81.98%
2036	2,050,000	170,000	2,220,000	5,665,000	87.05%
2037	1,735,000	180,000	1,915,000	3,750,000	91.43%
2038	1,290,000	185,000	1,475,000	2,275,000	94.80%
2039	895,000	195,000	1,090,000	1,185,000	97.29%
2040	350,000	200,000	550,000	635,000	98.55%
2041	215,000	210,000	425,000	210,000	99.52%
2042	-	210,000	210,000	-	100.00%
Total	<u>\$ 38,825,000</u>	<u>\$ 4,930,000</u>	<u>\$ 43,755,000</u>		

^(a) Includes self-supporting debt.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2012-2022

TABLE 4

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2012-13	\$ 964,424,671	-	--
2013-14	958,898,123	(5,526,548)	-0.58%
2014-15	956,468,332	(2,429,791)	-0.25%
2015-16	1,016,667,348	60,199,016	5.92%
2016-17	1,031,936,059	15,268,711	1.48%
2017-18	1,099,930,546	67,994,487	6.18%
2018-19	1,349,511,853	249,581,307	18.49%
2019-20	1,573,355,021	223,843,168	14.23%
2020-21	1,597,254,264	23,899,243	1.50%
2021-22	1,641,651,039	44,396,775	2.70%

Source: Tarrant Appraisal District.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 5

	2021	% of Total	2020	% of Total	2019	% of Total
Real, Residential, Single-Family	\$ 1,486,457,154	78.46%	\$ 1,375,128,134	76.96%	\$ 1,306,082,017	75.96%
Real, Residential, Multi-Family	17,600,000	0.93%	17,970,945	1.01%	16,510,000	0.96%
Real, Vacant Lots/Tracts	9,878,032	0.52%	9,887,982	0.55%	24,072,157	1.40%
Real, Acreage (Land Only)	1,994	0.00%	2,114	0.00%	2,210	0.00%
Real, Commercial and Industrial	306,714,687	16.19%	306,234,320	17.14%	293,518,759	17.07%
Oil and Gas	480,453	0.03%	430,621	0.02%	699,800	0.04%
Real & Tangible, Personal Utilities	21,298,163	1.12%	21,687,345	1.21%	19,362,362	1.13%
Tangible Personal, Commercial & Industrial	50,285,817	2.65%	53,615,919	3.00%	56,244,031	3.27%
Personal, Mobile Home	21,721	0.00%	22,069	0.00%	2,211	0.00%
Residential Inventory	140,000	0.01%	140,000	0.01%	2,018,132	0.12%
Real Property, Inventory	1,775,072	0.09%	1,627,862	0.09%	836,925	0.05%
Total Appraised Taxable Value	<u>\$ 1,894,653,093</u>	<u>100.00%</u>	<u>\$ 1,786,747,311</u>	<u>100.00%</u>	<u>\$ 1,719,348,604</u>	<u>100.00%</u>
Less:						
Optional Over-65 or Disabled	\$ 65,137,508		\$ 62,342,835		\$ 59,226,488	
Veterans' Exemptions	12,421,862		10,568,653		9,394,545	
Pollution Control	-		105,702		86,730	
Other/Misc Exemptions	88,015,644		42,391,628		25,505,740	
Absolute Exempt	85,315,693		66,331,955		45,168,445	
Misc. Personal Property	1,958,853		7,616,478		6,407,206	
Nominal Value	152,494		135,796		204,429	
Total Exemptions	<u>253,002,054</u>		<u>189,493,047</u>		<u>145,993,583</u>	
Net Taxable Assessed Valuation	<u>\$ 1,641,651,039</u>		<u>\$ 1,597,254,264</u>		<u>\$ 1,573,355,021</u>	

Source: Tarrant Appraisal District

PRINCIPAL TAXPAYERS

TABLE 6

Name	Type of Business/Property	2021 Net Taxable Assessed Valuation	% of 2021 Assessed Valuation
Inland Western Watauga LP	Shopping Mall	\$ 35,365,627	2.15%
Watauga Towne Crossing LLP	Apartments	31,769,246	1.94%
Park Vista Townhomes	Apartments	15,600,000	0.95%
Dayton Hudson Corp	Retail Center	14,836,297	0.90%
Brookwillow Watauga LLC	Apartments	13,000,000	0.79%
Oncor Electric Delivery Co LLC/Oncor Electric Del	Electric Utility	9,413,754	0.57%
Woodcrest Marketplace LP	Shopping Center	8,642,632	0.53%
Watauga Assoc	Storage Units	5,148,212	0.31%
FKH SFR Propco B-HLD LP	Residential Property	4,573,416	0.28%
Shops of Watauga LLC	Retail Center	4,321,738	0.26%
		<u>\$ 142,670,922</u>	<u>8.69%</u>
2021 Net Taxable Assessed Valuation	\$1,641,651,039		

Source: Tarrant Appraisal District.

TAX RATE DISTRIBUTION**TABLE 7**

	2021-22	2020-21	2019-20	2018-19	2017-18
General Fund	\$ 0.395400	\$ 0.400700	\$ 0.405884	\$ 0.420628	\$ 0.419650
I&S Fund	0.185000	0.179700	0.174616	0.181160	0.182138
Total Tax Rate	\$ 0.580400	\$ 0.580400	\$ 0.580500	\$ 0.601788	\$ 0.601788

Source: Tarrant Appraisal District

TAX DATA**TABLE 8**

Taxes are due October 1 and become delinquent after January 31. Discounts are allowed: 3% October, 2% November, and 1% if paid in December. Current collections are those taxes collected through August 31, applicable to the current year's tax levy. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of delinquent taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set forth below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2012	\$ 964,424,671	\$ 0.589001	\$ 5,680,471	99.12	99.77	9/30/2013
2013	958,898,123	0.580763	5,568,926	99.27	99.81	9/30/2014
2014	956,468,332	0.591200	5,654,641	99.01	99.81	9/30/2015
2015	1,016,667,348	0.591216	6,010,700	99.37	99.81	9/30/2016
2016	1,031,936,059	0.618411	6,381,606	99.24	99.75	9/30/2017
2017	1,099,930,546	0.601788	6,619,250	99.67	99.78	9/30/2018
2018	1,349,511,853	0.601788	8,121,200	99.32	99.75	9/30/2019
2019	1,573,355,021	0.580500	9,133,326	99.20	99.20	9/30/2020
2020	1,597,254,264	0.580500	8,883,546	99.59	100.00	9/30/2021
2021	1,641,651,039	0.580400	9,449,183	96.24	96.62	9/30/2022*

Source: Tarrant Appraisal District and the Issuer.

*As of May 31, 2022

MUNICIPAL SALES TAX COLLECTIONS

TABLE 9

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development tax. The City's total sales tax rate is 2%. 1¼% of the tax is for the General Fund, ¼% percent for economic development, and ½% for the crime control district. Net collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy ⁽¹⁾	Equivalent of Ad Valorem Tax Rate	Crime Control District
2012	\$ 4,349,875	78.11%	\$ 0.4510	\$ 1,451,347
2013	4,203,680	74.34%	0.4384	1,397,990
2014	4,452,920	74.08%	0.4656	1,477,698
2015	4,650,930	72.88%	0.4575	1,544,160
2016	4,320,708	65.27%	0.4187	1,432,773
2017	4,298,869	52.93%	0.3908	1,429,767
2018	4,383,453	47.99%	0.3248	1,443,556
2019	4,437,153	47.85%	0.2820	1,463,214
2020	4,455,441	50.15%	0.2789	1,464,806
2021	4,578,750	48.46%	0.2789	1,711,420
2022*	2,719,874	(As of June 2022)		898,019

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

OVERLAPPING DEBT INFORMATION

(As of June 30, 2022)

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

Taxing Body	Gross Debt (As of 06/30/2022)	% Overlapping	Amount Overlapping
Birdville ISD	\$ 408,955,000	7.66%	\$ 31,325,953
Keller ISD	864,585,184	2.82%	24,381,302
Tarrant County	433,175,000	0.67%	2,902,273
Tarrant County College District	255,995,000	0.67%	1,715,167
Tarrant County Hospital District	12,825,000	0.67%	85,928
Total Gross Overlapping Debt			<u>\$ 60,410,622</u>
Watauga, City of			\$ 43,755,000 *
Total Gross Direct and Overlapping Debt			<u>\$ 104,165,622 *</u>
Ratio of Gross Direct Debt and Overlapping Debt			6.35% *
Per Capita Gross Direct Debt and Overlapping Debt			\$4,273.81 *

Note: The above figures show Gross General Obligation Debt for the City of Watauga, Texas. The Issuer's Net General Obligation Debt is \$23,030,000*. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt	\$ 83,440,622 *
Ratio of Net Direct and Overlapping Debt to 2021 Net Assessed Valuation	5.08% *
Per Capita Net Direct and Overlapping Debt	\$3,423.49 *

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

* Includes the Certificates. Preliminary, subject to change.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 10

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

	Fiscal Year Ended				
	9/30/2021	9/30/2020	9/30/2019	9/30/2018	9/30/2017
Fund Balance - Beginning of Year	\$ 5,339,364	\$ 4,418,341	\$ 4,571,559	\$ 4,531,955 ⁽¹⁾	\$ 5,476,752
Revenues	\$ 13,894,322	\$ 12,797,016	\$ 12,260,736	\$ 11,881,382	\$ 11,310,439
Expenditures	12,854,306	12,691,285	12,910,940	12,106,108	12,126,031
Excess (Deficit) of Revenues Over Expenditures	\$ 1,040,016	\$ 105,731	\$ (650,204)	\$ (224,726)	\$ (815,592)
Other Financing Sources (Uses):					
Proceeds from sale of Assets	\$ -				\$ 8,880
Operating Transfers In	755,781	815,292	544,486	563,100	522,792
Operating Transfers Out	(100,000)	-	(47,500)	(298,770)	(661,000)
Total Other Financing Sources (Uses):	\$ 655,781	\$ 815,292	\$ 496,986	\$ 264,330	\$ (129,328)
Fund Balance - End of Year	\$ 7,035,161	\$ 5,339,364	\$ 4,418,341	\$ 4,571,559	\$ 4,531,832

Source: The Issuer's Comprehensive Annual Financial Reports and information provided by the issuer.

⁽¹⁾ Restated.

* City administration expects to end the fiscal year ending September 30, 2022 with an unaudited General Fund balance of approximately \$7,200,000. The City intends to maintain its General Fund balance above its formal policy requirement of 25% operating expenditures.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2021		2021 Tax Rate
	Assessed Valuation	% of Actual	
Birdville ISD	\$ 13,083,284,147	100%	\$ 1.338000
Keller ISD	22,248,359,656	100%	1.344000
Tarrant County	232,087,545,175	100%	0.229000
Tarrant County College District	234,225,984,717	100%	0.130000
Tarrant County Hospital District	232,505,993,849	100%	0.225000

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

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

Issuer	Date of Authorization	Purpose	Amount Authorized	Amount Issued to Date	Amount Unissued
Birdville ISD	None				
Keller ISD	None				
Tarrant County	8/8/1998	Justice Center	\$ 70,600,000	\$ 63,100,000	\$ 7,500,000
	8/8/1998	Healthcare Facility	9,100,000	1,000,000	8,100,000
	5/13/2006	County Buildings	62,300,000	47,300,000	15,000,000
	11/2/2021	Street & Bridge	400,000,000	225,000,000	175,000,000
			542,000,000	336,400,000	205,600,000
Tarrant County College District	11/5/2019	College Facility	825,000,000	300,000,000	525,000,000
Tarrant County Hospital District	None				

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

The City of Watauga, Texas participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (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 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 Annual Comprehensive Financial Report (Annual Report) that can be obtained at www.tmr.com.

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

For more information see the Issuer's Annual Comprehensive Financial Report for the Year Ended September 30, 2021, Note 7, page 57.

Source: The Issuer's Annual Comprehensive Financial Report.

UTILITY PLANT IN SERVICE

TABLE 11

(As of September 30, 2021)

Land	\$ 91,000
Construction in Progress	3,806,772
Buildings	3,353,778
Equipment	2,068,642
Street and Drainage Improvements	20,872,735
Waterworks and Sanitary Sewer System	<u>27,473,707</u>
Total	\$ 57,666,634
Less: Accumulated Depreciation	<u>(18,992,450)</u>
Net Property, Plant and Equipment	<u>\$ 38,674,184</u>

Source: The Issuer's Annual Comprehensive Financial Report.

WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

TABLE 12

The following condensed statements have been compiled using accounting principles customarily employed in the determination of net revenues available for debt service, and in all instances exclude depreciation, transfers, garbage, bad debt, debt service payments and expenditures identified as capital.

	Fiscal Year Ended				
	<u>9/30/2021</u>	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>
Revenues	\$ 8,976,433	\$ 9,267,957	\$ 8,441,266	\$ 8,381,344	\$ 8,285,528
Expenses	<u>6,280,645</u>	<u>6,626,286</u>	<u>7,204,282</u>	<u>5,830,065</u>	<u>6,193,060</u>
Net Revenue Available for Debt Service	<u>\$ 2,695,788</u>	<u>\$ 2,641,671</u>	<u>\$ 1,236,984</u>	<u>\$ 2,551,279</u>	<u>\$ 2,092,468</u>

Source: The Issuer's Annual Comprehensive Financial Report.

WATER RATES

TABLE 13

Rates Effective October 1, 2021

Water Rates based on Meter Sizes

Residential and Commercial 3/4 Inch Rates

Amount of Water	Base Rate
0 to 267 cubic feet of water	\$18.23
Per 100 cubic feet	\$5.16

Other Commercial Meters Utilize These Same Rates but with the Following Base Amounts

Amount of Water	Base Rate
1-inch meter 0-345 cubic feet of water	\$24.68
1.25-inch meter 0-460 cubic feet of water	\$32.89
1.5-inch meter 0-937 cubic feet of water	\$67.05
2-inch meter 0-1,300 cubic feet of water	\$87.10
3-inch meter 0-2,400 cubic feet of water	\$159.22
4-inch meter 0-4,000 cubic feet of water	\$264.18
6- and 8-inch meters 0-10,000 cubic feet of water	\$673.26

Senior citizens (over-65) and reside in owner occupied property within the City are eligible for a \$5.00 discount for water service on their monthly bill once proof of eligibility is provided to the City.

*Rates Effective October 1, 2021:***Sewer Rates Based on Water Use**

Sewer rates are based on winter average water use for existing residential customers. New residential customers will have a base rate of 900 cubic feet until a winter average can be established. Rates are \$20.52 base plus volume at \$3.17 per 100 cubic feet.

Sewer Average

The winter month's water billed consumption on the December, January and February billings are used to calculate the sewer average for residential customers. To figure your sewer average add the three amounts of water consumption and divide by 3. This will be the consumption used for your new sewer average for the upcoming year. Your sewer average for the year will be used starting with your April bill.

Senior Citizen Discount

Senior citizens (over-65) and reside in owner occupied property within the City are eligible for a \$5.00 discount for sewer service on their monthly bill once proof of eligibility is provided to the City.

Commercial Sewer Rates

Commercial rates are based on actual usage (no winter average) at the regular residential rates of \$20.52 base plus volume at \$3.17 per 100 cubic feet.

Residential Drainage Rates

Drainage rates are \$11.00 per household.

Commercial Drainage Rates

Commercial drainage rates are calculated based on acreage and varies by customer. Please visit Storm Drain Fees for more information on the City's website.

APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF WATAUGA
AND TARRANT COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING THE CITY OF WATAUGA, TEXAS
AND TARRANT COUNTY, TEXAS**

The City of Watauga, Texas (the “City” or “Issuer”) is located in North Central Texas in Northeast Tarrant County, and is surrounded by the cities of Keller, Fort Worth, Haltom City, and North Richland Hills. The City’s corporate boundary comprises a total of approximately 4 square miles. Officially founded in 1877 when the Texas and Pacific Railroad came to town, “Watauga” in Cherokee means either “Beautiful Stream,” “Valley of the Happy Spring,” or “Village of Land of Many Springs.”

The City’s Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and last amended November 12, 2019. The City operates under a Mayor-Council-Manager form of government, with the City Council comprised of eight members including the Mayor. The City Council is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and appointing the City Manager, City Attorney, as well as members of boards and commissions. The City Manager is responsible to the Council for appointing and supervising employees of the City (except for those appointed by the Council), and for preparing and administering the annual budget and capital improvement program.

The primary government provides a full range of services including general government administration, police and fire protection, emergency ambulance service, street maintenance, building inspection services, community development, library services, park and recreational activities, and the maintenance and operations of City-owned buildings.

Economy

The economy of the area is based upon diversified manufacturing and service industries, and agriculture. The North Texas Commission reports that DFW is the 4th largest region in the U.S., and has experienced tremendous growth in the past decade, becoming the fastest growing region in the U.S. With its highly diversified economy, Dallas-Ft. Worth has a population of over 7.7 million, a Gross Metropolitan Product of \$535 billion, a labor force of over 4.1 million, an 8.1% job growth rate, twenty-five Fortune 500 Firms, and college enrollment of over 367,000. Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrated its 47th anniversary in 2021, covers approximately twenty-seven square miles and represents one of the largest facilities of its kind in the world. The airport provides in excess of 228,000 jobs and contributes over \$37 billion to the local economy, and \$12.5 billion in payroll. (SOURCE: DFW website www.dfwairport.com Fast Facts.) See also “INTRODUCTORY STATEMENT – Infectious Disease Outbreak – COVID 19” in the Official Statement for a discussion of the COVID-19 pandemic and its potential impact on the City.

Economic and Demographic Information

Year	Population	Per Capita Personal Income	Unemployment Rate
2012	23,497	\$22,530	7.9
2013	23,331	23,307	7.0
2014	23,510	22,809	5.8
2015	23,500	23,846	5.0
2016	23,600	25,147	4.1
2017	24,228	24,417	4.1
2018	23,610	25,280	3.7
2019	23,770	35,050	3.3
2020	23,770	51,661	3.5
2021	23,770	41,114	4.1

Source: The Issuer’s audited financial statements for fiscal year ended September 30, 2021.

TARRANT COUNTY, TEXAS

Tarrant County, Texas (the “County”) is an urban county located in the north central part of Texas with approximately 2,157,740 citizens. The City of Fort Worth, Texas which began as an army post in 1849 serves as the county seat. The County is one of the fastest growing urban counties in the United States today. Twenty-five other incorporated cities are located wholly within the County, and seven other incorporated county-line cities are located largely within the County’s boundaries. The thirteen county Dallas-Fort Worth Metroplex has a total population of almost 7.6 million people, making it the largest metropolitan area in the South and the fourth-largest in the United States.

The County’s roots lie in the ‘Old West’ and much of its heritage can be traced to the era of the cowboy and cattle drives that passed through the County. The County is one of 254 counties in Texas which were originally set up by the State of Texas to serve as decentralized administrative divisions providing state services and collecting state taxes.

Historically, the County's economic environment has been characterized by steady, yet modest growth. This has been in part because of the diverse nature of the business sectors making up the local economy, without an overwhelming dominance by any one industry. Similarly, local real estate values have demonstrated steady yet modest increases over the past decade. Other segments of the local economy include aircraft, automobile and electronic manufacturing, tourism, entertainment, livestock and agri-business, transportation including major railroad services, and financial services. Because of this diversity, the outlook for stable economic conditions seems favorable.

Principal Employers

Employer	Entity	2021 Employees	2021 Percentage of Total Tarrant County Employment
AMR Corp./American Airlines	Commercial Airline	33,000	3.14%
Lockheed Martin Aeronautics Company	Aircraft Manufacturer	18,079	1.72%
Texas Health Resources	Health Care	12,266	1.17%
Fort Worth Independent School District	School District	11,477	1.09%
Naval Air Station Fort Worth JRB	Naval Station	10,000	0.95%
Arlington Independent School District	School District	8,500	0.81%
Cook Children’s Health Care System	Health Care	7,975	0.76%
University of Texas at Arlington	Higher Education	7,460	0.71%
JPS Health Network	Health Care	7,253	0.69%
City of Fort Worth	Municipal Government	7,170	0.68%

Source: Tarrant County audited financial statements for fiscal year ended September 30, 2021.

Principal Taxpayers (Amounts in thousands)

Taxpayer	Fiscal Year 2021	
	Taxable Assessed Value	Percentage of Taxable Assessed Value
American Airlines Inc	\$ 1,559,377	0.72%
Oncor Electric Delivery	1,418,470	0.65%
Winner LLC	903,204	0.42%
Atmos Energy/Mid Tex Division	516,468	0.24%
General Motors LLC	478,101	0.22%
Bell Helicopter Textron Inc	388,493	0.18%
Opryland Hotel	379,753	0.18%
Wal-Mart Real Estate Bus. Trust	365,532	0.17%
DDR/DTC City Investments LP	288,872	0.13%
Alcon Laboratories Inc	276,507	0.13%

Source: Tarrant County Appraisal District.

Labor Force Statistics – Tarrant County, Texas ⁽¹⁾				
	<u>2022 ⁽²⁾</u>	<u>2021 ⁽³⁾</u>	<u>2020 ⁽³⁾</u>	<u>2019 ⁽³⁾</u>
Civilian Labor Force	1,129,495	1,099,856	1,082,822	1,082,571
Total Employed	1,090,830	1,041,556	1,003,269	1,046,916
Total Unemployed	38,665	58,300	79,553	35,655
% Unemployment	3.4	5.3	7.3%	3.5%
Texas Unemployment	3.8	5.7	8.9%	3.5%

(1) Source: Texas Workforce Commission.

(2) May 2022.

(3) Average Annual Statistics.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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September 21, 2022

Norton Rose Fulbright US LLP
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FINAL

IN REGARD to the authorization and issuance of the “City of Watauga, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022” (the *Certificates*), dated August 15, 2022 in the aggregate principal amount of \$4,930,000 we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Watauga, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 2023 through 2032, February 1, 2034, February 1, 2036, February 1, 2038, February 1, 2040, and February 1, 2042, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Certificates under the laws of the State of Texas and with respect to the exclusion of the interest on the Certificates from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer or the Issuer’s combined utility system and have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Certificates. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

WE HAVE EXAMINED, the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the Certificates, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Certificates and certain other funds of the Issuer and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Certificate executed and delivered initially by the Issuer and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion

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Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF WATAUGA, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022”

concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Certificates are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Certificates are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the Issuer and are additionally payable from and secured by a lien on and pledge of the Pledged Revenues, being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the *System*), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge thereof providing for the payment and security of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer. The Issuer has previously authorized the issuance of the Limited Pledge Obligations that are payable in part from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in accordance with the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the Issuer reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Ordinance and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Certificates, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Certificates will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Certificates will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits,

Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF WATAUGA, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022”

individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Norton Rose Fulbright US LLP

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APPENDIX D

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2021

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

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City of Watauga, Texas

Annual Comprehensive Financial Report

For the Fiscal Year Ended
September 30, 2021

Prepared By
The City of Watauga
Finance Department

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City of Watauga, Texas
 Annual Comprehensive Financial Report
 For the Fiscal Year Ended September 30, 2021
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City of Watauga, Texas
 Annual Comprehensive Financial Report
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Introductory Section

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March 14, 2022

**TO: Honorable Mayor Arthur L. Miner and
Members of the City Council
Citizens of the City of Watauga, Texas**

The City Manager's Office and the Finance Department are pleased to submit the City of Watauga's (the City) Annual Comprehensive Financial Report (ACFR) for the fiscal year ended September 30, 2021. We encourage you to thoroughly read this report and take the opportunity to discuss some of the important items it addresses.

As required by City of Watauga Charter Section 9.06 (C) and various other obligations including, but not limited to, bond covenants, "At the close of each fiscal year, and at such time as it may be deemed necessary, the Council shall cause an independent audit to be made of all accounts of the City by a certified public accountant. Upon completion of the audit, the results thereof in a summary form shall be placed on file in the City Secretary's office as a public record." Financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants.

This report provides the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To provide a reasonable basis for making these representations, management of the City of Watauga has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefit, the City of Watauga's comprehensive framework of internal controls has been designed to provide reasonable assurance, rather than absolute assurance, that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Weaver and Tidwell, L.L.P., a firm of licensed certified public accountants headquartered in Houston, Texas, audited the City of Watauga financial statements. The goal of the independent auditors was to provide reasonable assurance that the financial statements of the City of Watauga for the fiscal year ended September 30, 2021, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditors concluded that there was a reasonable basis for rendering an unmodified ("clean") opinion that the City of Watauga's financial statements for the fiscal year ended September 30, 2021, are fairly presented in conformity with GAAP. The independent auditor's report is located at the front of the financial section of this report. Additionally, the City has an Audit Committee as a subcommittee of the City Council that hears and reviews all recommendations made by the independent auditors

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A, and the two should be read in conjunction with each other. This report includes all of the funds and account groups of the City. It also includes all activities over which the City is considered to be financially accountable.

The Birdville and the Keller Independent School Districts (ISDs) provide elementary and secondary education services within the City. The City is not financially accountable for the districts and, accordingly, financial data for the school districts are not included in this report.

Profile of the City of Watauga, Texas

The City of Watauga is located in Tarrant County, one of the fastest growing counties in Texas, approximately 10 miles northeast of downtown Fort Worth and 25 miles northwest of downtown Dallas. The City's corporate boundary comprises a total of approximately 4 square miles and is approximately 96% developed. Watauga's population as established by the 2010 U.S. Census was 23,497 and was estimated by the North Central Texas Council of Governments at 23,770 as of January 2021.

The City of Watauga Home Rule charter was adopted on January 19, 1980. The city operates under a Council-Manager form of government, with the Governing Body comprised of eight members including the Mayor. The Governing Body is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and appointing the City Manager, City Attorney, Municipal Court Judge, City Secretary, Department Heads, as well as members of boards and commissions. The City Manager is responsible to the Governing Body and is responsible for the daily management of the city.

Services Provided

The primary government provides a full range of services including general government administration, police and fire protection, emergency ambulance service, street maintenance, building inspection services, community development, library services, park and recreational activities, and the maintenance and operations of City-owned buildings. The City also has two enterprise funds for operations and management of its Drainage and Water/Sewer Systems. Private contractors, through franchise agreements, provide solid waste and recycling collections and disposal services for the city.

Accounting System and Budgetary Control

The City's accounting records for general government operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's proprietary activities are maintained on an accrual basis.

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures/expenses. The various funds are grouped by type in the financial statements. As of September 30, 2021, there were twenty-nine (29) funds, of which some are combined for reporting purposes bringing the number to eighteen (18) funds. A description of the major funds and their purpose can be found in Note 1 of the Notes to General Purpose Financial Statements.

The City Charter requires the City Manager to submit a proposed budget for the fiscal year beginning October 1 to the City Council by August 1 each year, and provides for Council adoption of the budget by September 15. Prior to August 1, the City Manager and City department heads prepare expenditure/expense estimates for the remainder of the current fiscal year and for the ensuing fiscal year, and these are compared to estimates of revenue for the same periods. Included in the assessment is the Capital Improvements Projects or CIP program. This program is a five-year plan of major capital programs which may include infrastructure, equipment, buildings, land, or other major expenditures. Adjustments are made to the departmental expenditure/expense estimates as necessary to ensure that the proposed budget is balanced within total estimated income as required by the City Charter.

Following adoption of the budget by the City Council, the City Manager and department heads monitor expenditures/expenses and revenues throughout the year to ensure that the integrity of the budget is maintained. The Charter allows the City Manager to transfer appropriation balances among programs within a department and provides for transfers of appropriation balances from one department to another upon approval of an ordinance by the City Council. The City Council may make amendments to the budget for unforeseen needs or emergencies. The City Manager is required to make monthly reports to the Council concerning the financial condition of the City.

Economic Outlook and Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Watauga operates.

Similar to the rest of the nation, the Dallas-Fort Worth Metroplex (DFW) economy was greatly affected by the COVID-19 pandemic. The nation and DFW experienced a severe contraction in the spring of 2020, followed by a slow recovery for the remainder of 2020. However, in 2021, the economy showed robust expansion with gains across all sections. In November 2021, the Federal Reserve Bank of Dallas reported in their December 2021 Dallas-Ft. Worth Economic Indicators update that:

Dallas–Fort Worth’s economic expansion strengthened in November. Payroll employment rose at a rapid clip, and unemployment dipped. The Dallas and Fort Worth business-cycle indexes advanced further. Consumer spending stayed strong, above prepandemic levels, and mobility improved in the first half of December before declining around the holidays. Apartment leasing was solid, pushing up occupancy and rents, and multifamily construction remained elevated.

DFW employment rose an annualized 10.8 percent (33,400 jobs) in November, up from an upwardly revised 6.3 percent (19,800 jobs) in October (Chart 1). Growth was broad based across sectors, with leisure and hospitality and professional and business services leading the way. The November gain puts DFW employment at 1.7 percent (63,900 jobs) above its prepandemic level in February 2020. Employment in the [Dallas–Plano–Irving metro division](#) was 2.0 percent and [Fort Worth–Arlington](#) 0.8 percent above prepandemic levels. Payrolls in Texas and the U.S. trailed their prepandemic highs by 0.4 percent and 2.6 percent, respectively. [Unemployment](#) fell in November, with the jobless rate sliding to 4.3 percent in Dallas, 4.4 percent in Fort Worth and 5.2 percent in Texas.

Watauga is located in North Central Texas in Northeast Tarrant County, and is surrounded by the cities of Keller, Fort Worth, Haltom City, and North Richland Hills. The economy of the area is based upon diversified manufacturing and service industries, and agriculture. The North Texas Commission reports that DFW is the 4th largest region in the U.S., and has experienced tremendous growth in the past decade, becoming the fastest growing region in the U.S. With its highly diversified economy, Dallas-Ft. Worth has a population of over 7.7 million, a Gross Metropolitan Product of \$535 billion, a labor force of over 4.1 million, an 8.1% job growth rate, twenty-five Fortune 500 Firms, and college enrollment of over 367,000. Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrated its 47th anniversary in 2021, covers approximately twenty-seven square miles and represents one of the largest facilities of its kind in the world. The airport provides in excess of 228,000 jobs and contributes over \$37 billion to the local economy, and \$12.5 billion in payroll. (SOURCE: DFW website www.dfwairport.com Fast Facts.)

The Alliance Texas development in North Fort Worth is a 27,000-acre master-planned, mixed-use community which is home to more than 550 companies, 63,000 plus employees, and is anchored by the inland port known as the Alliance Global Logistics Hub. This area offers a variety of commercial real estate options, industrial space, office space, and retail facilities and had a \$100.6 billion impact in North Texas since its inception, with \$.66 billion economic impact in 2021. (SOURCE: www.alliancetexas.com Alliance Texas Facts).

Despite the numerous challenges presented by the COVID-19 pandemic, the City's financial position is strong. Total certified taxable value, not including estimated value for property under protest, for all residential and commercial property in the City was approximately \$1.6 billion for fiscal year 2021, a 1.5% increase from the previous year. Future development includes a 70-home single family residential development and additional commercial developments are in the planning phase. The City's general fund, economic development corporation fund, and crime control sales tax funds experienced sales tax increases during fiscal year 2021, resulting in a 16% increase in comparison to fiscal year 2020. However, due to a failed ballot measure in November 2020, the street maintenance ¼ cent was abolished on January 1, 2021 and the loss of sales tax receipts for the street maintenance ¼ cent totaled \$523,506 for fiscal year 2021 in the Street Maintenance Fund. Although this loss was impactful, total sales tax receipts for all funds came in at \$6.2 million in fiscal year 2021, a 5%, or \$315,129 increase in collections in comparison to the previous fiscal year.

Future Economic Outlook

Through November 2021 (Fiscal Year 2022) sales taxes have increased by 14% compared to the same period in Fiscal Year 2021. The increase is attributable to economic recovery, new businesses in Watauga, and the increase of on-line sales tax receipts. Additionally, in May 2021, voters approved a ballot measure that authorized the quarter cent sales tax that was previously dedicated for street maintenance to the City's General Fund for general government purposes. This is anticipated to bring in \$814,000 to the General Fund.

For Fiscal Year 2022, property valuations increased 7% from prior year. According to the Emerging Trends in Real Estate for 2021 report from PricewaterhouseCoopers and the Urban Land Institute, the Dallas-Ft. Worth Metroplex ranked as the fourth highest market for overall real estate prospects in 2021 out of 80 other cities nationwide.

Watauga's economic future is not without challenges. New development in Watauga is expected to be minimal as the city is approximately 96% developed. The city has entered a phase where revenue growth will be slow, while requests for services and infrastructure replacement for streets and utility needs will increase. The near build-out status of the city requires a strategic approach to attracting new development and revitalization. The City Council has adopted Strategic Initiatives that will enable the city to move in a positive direction. These strategic initiatives include maintaining the financial strength of the City, developing a sustainable economic development effort through business retention and attraction efforts, and strengthening future planning.

The economy is showing signs of recovery from the effects of the COVID-19 pandemic, and the economic outlook is strong. However, the harmful actions of the Texas State Legislature in passing City-related bills during the 2019 session had a long-term and significant impact on the City's revenues. These include Property Tax legislation, the banning of Photographic Enforcement cameras, Cable and Telecom Franchise Fee reductions, and various unfunded mandates. The city is looking at other sources of revenues to replace those lost due to the passing of these bills, as well as the reduction of expenditures through the evaluation of programs and the leveraging of technology for more efficient operations.

Long-Term Financial Planning

The City Council has adopted a series of financial standards and policies for operating and debt management. Management of the City has made every effort to comply with these standards and policies. The City has maintained its fund balances to ensure that the needed resources are available to provide for current operations and unexpected situations. Fiscal policies provide for the General Fund reserve to not go below 25% of the General Fund expenditure budget. At the end of the current year, the City was in compliance with this policy with the reserve at 47% of next year's budgeted expenditures.

The City continued the use of its long-term financial planning tools in FY2022 and beyond. These tools include:

- 1) A 5-year Capital Improvement Plan that details current and future infrastructure projects;
- 2) A Multi-year Capital Outlay Plan that provides a 5-year plan to identify timing of replacement and sources of funding for major equipment, vehicles, and technology City-wide;
- 3) A Personnel Improvement Plan to identify personnel staffing needs and year of possible funding;
- 4) A Multi-year Financial Forecast which forecasts revenue trends and expenditure estimates in a 5-year Plan; and
- 5) A Succession Plan to ensure continuity of operations in the future for all positions, promote a defined path for employees desiring to move into higher level positions, and ensure that training and resources are in place.

Such strategic planning has allowed the City Council to fund several major infrastructure upgrades, park enhancements, capital purchases, and personnel needs in a systematic manner while considering the full impact to the operating budget and tax requirements. The City of Watauga intends to continue with an orderly and well-planned program of community service in FY2022 and subsequent years. Working within the framework of current financial constraints, the City will focus on infrastructure needs such as upgrades/maintenance of the water/sewer system, street projects, drainage projects and revitalization/redevelopment projects in the upcoming fiscal year and beyond.

Standard & Poor's Rating Services, a subsidiary of the McGraw-Hill Companies, Inc. rates the City's general obligation debt at AA. Moody's Investor Service, Inc. rates the general obligation debt at Aa3. Additional information about the rating agencies or the significance of the ratings provided may be obtained from each agency's web site.

Major Initiatives

The City has completed several projects in the past year and has many others underway. The City believes it is critical that the street, water, wastewater, and drainage systems are properly maintained and systematically upgraded. The City's 5-year Capital Improvement Plan (CIP) addresses the infrastructure needs throughout the City. Over the past several years, water and wastewater improvement projects have been completed and more projects are underway. These projects include replacement of aging wastewater lines throughout the city that have a high amount of inflow and infiltration. Major street and drainage projects that are in progress include Whitley Road, a major thoroughfare in the City that was planned as a multi-year project and will be completed in five phases. The City was recently awarded grant funding from Tarrant County that will provide partial funding for the Whitley Road Phase 4 project.

The City's Parks Master Plan focuses on improving the quality of life for the community, including park amenities and upgrades, trails, and facilities such as the expansion of the Senior Center that was completed in 2017. Projects completed in fiscal year 2021 include the replacement of park lighting at Capp Smith Park, construction of a Splash Pad (partially funded by the Watauga Economic Development Corporation), and the completion of Phase Two of the Whitley Road Street Project. Other projects funded by the Watauga Economic Development Corporation include the installation of digital signage throughout the City, and construction of a food business park that is designed to spur economic development and entrepreneurship in the City.

The Green Ribbon Beautification Project for Highway 377 continues and will help to improve the image of Watauga as well as properties along the highway. The City has been awarded its third Texas Department of Transportation (TXDOT) Green Ribbon Landscape grant to beautify the western portion of the Denton Highway right-of-way.

Awards and Acknowledgements.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga for its Annual Comprehensive Financial Report for the fiscal year ended September 30, 2020. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standard for preparation of state and local government financial reports. In order to receive the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Watauga has received a Certificate of Achievement for the last thirty-four consecutive years. We believe that our current Annual Comprehensive Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA for review.

The City of Watauga also received the GFOA's Distinguished Budget Presentation Award for our annual budget document for the fiscal year beginning October 1, 2020. This is the thirty-first consecutive year that the city has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

In conclusion, we would like to thank the City Council for their continued leadership and support in planning and conducting the financial operations of our city in a responsible and efficient manner. Appreciation is expressed to the City employees throughout the organization who have been instrumental in the successful completion of this Annual Comprehensive Financial Report. And finally, we wish to express our appreciation to each City employee for his or her loyalty and dedication, as demonstrated during this past fiscal year.

Respectfully submitted,

Joshua Jones
City Manager

Sandra Gibson, CGFO, CGFM
Director of Finance

City of Watauga, Texas
Principal Officials
As of September 30, 2021

ELECTED OFFICIALS

Arthur L. Miner Mayor
Tom Snyder Council Member - Place 2
Patrick Shelbourne Council Member - Place 1
Lovie Downey Council Member - Place 3
Andrew Neal Mayor Pro Tem, Council Member - Place 4
Vacant Council Member - Place 5
Mark Taylor Council Member - Place 6
Jan Hill Council Member - Place 7

APPOINTED OFFICIALS

Joshua Jones City Manager (Effective January 2022)
Robert Parker Interim City Manager/Police Chief
Russell, Rodriguez, Hyde, & Bullock, LLP City Attorney
Paul Hackleman Public Works Director
Lana Ewell Library Director
Chad Stephens Interim Parks and Community Services Director
Shawn Fannan Fire Chief, Deputy City Manager
Sandra Gibson Director of Finance



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Watauga
Texas**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

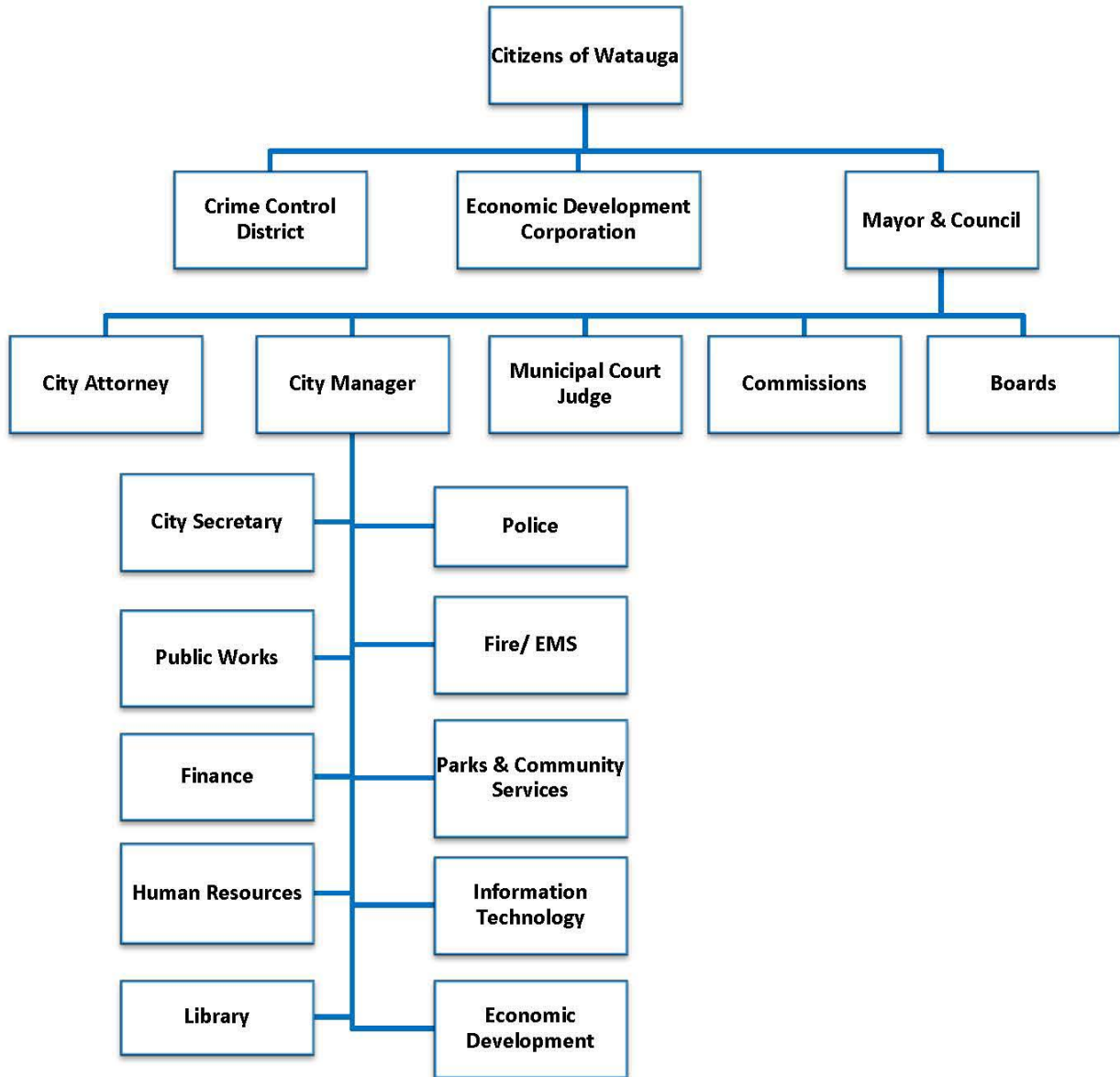
September 30, 2020

Christopher P. Morrill

Executive Director/CEO

Organizational Chart

City of Watauga



Financial Section

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Independent Auditor's Report

To the Honorable Mayor and
Members of City Council
City of Watauga, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Watauga, 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 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Honorable Mayor and
Members of City Council
City of Watauga, 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, and pension and OPEB information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CRF) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and is not a required part of the basic financial statements.

The combining and individual fund statements and schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and are derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

To the Honorable Mayor and
Members of City Council
City of Watauga, Texas

The information in the introductory section and statistical section listed in the foregoing table of contents 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 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 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
March 14, 2022

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CITY OF WATAUGA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2021

On behalf of City Council, we, as management of the City of Watauga, offer readers of the city's financial statements this narrative overview and analysis of the financial activities and financial position of the city for the fiscal year ended September 30, 2021. In the broadest context, the financial well-being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets, and the City's desirability will be maintained not just for the current year but well into the future.

Financial reporting is limited in its ability to provide the "big picture" but rather focus on financial position and changes in financial position. In other words, are revenues and/or expenditures higher or lower than the previous year? Have net position or fund balances of the government been maintained? Readers are encouraged to consider the information presented here in conjunction with our Letter of Transmittal and the Statistical Section which can be found on pages v-xi and pages 99-120 of this report respectively. Also, you may review additional information on the annual budget and other community facts and figures on the City's website at www.cowtx.org.

Please note that the Report of Independent Auditors describes the auditor's association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited.

FINANCIAL HIGHLIGHTS

- At September 30, 2021, Government-Wide Total Assets and Deferred Outflows of Resources exceeded Total Liabilities and Deferred Inflows of Resources by \$80,217,242 (Net position). The vast majority of the City's net position of \$67,573,019 (84.2%) is net investment in capital assets and most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totaled \$5,296,207 (6.6%). The remaining \$7,348,016 (9.2%) of net position is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased \$3,360,852 from the prior year.
- The City's total capital assets (net of accumulated depreciation) increased by \$5,112,081 which is primarily attributed to current year capital improvement projects and other asset additions exceeding depreciation expense and asset retirements.
- The City's total long-term debt increased by \$1,364,788, or 2.9%, primarily due to an issuance of Combination Tax and Limited Pledge Revenue Certificates of Obligation in the amount of \$4,540,000 for capital improvements, less scheduled principal payments.
- The City's long-term liabilities increased \$959,560, or 1.8%, during the fiscal year primarily due to the issuance of debt as discussed in the preceding paragraph. This year, the City experienced a decrease in the net pension liability and net OPEB liability. The accounting standards for pensions will reflect more volatility in the amount of the liability recorded in the financial statements from year to year.

- Governmental activities realized an increase in total net position of \$2,635,651 and business-type activities realized an increase in total net position of \$2,037,896 bringing the total increase in net position for the City to \$4,673,547.
- Total Governmental Fund ending fund balance was \$23,644,052, an increase of \$1,526,132 in comparison to the prior year. This was due primarily to an increase in General Fund balance primarily due to increase in sales tax revenues, the Coronavirus Aid, Relief, and Economic Security (CARES) grant funding that was used to pay for pandemic related expenditures, and lower than anticipated expenses due to salary savings. The Unassigned General Fund balance increased \$1,695,797 over prior year and at year-end the balance was \$7,035,161 or 55% of total Fiscal Year 2021 General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City of Watauga'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 of resources, liabilities and deferred inflows of resources, with the difference 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 the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Watauga that are 1) principally supported by taxes and intergovernmental revenues (governmental activities), and 2) functions that are intended to recover all or a significant portion of their costs through their user fees and charges (proprietary or business-type activities). The governmental activities of the City include General Government, Police, Fire/EMS, Culture and Recreation, and Public Works. The proprietary or business-type activities of the City include Water/Sewer and Drainage System activities.

The government-wide financial statements include not only the City of Watauga itself (known as the primary government), but also include the Watauga Economic Development Corporation (WEDC) and the Watauga Crime Control and Prevention District (WCCPD), which are legally separate but financially accountable to the City. A blended presentation is used to report the financial information of these component units. The financial information for the individual component units is available from the City.

The government-wide financial statements can be found on pages 23-24 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: (1) governmental, (2) proprietary, and (3) internal service.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains fifteen individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, Capital Projects and CARES Act Funds, which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget. Budgetary comparison schedules have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 27-30 of this report.

Proprietary Funds - The City maintains two major proprietary or enterprise funds. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer and Drainage activities. Internal Service Funds are an accounting device used to accumulate and allocate cost for some of its equipment replacement. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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 Water and Sewer and Drainage Utility, both of which are considered to be major funds of the City. The Internal Service Fund is a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 33-36 of this report.

Notes to the 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 the financial statements can be found on pages 37-68 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required Supplementary Information (RSI) can be found on pages 71-75 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and individual fund statements are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and supporting schedules can be found on pages 82-95 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total Assets of the City are \$140,976,687. Capital Assets, net of depreciation, represent the largest portion of the City's assets (\$91,384,057 or 64.8%) and include land, buildings, improvements, equipment, infrastructure, and construction-in-progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

As noted earlier, Net Position may serve as a useful indicator of a government's financial position. As of September 30, 2021, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$80,217,242 (Net Position).

At year end, the City's Net Investment in Capital Assets was \$67,573,019. 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 resources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position is \$5,296,207 or 6.6% of total net position and represents resources that are subject to external restrictions on how they may be used. The remaining balance of total net position is unrestricted (\$7,348,016 or 9.2%) and may be used to meet the government's ongoing obligations to citizens and creditors.

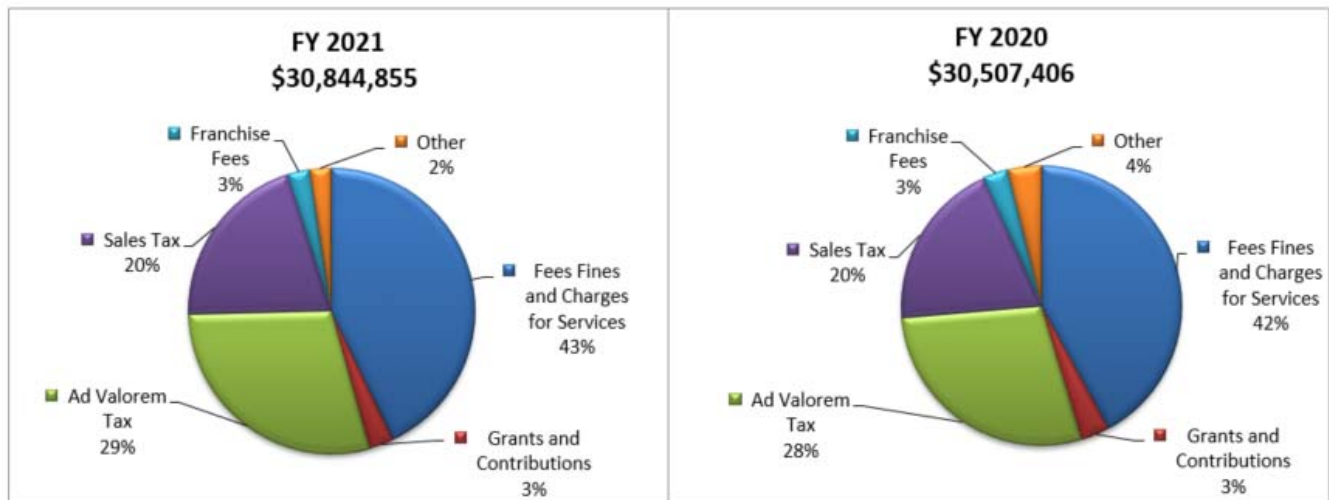
Overall, there was an increase of \$4,673,547 in total net position during the fiscal year as a result of the City's operations. Governmental activities showed an increase of \$2,635,651, while Business-type activities showed an increase of \$2,037,896 as a result of the City's operations.

Condensed Statement of Net Position

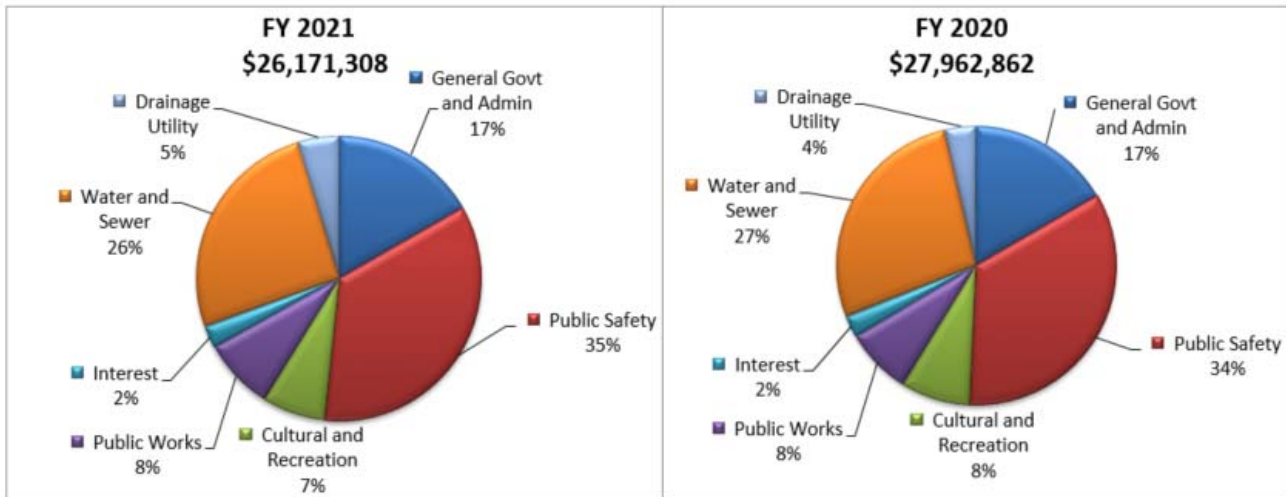
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 30,970,069	\$ 26,346,046	\$ 18,622,561	\$ 19,883,350	\$ 49,592,630	\$ 46,229,396
Capital assets	52,327,563	49,096,652	39,056,494	37,175,324	91,384,057	86,271,976
Total assets	83,297,632	75,442,698	57,679,055	57,058,674	140,976,687	132,501,372
Deferred outflows of resources	1,311,689	1,447,324	249,847	275,682	1,561,536	1,723,006
Long-term liabilities outstanding	31,924,340	29,767,951	22,143,103	23,339,932	54,067,443	53,107,883
Other liabilities	5,175,527	2,138,957	1,475,322	1,701,023	6,650,849	3,839,980
Total liabilities	37,099,867	31,906,908	23,618,425	25,040,955	60,718,292	56,947,863
Deferred inflows of resources	1,346,259	1,455,570	256,430	277,250	1,602,689	1,732,820
Net position:						
Net investment in capital assets	39,716,524	39,121,348	27,856,495	27,276,699	67,573,019	66,398,047
Restricted	5,296,207	5,158,484	-	-	5,296,207	5,158,484
Unrestricted	1,150,464	(752,288)	6,197,552	4,739,452	7,348,016	3,987,164
Total net position	\$ 46,163,195	\$ 43,527,544	\$ 34,054,047	\$ 32,016,151	\$ 80,217,242	\$ 75,543,695

As of September 30, 2021, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Position - Revenue by Major Category Governmental and Business-Type Activities (excluding transfers)



**Changes in Net Position - Expense by Major Category
Governmental and Business-Type Activities (excluding transfers)**



Governmental activities. Governmental activities experienced a total increase in net position of \$2,635,651 or a 6% increase from prior year. Key elements of activity changes from the prior year are as follows:

- Total revenues increased by \$564,521 or 2.9% from the prior year. In general revenues, property taxes increased \$287,509 due to an increase in assessed property valuations. Grant revenues remained flat and include CARES grant funding and the SAFER grant to fund firefighter/paramedic positions. Sales tax revenues increased by \$324,320, or 5.4%, and interest income decreased by \$230,017 due to market declines. Fees, fines and services revenues increased by \$388,154 over prior year, primarily due to an increase in permit fees related to construction activity and an increase in ambulance revenue. Additionally, general fund services revenue increases were realized due to resuming some program activities at the community center that had been cancelled last year due to pandemic related restrictions.
- Expenses decreased by \$1,114,238 or 5.8%. These decreases are due in large part to personnel savings as a result of position being unfunded or not filled during the fiscal year. Culture and recreation expenses decreased by \$384,207, or 17% due to a decrease in staffing that resulted as certain programs were unfunded in the 2021 budget as a cost saving measure. Additionally, Public safety expenditures decreased by \$397,498, or 4.2% due to positions not funded during the year. Other general cost decreases were realized due to the limitations on certain operations during the fiscal year due to the pandemic.

Business-type activities - Business-type activities increased the City's net position by \$2,037,896, or 6.4% increase from the prior year. Significant changes from the prior year include:

- Total revenues decreased by \$226,772 due to decreased return on investments in comparison to prior year.
- Total expenses decreased by \$677,316. This was due to a decrease in wastewater treatment costs and a decrease in water purchase costs due to lower consumption in comparison to prior year

The following table provides a summary of the City's operations for year ended September 30, 2021 with comparative totals for year ended September 30, 2020.

Condensed Statement of Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 2,702,434	\$ 2,314,280	\$ 10,535,764	\$ 10,503,373	\$ 13,238,198	\$ 12,817,653
Operating grant and contributions	848,051	852,735	-	-	848,051	852,735
Capital grants and contributions	-	156,855	-	-	-	156,855
General revenues						
Property Taxes	8,926,186	8,638,677	-	-	8,926,186	8,638,677
Sales taxes	6,306,657	5,982,337	-	-	6,306,657	5,982,337
Franchise taxes	783,430	881,836	-	-	783,430	881,836
Payment in lieu of taxes	503,500	503,500	-	-	503,500	503,500
Penalties and interest	43,240	45,597	-	-	43,240	45,597
Interest on investments	44,353	274,370	78,637	305,578	122,990	579,948
Miscellaneous	69,825	12,968	2,778	35,000	72,603	47,968
Total revenues	<u>20,227,676</u>	<u>19,663,155</u>	<u>10,617,179</u>	<u>10,843,951</u>	<u>30,844,855</u>	<u>30,507,106</u>
Expenses						
General government	4,384,354	4,652,993	-	-	4,384,354	4,652,993
Public safety	9,136,711	9,534,209	-	-	9,136,711	9,534,209
Culture and recreation	1,878,361	2,262,568	-	-	1,878,361	2,262,568
Public works	2,131,872	2,156,500	-	-	2,131,872	2,156,500
Interest on long-term debt	653,227	692,493	-	-	653,227	692,493
Water and sewer	-	-	6,770,160	7,638,966	6,770,160	7,638,966
Drainage utility	-	-	1,216,623	1,025,133	1,216,623	1,025,133
Total expenses	<u>18,184,525</u>	<u>19,298,763</u>	<u>7,986,783</u>	<u>8,664,099</u>	<u>26,171,308</u>	<u>27,962,862</u>
Increase (decrease) in net position before transfers	2,043,151	364,392	2,630,396	2,179,852	4,673,547	2,544,244
Transfers	592,500	503,500	(592,500)	(503,500)	-	-
Increase (decrease) in net position after transfers	2,635,651	867,892	2,037,896	1,676,352	4,673,547	2,544,244
Net position - beginning of year	<u>43,527,544</u>	<u>42,659,652</u>	<u>32,016,151</u>	<u>30,339,799</u>	<u>75,543,695</u>	<u>72,999,451</u>
Net position - end of year	<u>\$ 46,163,195</u>	<u>\$ 43,527,544</u>	<u>\$ 34,054,047</u>	<u>\$ 32,016,151</u>	<u>\$ 80,217,242</u>	<u>\$ 75,543,695</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'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 expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Watauga's governmental funds reported a combined ending fund balance of \$23,644,052, which is an increase of \$1,526,132 from the prior year. Unassigned fund balance is \$7,011,165 or 29.7% of the total governmental fund balance and is available for spending at the government's discretion. The remainder of fund balance is in the form of 1) non-spendable for inventories (\$17,542) and prepaid items (\$7,619), 2) restricted for capital acquisitions and contractual obligations (\$11,287,523), retirement of fund indebtedness (\$758,689), culture and recreation (\$1,686,286), public works (\$1,584,190) and public safety (\$1,291,038). Some highlights are listed below:

- The general fund is the primary operating fund of the City. The fund balance has increased by a net \$1,695,797 over the prior year, to \$7,035,161. This was due primarily to increased sales tax revenue recovery this fiscal year, CARES act grant funding that provided relief on reimbursements for pandemic related expenditures, and salary savings due to decreased staffing levels during the year. Additionally, a decrease in programming at the Community Center contributed to a reduction in expenses in the recreation department.
- The G.O. Debt Service fund balance decreased by \$6,379 over the prior year, to \$758,689, as a result of a planned draw down of fund balance.
- The Capital Projects fund saw a decrease of \$298,086 in ending fund balance primarily due to capital outlay in the amount of \$5,035,790 for capital equipment, street improvements, park projects, and various other capital projects, offset by the issuance of debt in the amount of \$4,540,000 for the Certificates of Obligation, Series 2021. Fund balance at the end of the year is \$11,248,863.
- The non-major governmental funds showed a combined \$134,800 increase in fund balance from the prior year. In the sales tax funds, fund balance increased by \$279,267 in the Crime Control and Prevention District and by \$388,920 in the WEDC Sales Tax Fund due to a combination of the sales tax revenue recovery and expenditures coming in lower than budget for both of these special revenue funds. The Street Maintenance Sales Tax Fund showed a fund balance decrease of \$273,752 due to the discontinuance of the ¼ cent sales tax as a result of a ballot measure that abolished this sales tax effective January 1, 2021. The Traffic Safety Fund had a planned drawdown of fund balance this fiscal year and decreased by \$319,658. This was due to legislation that banned the continuation of photographic traffic enforcement.

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

The unrestricted net position of the respective proprietary funds are Water/Sewer at \$3,197,711 and Drainage Utility at \$2,999,841. The proprietary funds had a combined net position increase of \$2,013,813 as a result of operations. The Water and Sewer fund had an increase in net position of \$1,737,281, while the Drainage Utility fund had a net position increase of \$276,532 as a result of operations. The total change in net position of business-type activities is \$2,037,896 after adjustment of internal service fund activities relating to enterprise funds in the amount of \$24,083.

General Fund Budgetary Highlights – In July, 2021, City Council took action to amend the budget based on staff’s revised estimates of revenues and expenditures. The original budget for sales tax was based on expected declines due to the COVID-19 financial impact. However, sales tax recovery was stronger than anticipated and a budget amendment was made to increase sales tax revenues by 10%, or \$305,000. Actual revenues exceeded management’s amended estimate of the General Fund revenues by \$430,572 due primarily to sales tax exceeding expectations and an increase in permit fees due to a school renovation project during the fiscal year. Expenditures were \$1,097,714 less than budget due to CARES act funding of pandemic related expenses, reductions in personnel costs, and spending reductions across all departments. The general fund balance increased from \$5,339,364 to \$7,035,161, or to 55% of operating expenditures.

CAPITAL ASSETS

The City’s investment in capital assets for its governmental and business type activities as of September 30, 2021, amount to \$91,384,057 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in the City’s capital asset investment for the current fiscal year was \$5,112,071, or 6%. This was primarily due to substantial progress made on the Whitley Road street and water/sewer project Phase 3 and 4, the completion of the splash pad project at Capp Smith Park and the purchase of various capital outlay items.

Schedule of Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 19,019,600	\$ 19,019,600	\$ 91,000	\$ 91,000	\$ 19,110,600	\$ 19,110,600
Construction in progress	3,263,987	1,139,022	3,806,772	6,763,992	7,070,759	7,903,014
Buildings and Improvements	15,299,309	15,658,339	1,972,791	2,036,466	17,272,100	17,694,805
Improvements other than buildings	674,776	662,343	-	-	674,776	662,343
Equipment	6,241,698	4,132,469	1,097,935	922,176	7,339,633	5,054,645
Drainage improvements	-	-	10,235,849	8,525,602	10,235,849	8,525,602
Infrastructure	7,828,193	8,484,879	-	-	7,828,193	8,484,879
Waterworks and sanitary sewer system	-	-	21,852,147	18,836,088	21,852,147	18,836,088
Total capital assets	\$ 52,327,563	\$ 49,096,652	\$ 39,056,494	\$ 37,175,324	\$ 91,384,057	\$ 86,271,976

Major capital asset events during the current fiscal year included:

- Projects that were included in Construction in Progress in FY2020 which were completed this fiscal year include the following:
 - The Splashpad project at Capp Smith Park in the amount of \$1,293,375
 - Phase two of Whitley Road, a major thoroughfare in the city in the amount of \$4,573,479
 - Capital outlay for the Fire Department ambulance in the amount of \$361,373
 - The Starnes Road Waterline Replacement Project in the amount of \$971,310

- New Projects that began in FY2020-2021 and were added to Construction in Progress included:
 - Park Projects to include the design of Park Vista Park and Arcadia Trail added \$55,292 to Construction in Progress
 - The Hightower Drive Rain Garden Project, a stormwater project which will be partially funded by a North Central Texas Council of Governments Grant, added \$22,600 to Construction in Progress

- Prior Year Projects that continued this year and increased the Construction in Progress included:
 - The Meadowlark Lane East water and sewer line improvements increased by \$1,302,229, bringing the total CIP for the project to \$1,583,642
 - Whitley Road, Phase Three continued with an increase of \$2,088,858, bringing the total CIP for the project to \$2,402,257 and Whitley Road, Phase Four
 - The Fire Station remodel project continued with an increase of \$743,927, bringing the total CIP for the project to \$782,927
 - Water and Wastewater projects increased \$227,960, bringing the total CIP for the project to \$745,040
 - The Bowie Street project added \$352,935, bringing the total in CIP to \$376,135
 - Sanitary Sewer Evaluation Project added \$32,286, bringing the CIP total to \$224,688
 - The business incubator project increased by \$10,400, bringing the total CIP to \$43,550
 - Wastewater - Phase Two (North) did not have activity this fiscal year and the total CIP for the project is \$197,909

- Other projects that were completed in FY2021 for a total of \$2,345,426 included:
 - Parks projects to include lighting at Capp Smith Park in the amount of \$635,450, and improvements for the Capp Smith spillway in the amount of \$27,150
 - Infrastructure improvements (street overlays, sidewalks) in the amount of \$490,158
 - Information Technology projects in the amount of \$252,184 to include computer replacements city-wide, server replacements, and computers at the Library
 - Roof replacement at the Library facility in the amount of \$69,525
 - Other Capital Outlay replacements in the amount of \$870,959 to include police vehicles, public works vehicles and large equipment purchases, parks equipment purchases and other capital items such as UV Lighting at City Hall, Library HVAC unit replacements and electronic LED monument signs.

Additional information on the City's capital assets can be found in Note 4 of this report.

DEBT ADMINISTRATION

Long-term debt - At the end of the current fiscal year, the City had total debt outstanding of \$42,735,000. This entire amount comprises debt backed by the full faith and credit of the government.

Other debt includes \$173,371 owed to the City of North Richland Hills for the City's portion of a joint agreement on street repair, and \$3,119,472 in Compensated Absences for employee earned, but unpaid, vacation and sick leave.

During the current fiscal year, the City's total debt increased by \$1,364,788, which was due to an issuance of \$4,540,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021, offset by regularly scheduled debt service payments and interest savings that resulted by the issuance of \$1,715,000 in General Obligation Refunding Bonds.

Standard & Poor's Rating Services, a subsidiary of the McGraw-Hill Companies, Inc. rates the City's general obligation debt at AA. In their 2021 Credit Rating, S&P cited a healthy tax base growth, strong financial management with consistent budget monitoring and long-term financial planning to address future budgetary challenges. Moody's Investor Service, Inc. rates the general obligation debt at Aa3.

Schedule of Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
General Obligation Bonds	\$ 960,000	\$ 585,000	\$ 1,140,000	\$ -	\$ 2,100,000	\$ 585,000
Certificates of Obligation	21,395,000	19,480,000	18,865,000	20,965,000	40,260,000	40,445,000
Tax Notes	375,000	450,000	-	-	375,000	450,000
Notes Payable	173,371	245,193	-	-	173,371	245,193
Compensated Absences	2,826,898	2,667,766	292,574	388,517	3,119,472	3,056,283
Unamortized Bond Premium	956,531	762,060	847,902	923,952	1,804,433	1,686,012
Total	\$ 26,686,800	\$ 24,190,019	\$ 21,145,476	\$ 22,277,469	\$ 47,832,276	\$ 46,467,488

Additional information on the City's long-term debt can be found in Note 5.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the Fiscal Year 2022 Budget, General Fund revenues are expected to increase approximately 10% from the Fiscal Year 2021 original budget. Revenue increases are attributable to forecasted sales tax revenue recovery and the additional quarter cent sales tax previously allocated to street maintenance, and an increase in ad valorem property tax revenue. Ad valorem taxes make up 43% of General Fund budgeted revenues. Certified assessed valuations, including estimated values on properties under protest, increased 7% for the fiscal year 2022 budget. The ad valorem tax rate for FY2022 is \$0.5804/\$100 valuation, a decrease of \$0.00004 from last year's rate. Sales tax makes up 27% of the City's general operating revenue. The city has seen an increase in sales tax in FY2021 due to economic recovery, an increase in online sales tax receipts, and new businesses in the City. Sales tax has continued to perform above budgeted amounts in Fiscal Year 2022. Although the City has been fortunate to not have a sizable presence in many of the industries affected by the pandemic such as travel, hotels, etc. there have been impacts on revenues derived from recreational activities, fines and forfeitures, and interest income due to investment rates.

Capital improvements continue in the City and many projects are underway. \$19.4 million in capital projects and equipment are planned for Fiscal Year 2022. Major street projects such as Whitley Road and various parks projects that began last fiscal year continue. Several major water and wastewater system projects continue for next year and beyond.

The Water and Sewer Operating Fund is budgeted for Fiscal Year 2022 to operate at a net surplus of \$57,018 in order to move towards restoring the fund balance reserves to the financial policy standards. Rate increases were put in place in Fiscal Year 2022 that will help meet the escalating costs of water distribution and wastewater treatment. A long-term rate model was reviewed in the 2022 budget process that calls for additional future increases in rates to provide funding for water and wastewater capital projects.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, Attn: Director of Finance, 7105 Whitley Road, Watauga, Texas 76148, by phone at 817-514-5822, or by email at financedirector@cowtx.org.

Basic Financial Statements

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Government-Wide Financial Statements

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City of Watauga, Texas
Statement of Net Position
September 30, 2021

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 18,052,550	\$ 4,905,153	\$ 22,957,703
Investments	10,673,990	11,769,662	22,443,652
Receivables, net of allowance for uncollectibles	2,218,368	1,947,165	4,165,533
Inventories	17,542	581	18,123
Prepaid items	7,619	-	7,619
Capital assets:			
Nondepreciable	22,283,587	3,897,772	26,181,359
Depreciable, net	30,043,976	35,158,722	65,202,698
Total capital assets	52,327,563	39,056,494	91,384,057
Total assets	83,297,632	57,679,055	140,976,687
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - OPEB	287,542	54,771	342,313
Deferred outflows - pension	1,024,147	195,076	1,219,223
Total deferred outflows of resources	1,311,689	249,847	1,561,536
LIABILITIES			
Accounts payable	976,748	381,622	1,358,370
Accrued liabilities	4,070,951	209,816	4,280,767
Accrued interest	105,564	96,706	202,270
Customer deposits	22,264	787,178	809,442
Long-term liabilities:			
Due within one year	2,768,236	1,370,199	4,138,435
Due in more than one year	23,918,564	19,775,277	43,693,841
Due in more than one year - total OPEB liability	1,497,654	285,268	1,782,922
Due in more than one year - net pension liability	3,739,886	712,359	4,452,245
Total liabilities	37,099,867	23,618,425	60,718,292
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - OPEB	137,305	26,153	163,458
Deferred inflows - pension	1,208,954	230,277	1,439,231
Total deferred inflows of resources	1,346,259	256,430	1,602,689
NET POSITION			
Net investment in capital assets	39,716,524	27,856,495	67,573,019
Restricted for:			
Capital improvements	38,660	-	38,660
Debt service	696,033	-	696,033
Culture and recreation	1,686,286	-	1,686,286
Public works	1,584,190	-	1,584,190
Public safety	1,291,038	-	1,291,038
Unrestricted	1,150,464	6,197,552	7,348,016
Total net position	\$ 46,163,195	\$ 34,054,047	\$ 80,217,242

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas
Statement of Activities
For the Fiscal Year Ended September 30, 2021

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 4,384,354	\$ -	\$ -	\$ (4,161,161)	\$ -	\$ (4,161,161)
Public safety	9,136,711	842,229	-	(6,939,214)	-	(6,939,214)
Culture and recreation	1,878,361	5,822	-	(1,782,503)	-	(1,782,503)
Public works	2,131,872	-	-	(1,097,935)	-	(1,097,935)
Interest on long-term debt	653,227	-	-	(653,227)	-	(653,227)
Total governmental activities	18,184,525	848,051	-	(14,634,040)	-	(14,634,040)
Business-type activities:						
Water and Sewer	6,770,160	-	-	-	2,206,273	2,206,273
Drainage Utility	1,216,623	-	-	-	342,708	342,708
Total business-type activities	7,986,783	-	-	-	2,548,981	2,548,981
TOTAL GOVERNMENT	\$ 26,171,308	\$ 848,051	\$ -	(14,634,040)	2,548,981	(12,085,059)
General revenues:						
Taxes						
Property taxes, levied for general purposes				8,926,186	-	8,926,186
Sales taxes				6,306,657	-	6,306,657
Franchise taxes				783,430	-	783,430
Payment in lieu of taxes				503,500	-	503,500
Penalties and interest				43,240	-	43,240
Interest on investments				44,353	78,637	122,990
Miscellaneous revenue				69,825	2,778	72,603
Transfers				592,500	(592,500)	-
Total general revenues and transfers				17,269,691	(511,085)	16,758,606
Change in net position				2,635,651	2,037,896	4,673,547
Net position - beginning of year				43,527,544	32,016,151	75,543,695
Net position - end of year				\$ 46,163,195	\$ 34,054,047	\$ 80,217,242

The Notes to Basic Financial Statements are an integral part of these statements.

Fund Financial Statements Governmental Funds

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City of Watauga, Texas
Balance Sheet - Governmental Funds
September 30, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>COVID-19 Grant</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 6,998,524	\$ 632,688	\$ 1,129,893	\$ 3,033,024	\$ 4,517,096	\$ 16,311,225
Investments	-	120,437	10,529,932	-	23,621	10,673,990
Receivables, net of allowance for uncollectibles						
Property taxes	92,933	48,472	-	-	-	141,405
Accounts receivable	1,646,410	-	-	-	430,553	2,076,963
Prepaid items	6,454	-	-	-	1,165	7,619
Inventory of supplies	17,542	-	-	-	-	17,542
TOTAL ASSETS	\$ 8,761,863	\$ 801,597	\$ 11,659,825	\$ 3,033,024	\$ 4,972,435	\$ 29,228,744
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 255,047	\$ -	\$ 394,479	\$ -	\$ 304,022	\$ 953,548
Accrued liabilities	954,370	-	16,483	3,033,024	67,074	4,070,951
Deposits	22,264	-	-	-	-	22,264
Total liabilities	1,231,681	-	410,962	3,033,024	371,096	5,046,763
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	98,498	42,908	-	-	-	141,406
Unavailable revenue - EMS	396,523	-	-	-	-	396,523
Total deferred inflows of resources	495,021	42,908	-	-	-	537,929
Fund balances:						
Nonspendable						
Inventory	17,542	-	-	-	-	17,542
Prepaids items	6,454	-	-	-	1,165	7,619
Restricted:						
Capital acquisitions and contractual obligations	-	-	11,248,863	-	38,660	11,287,523
Debt service	-	758,689	-	-	-	758,689
Culture and recreation	-	-	-	-	1,686,286	1,686,286
Public works	-	-	-	-	1,584,190	1,584,190
Public safety	-	-	-	-	1,291,038	1,291,038
Unassigned	7,011,165	-	-	-	-	7,011,165
Total fund balances	7,035,161	758,689	11,248,863	-	4,601,339	23,644,052
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 8,761,863	\$ 801,597	\$ 11,659,825	\$ 3,033,024	\$ 4,972,435	\$ 29,228,744

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2021

TOTAL FUND BALANCE - GOVERNMENTAL FUND	\$ 23,644,052
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities, excluding ISF capital assets, are not current financial resources and therefore are not reported in the governmental funds balance sheet.	51,000,294
Deferred outflows related to OPEB	287,542
Deferred outflows related to pension	1,024,147
Interest payable on long-term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet.	(105,564)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	537,929
Deferred inflows related to OPEB	(137,305)
Deferred inflows related to Pension	(1,208,954)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:	
General obligation bonds	(960,000)
Certificate of obligations	(21,395,000)
Tax Notes	(375,000)
Premiums on issuance	(956,531)
Notes payable	(173,371)
Compensated absences	(2,826,898)
Net pension liability	(3,739,886)
Total OPEB liability	(1,497,654)
Total long-term liabilities	<u>(31,924,340)</u>
Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. The net position of the internal service fund is net of the amount allocated to business-type activities, deferred charges, capital assets and long-term liabilities.	<u>3,045,394</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 46,163,195</u>

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For The Year Ended September 30, 2021

	General	Debt Service	Capital Projects	COVID-19 Grant	Non Major Governmental Funds	Total Governmental Funds
REVENUES						
Taxes and franchise fees	\$ 10,503,946	\$ 2,779,341	\$ -	\$ -	\$ 2,787,985	\$ 16,071,272
Licenses and permits	776,817	-	-	-	-	776,817
Charges for services	901,900	-	-	-	-	901,900
Fines and forfeitures	568,795	-	-	-	-	568,795
Interest income	12,909	1,262	20,287	-	5,774	40,232
Intergovernmental	503,500	-	-	-	-	503,500
Miscellaneous	626,455	-	-	460,653	185,361	1,272,469
Total revenues	13,894,322	2,780,603	20,287	460,653	2,979,120	20,134,985
EXPENDITURES						
Current:						
General government	3,921,341	-	-	-	-	3,921,341
Public safety	6,630,783	-	-	303,757	1,826,877	8,761,417
Culture and recreation	1,514,382	-	-	-	98,975	1,613,357
Public works	771,315	-	-	-	88,026	859,341
Capital outlay	16,485	-	5,035,790	156,896	420,658	5,629,829
Debt service:						
Principal	-	2,340,000	71,819	-	-	2,411,819
Interest and other charges	-	1,179,485	122,061	-	-	1,301,546
Total expenditures	12,854,306	3,519,485	5,229,670	460,653	2,434,536	24,498,650
Excess (deficiency) of revenues over expenditures	1,040,016	(738,882)	(5,209,383)	-	544,584	(4,363,665)
OTHER FINANCING SOURCES (USES)						
Proceeds from bond refunding	-	575,000	-	-	-	575,000
Issuance of debt	-	-	4,540,000	-	-	4,540,000
Premium on bond issuance	-	-	271,297	-	-	271,297
Transfers in	755,781	157,503	100,000	-	-	1,013,284
Transfers out	(100,000)	-	-	-	(409,784)	(509,784)
Total other financing sources (uses)	655,781	732,503	4,911,297	-	(409,784)	5,889,797
Net change in fund balances	1,695,797	(6,379)	(298,086)	-	134,800	1,526,132
Fund Balance, beginning	5,339,364	765,068	11,546,949	-	4,466,539	22,117,920
FUND BALANCE, ending	\$ 7,035,161	\$ 758,689	\$ 11,248,863	\$ -	\$ 4,601,339	\$ 23,644,052

The Notes to Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended September 30, 2021

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ 1,526,132

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

Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	5,601,309
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(2,284,770)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities a gain or (loss) is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold and disposed.	(22,472)
The issuance of long-term debt (e.g. bonds) (\$5,115,000) with the refunding (\$560,000) and related premium on bond issuance (\$271,300) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt of \$2,700,522 consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items of \$76,829, when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,337,649)
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(159,132)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	11,490
Certain unavailable revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	122,102
Current year changes in the net pension liability, deferred inflows of resources and deferred outflows of resources in the pension plan. The net effect of these items decreased net position.	386,197
Current year changes in the net pension liability, deferred inflows of resources and deferred outflows of resources in the OPEB plans. The net effect of these items decreased net position.	(72,129)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with business-type activities.	(135,427)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 2,635,651</u>

The Notes to Basic Financial Statements are an integral part of these statements.

Fund Financial Statements Proprietary Funds

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City of Watauga, Texas
 Statement of Net Position
 Proprietary Funds
 September 30, 2021

	<u>Business-Type Activities</u>			<u>Governmental</u>
	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>	<u>Activities - Internal Service Fund</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,692,364	\$ 3,212,789	\$ 4,905,153	\$ 1,741,325
Investments	11,769,662	-	11,769,662	-
Accounts receivable and unbilled revenue less allowance for uncollectibles	1,785,967	161,198	1,947,165	-
Inventories	581	-	581	-
Prepaid items	-	-	-	-
Total current assets	<u>15,248,574</u>	<u>3,373,987</u>	<u>18,622,561</u>	<u>1,741,325</u>
Non-current assets:				
Capital Assets:				
Land	91,000	-	91,000	-
Construction in Progress	3,318,717	488,055	3,806,772	-
Buildings	3,246,847	106,931	3,353,778	154,068
Equipment	1,857,196	211,446	2,068,642	3,937,650
Drainage improvements	-	20,872,735	20,872,735	-
Waterworks and sanitary sewer system	27,473,707	-	27,473,707	-
	<u>35,987,467</u>	<u>21,679,167</u>	<u>57,666,634</u>	<u>4,091,718</u>
Less Accumulated depreciation	<u>(8,231,397)</u>	<u>(10,761,053)</u>	<u>(18,992,450)</u>	<u>(2,382,139)</u>
Capital assets net of depreciation	<u>27,756,070</u>	<u>10,918,114</u>	<u>38,674,184</u>	<u>1,709,579</u>
Total assets	<u>43,004,644</u>	<u>14,292,101</u>	<u>57,296,745</u>	<u>3,450,904</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - OPEB	41,078	13,693	54,771	-
Deferred outflows - pension	146,307	48,769	195,076	-
Total deferred outflows	<u>187,385</u>	<u>62,462</u>	<u>249,847</u>	<u>-</u>

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas
Statement of Net Position – Continued
Proprietary Funds
September 30, 2021

	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
LIABILITIES				
Current liabilities				
Payable from current assets				
Accounts payable	\$ 356,107	\$ 25,515	\$ 381,622	\$ 23,200
Accrued liabilities	186,762	23,054	209,816	-
Current portion of compensated absences	205,841	4,358	210,199	-
Current portion of bonds payable	1,160,000	-	1,160,000	-
Deposits	787,178	-	787,178	-
Payable from restricted assets				
Accrued interest	96,706	-	96,706	-
Total current liabilities	<u>2,792,594</u>	<u>52,927</u>	<u>2,845,521</u>	<u>23,200</u>
Noncurrent liabilities:				
Bonds payable	19,692,902	-	19,692,902	-
Compensated absences	12,208	70,167	82,375	-
Total OPEB liability	213,951	71,317	285,268	-
Net pension liability	534,269	178,090	712,359	-
Total non-current liabilities	<u>20,453,330</u>	<u>319,574</u>	<u>20,772,904</u>	<u>-</u>
Total liabilities	<u>23,245,924</u>	<u>372,501</u>	<u>23,618,425</u>	<u>23,200</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - OPEB	19,615	6,538	26,153	-
Deferred inflows - pension	172,708	57,569	230,277	-
Total deferred outflows	<u>192,323</u>	<u>64,107</u>	<u>256,430</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	16,556,071	10,918,114	27,474,185	1,709,579
Unrestricted	<u>3,197,711</u>	<u>2,999,841</u>	<u>6,197,552</u>	<u>1,718,125</u>
Total Net Position	<u>\$ 19,753,782</u>	<u>\$ 13,917,955</u>	<u>33,671,737</u>	<u>\$ 3,427,704</u>
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				
			<u>382,310</u>	
Net position of business-type activities			<u>\$ 34,054,047</u>	

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

September 30, 2021

	Business-Type Activities			Governmental
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Activities - Internal Service Fund
Operating revenues				
Water service	\$ 4,654,864	\$ -	\$ 4,654,864	\$ -
Sewer service	3,828,805	-	3,828,805	-
Drainage fees	-	1,476,925	1,476,925	-
Service fees and miscellaneous	492,764	82,406	575,170	92,890
Total operating revenues	<u>8,976,433</u>	<u>1,559,331</u>	<u>10,535,764</u>	<u>92,890</u>
Operating expenses				
Personnel services	1,293,602	388,450	1,682,052	-
Supplies	85,066	18,568	103,634	-
Maintenance	46,165	8,965	55,130	-
Contractual services	4,179,364	106,517	4,285,881	-
Capital outlay	101,517	277,199	378,716	16,989
Depreciation and amortization	574,931	416,924	991,855	269,306
Total operating expenses	<u>6,280,645</u>	<u>1,216,623</u>	<u>7,497,268</u>	<u>286,295</u>
Operating income (loss)	<u>2,695,788</u>	<u>342,708</u>	<u>3,038,496</u>	<u>(193,405)</u>
Non-operating revenues (expenses)				
Investment income	71,313	7,324	78,637	4,121
Gain (loss) on disposal of capital assets	2,778	-	2,778	(11,060)
Interest expense	(513,598)	-	(513,598)	-
Total Non-operating revenue (expenses), net	<u>(439,507)</u>	<u>7,324</u>	<u>(432,183)</u>	<u>(6,939)</u>
Income (loss) before transfers	2,256,281	350,032	2,606,313	(200,344)
Transfers in	-	-	-	89,000
Transfers out	(519,000)	(73,500)	(592,500)	-
Change in net position	<u>1,737,281</u>	<u>276,532</u>	<u>2,013,813</u>	<u>(111,344)</u>
Total net position - beginning of the year	<u>18,016,501</u>	<u>13,641,423</u>		<u>3,539,048</u>
Total net position - ending of the year	<u>\$ 19,753,782</u>	<u>\$ 13,917,955</u>		<u>\$ 3,427,704</u>
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>24,083</u>	
Change in net position of business-type activities			<u>\$ 2,037,896</u>	

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas
Statement of Cash Flows
Proprietary Funds
September 30, 2021

	Business-Type Activities			Governmental
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Activities - Internal Service Fund
OPERATING ACTIVITIES				
Cash received from customers	\$ 8,838,968	\$ 1,468,988	\$ 10,307,956	\$ 93,559
Cash payments to suppliers for goods and services	(4,440,827)	(478,949)	(4,919,776)	6,211
Cash payments to employees for services	(1,443,299)	(524,360)	(1,967,659)	-
Net cash provided by operating activities	2,954,842	465,679	3,420,521	99,770
NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	-	-	89,000
Transfers to other funds	(519,000)	(73,500)	(592,500)	-
Net cash used in noncapital financing activities	(519,000)	(73,500)	(592,500)	89,000
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds on issuance of debt	1,140,000	-	1,140,000	-
Proceeds from the sale of equipment	2,778	-	2,778	1,566
Purchase of capital assets	(2,194,441)	(654,501)	(2,848,942)	(242,858)
Repayment of debt	(2,100,000)	-	(2,100,000)	-
Bond issuance costs	(76,050)	-	(76,050)	-
Interest paid on debt	(549,688)	-	(549,688)	-
Net cash used in capital and related financing activities	(3,777,401)	(654,501)	(4,431,902)	(241,292)
INVESTING ACTIVITIES				
Sale of investments	2,228,744	597,199	2,825,943	283,241
Investment income	71,313	7,324	78,637	4,121
Net cash provided by investing activities	2,300,057	604,523	2,904,580	287,362
Net change in cash and cash equivalents	958,498	342,201	1,300,699	234,840
Cash and cash equivalents, beginning of year	733,866	2,870,588	3,604,454	1,506,485
Cash and cash equivalents, end of year	\$ 1,692,364	\$ 3,212,789	\$ 4,905,153	\$ 1,741,325
Reconciliation of operating income (loss)				
to net cash provided by operating activities				
Operating income (loss)	\$ 2,695,788	\$ 342,708	\$ 3,038,496	\$ (193,405)
Adjustments to reconcile operating income (loss)				
to net cash provided by operating activities				
Depreciation and amortization	574,931	416,924	991,855	269,306
Change in assets and liabilities				
Accounts receivable and unbilled revenue	(202,816)	(92,904)	(295,720)	669
Inventories	30,315	-	30,315	-
Prepaid items	950	-	950	-
Deferred outflows - OPEB	(14,475)	(4,825)	(19,300)	-
Deferred outflows - pension	33,851	11,284	45,135	-
Accounts payable	(35,687)	(65,139)	(100,826)	23,200
Accrued liabilities	(35,831)	(94,012)	(129,843)	-
Deposits	41,058	-	41,058	-
Compensated absences	(69,000)	(26,943)	(95,943)	-
Net pension liability	(76,236)	(25,412)	(101,648)	-
Total OPEB liability	27,609	9,203	36,812	-
Deferred inflows - OPEB	(2,829)	(943)	(3,772)	-
Deferred inflows - pension	(12,786)	(4,262)	(17,048)	-
Net cash provided by operating activities	\$ 2,954,842	\$ 465,679	\$ 3,420,521	\$ 99,770

The Notes to the Basic Financial Statements are an integral part of these statements.

City of Watauga, Texas

Notes to the Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Watauga (the City) Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and amended January 19, 1985, August 8, 1987, August 11, 1990, January 15, 1994, August 10, 1996, August 8, 1998, September 14, 2002, May 7, 2005, November 6, 2007, May 11, 2013 and November 5, 2019. The City operates under a Council-Manager form of government. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments.

The City prepares its basic financial statements in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

A. Financial Reporting Entity

The basic financial statements of the City include the primary government and its component units, entities for which the primary government is financially accountable and other entities for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The following entities were found to be component units of the City and are included in the basic financial statements:

The Watauga Economic Development Corporation (WEDC) was created to encourage the development and advancement of City businesses, development and parks within the City. The WEDC is funded through a ¼ cent sales tax and is a Type B corporation. The WEDC's governing board is appointed by the City Council. The WEDC is composed of two funds: a special revenue fund and a capital projects fund.

The Watauga Crime Control and Prevention District Fund's (WCCPD) sole purpose is to act on behalf of the City in the accumulation and use of resources to add law enforcement officers and purchase additional equipment and supplies for law enforcement purposes. The WCCPD is reported as a special revenue fund.

City of Watauga, Texas

Notes to the Basic Financial Statements

A blended presentation has been used to report the financial information of these component units. The financial information for the individual component units is available from the City.

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 about the City as a whole. These statements include all activities of the primary government and its blended component units. For the most part the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. 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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 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.

C. Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted exclusively for debt service expenditures.

City of Watauga, Texas

Notes to the Basic Financial Statements

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment. Financing is provided primarily by the sale of tax notes, general obligation and contractual obligation bonds.

COVID-19 Grant Fund

The COVID-19 Grant Fund is used to account for the CARES Grant Interlocal Agreement with Tarrant County passed through the federal government for Coronavirus relief. The eligible expenses include expenses related to COVID-19 response, including payroll and benefits costs, public health and safety, telework enhancements, etc. The City received American Rescue Plan Act funding in 2021 that was deposited to this fund for future use.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

The City has presented the following major proprietary funds:

Water and Sewer Fund

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly, at least annually, and adjusted if necessary to ensure integrity of the funds.

Drainage Utility Fund

The Drainage Utility Fund is used to account for the user fees charged per residential and commercial unit to enhance drainage of properties within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations and maintenance.

Additionally, the City reports an Internal Service Fund, which was established in 1997 for the purpose of replacing equipment. Departments are charged user fees to accumulate funds to be used in replacing existing equipment as needed.

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. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

City of Watauga, Texas

Notes to the Basic Financial Statements

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

E. Deposits and Investments

Substantially all operating cash, deposits, and short-term investments are maintained in consolidated cash accounts or individual fund investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly liquid investments with original maturities of three months or less.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash equivalents. Certificates of Deposit are reported at cost plus accrued interest. All other investments are reported at fair value.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds, and certificates of deposits within established criterion. During the year ended September 30, 2021, the City did not own any types of securities other than those permitted by statute.

F. Receivables

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

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for cities, including those applicable to debt service, are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The City's current tax rate is \$0.580404 per \$100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

City of Watauga, Texas
Notes to the Basic Financial Statements

G. Prepaid Items

Prepaid items indicate payments made by the City in the current year to provide services occurring in a subsequent fiscal year. The consumption approach provides for the initial reporting of the item as an asset while recognition of the expenditure when the item is actually used or consumed.

H. Inventories

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies. Inventories are offset by a fund balance reserve account in applicable governmental funds to indicate the inventory values are not available for appropriation and are not expendable financial resources.

I. Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

J. Transfers Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Interfund transfers in the fund statements are reported as other financing sources (uses) in governmental funds and after non-operating revenues (expenses) in the proprietary funds.

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, equipment, and infrastructure assets.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over five years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Improvements other than buildings	50 years
Equipment	10 years
Drainage Improvements	50 years
Infrastructure	9-50 years
Waterworks and sanitary sewer system	50 years

City of Watauga, Texas

Notes to the Basic Financial Statements

L. Compensated Absences

City employees are granted vacation, sick and other compensated time pay in varying amounts. In the event of termination, an employee hired before 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 60 days, or an employee hired after 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 30 days if the employee has completed their probationary period of six months for a non-civil service employee or at least one year for civil service employees. Employees hired before 10/1/2013 are reimbursed up to 100% of 90 days for accumulated sick leave. Non-civil service employees hired after 10/1/2013 are no longer reimbursed for unpaid sick leave. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. The total liability for compensated absences at September 30, 2021 was \$3,119,472, including \$ 292,574 of proprietary fund balances which are included in current and non-current liabilities on the proprietary fund statement of net position.

The estimated vacation liability expected to be satisfied with available financial resources is included in accrued salaries and wages in the governmental funds.

M. Deferred Inflows and Outflows of Resources

The statement of net position includes a separate section, in addition to assets, for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period(s) and therefore will not be recognized as an expense/expenditure until that time. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as revenue until that time.

The City has the following items that qualify for reporting as deferred outflows or inflows of resources:

- 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 and OPEB experience – this difference is deferred and amortized over a closed period that approximates the estimated average remaining lives of all members on the measurement date.
- Difference in pension and OPEB actuarial assumption changes – this difference is deferred and amortized over a closed period that approximates the estimated average remaining lives of all members on the measurement date.
- Pension and OPEB contributions after measurement date – these contributions are deferred and recognized in the following fiscal year.
- Emergency medical services and property taxes are recognized in the period the amount becomes available.

City of Watauga, Texas

Notes to the Basic Financial Statements

N. Fund Balance

The City reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been classified as non-spendable in the Governmental Funds Balance Sheet.

Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, debt service and other purpose and state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies and rescinds) fund balance commitments by passage of a resolution by City Council. Once the resolutions or ordinances are adopted, the limitation imposed remains in place until a similar action is taken (the adoption of another resolution or ordinance) to remove or revise the limitation. There were no committed fund balances as of September 30, 2021.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. Per the City's fund balance policy, assigned fund balance amounts are established by the City Manager. There were no assigned fund balances as of September 30, 2021.

Unassigned fund balance – amounts that are available for any purpose. The general fund is the only fund that reports a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

O. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City's net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

City of Watauga, Texas

Notes to the Basic Financial Statements

P. Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Since under Texas law, appropriations lapse at fiscal year-end, outstanding encumbrances are appropriately provided for in the subsequent years' budget to provide for the liquidation of the prior commitments. As of September 30, 2021, the City had no encumbrances in the General Fund that rolled over into the new fiscal year.

Q. Pension

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City'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 Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, GRS Retirement Consulting, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

R. Other Post-Employment Benefits

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's self-insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees.

Information regarding the City's total liability for this plan is obtained through a report prepared by GRS Retirement Consulting, the City's third-party actuary, in compliance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Additionally, the City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, GRS Retirement Consulting, in compliance with GASB Statement No. 75.

S. New Accounting Pronouncements

The GASB pronouncements effective in fiscal years 2021 and 2022 are listed as follows:

The GASB issued Statement No. 84, Fiduciary Activities, which was effective for fiscal year 2021. The objective of this Statement is to establish standards of accounting and financial reporting for fiduciary activities. This Statement applies to all state and governmental entities. The City implemented this standard in fiscal year 2021 but it had no impact on the City.

City of Watauga, Texas

Notes to the Basic Financial Statements

The GASB issued Statement No. 87, Leases – This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. This statement will become effective for the City in fiscal year 2022.

The GASB issued Statement No. 90, Majority Equity Interests, An Amendment of GASB Statements No. 14 and 16, which was effective for fiscal year 2021. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement applies to all state and governmental entities. The City implemented this standard in fiscal year 2021 but it had no impact on the City.

The GASB issued Statement No. 92, Omnibus 2020. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. This statement will become effective for the City in fiscal year 2022.

The GASB issued Statement No. 93, Replacement of Interbank Offered Rates. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. This statement will become effective for the City in fiscal year 2022.

The GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This Statement modifies the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. This statement will become effective for the City in fiscal year 2022/immediately.

The GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement was issued in October 2021 and establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of Annual Comprehensive Financial Report and its acronym in generally accepted accounting principles for state and local governments. The City implemented this standard in fiscal year 2021. The implementation of this standard changed the report name to the Annual Comprehensive Financial Report.

Note 2. Deposits (Cash) and Investments

The Public Funds Investment Act (Government Code Chapter 2256) (the Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

City of Watauga, Texas

Notes to the Basic Financial Statements

Statutes and the City's investment policy authorized the City to invest in the following investments as summarized in the following table:

<u>Authorized Investment Type</u>	<u>Final Stated Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Public funds investment	N/A	100%	None
Certificates of deposit	5 years	100%	None
U.S. Treasury obligations	5 years	100%	None
No-load money market	5 years	50%	None
Repurchase agreements	5 years	50%	None
State of Texas securities	5 years	50%	None
U.S. agency obligations	5 years	50%	None
Commercial paper	5 years	10%	None

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Deposits and investments as of September 30, 2021, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 28,726,540
Business Type Activities	<u>16,674,815</u>
	<u>\$ 45,401,355</u>

Deposits and investments as of September 30, 2021, consist of the following:

Deposits with financial institutions	\$ 4,977,493
Investments	<u>40,423,862</u>
	<u>\$ 45,401,355</u>

\$10,000 of the deposits with financial institutions listed above are in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

For the purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

A. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 365 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

City of Watauga, Texas

Notes to the Basic Financial Statements

As of September 30, 2021, the City had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 7,795,756	37 days
TexPool Prime	1,044,445	49 days
TexasTERM	471,748	32 days
LOGIC	309,113	55 days
Money Market	28,259,423	Daily
CDs	2,543,377	187 days
	<u>\$ 40,423,862</u>	

\$1,270,330 of the investments listed above are in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

As of September 30, 2021, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

B. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy or debt agreements and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Minimum Rating Required</u>	<u>Actual Investment Rating</u>
TexPool	\$ 7,795,756	AAA	AAAm
TexPool Prime	1,044,445	AAA	AAAm
TexasTerm	471,748	AAA	AAAm
LOGIC	309,113	AAA	AAAm
Money Market	28,259,423	N/A	N/A
CDs	2,543,377	N/A	N/A
	<u>\$ 40,423,862</u>		

C. Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2021, other than external investment pools and securities guaranteed by the United States Government, the City did not have 5% or more of its investments with one issuer.

City of Watauga, Texas

Notes to the Basic Financial Statements

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance of \$250,000 at all times.

At September 30, 2021, the carrying amount of the City's cash on hand and deposits was \$4,977,493 and the bank balance was \$5,653,437. Of the bank balance, \$250,000 was covered by federal depository insurance while the remaining \$5,403,437 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

The City is a voluntary participant in the TexPool, LOGIC and TexasTERM external investment pools.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

LOGIC is governed by a six member board and is an AAA-rated investment program tailored to the investment needs of local governments within the state of Texas and is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC assists governments across Texas making the most of taxpayer dollars by allowing local officials to improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund. LOGIC is a "Constant Dollar" net asset value pool and is in full compliance with the Texas Public Funds Investment Act.

TexasTERM is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. A seven-member advisory board governs the Pool. As required by the Public Funds Investment Act, the Advisory Board is composed of participants in the Pool and other persons who do not have a business relationship with the Pool. Under agreement with the TexasTERM Advisory Board, PFM Asset Management LLC provides administrative and investment services to the pool. The Pool purchases only investments of the type in which Texas local governments are permitted to invest their own funds. The fair value of the position in TexasTERM is the same as the value of TexasTERM shares.

City of Watauga, Texas

Notes to the Basic Financial Statements

The City's external pooled funds are reported at amortized cost or net asset value as permitted by GASB Statement No. 79, Certain External Investment Pools and Pool Participants. External investment pools are exempt from fair value reporting and are, therefore, excluded from the fair value hierarchy. In addition, The City's investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, Fair Value Measurement and Application provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Market values of money market accounts are based on quoted market values using Level 2 inputs. Certificates of deposit are recorded at cost plus accrued interest, and are exempt from the fair value hierarchy.

Note 3. Receivables

Accounts receivable balances for the year ended September 30, 2021, was as follows:

Governmental Funds:

	General	Debt Service	Capital Projects	Nonmajor Governmental	Total
Receivables:					
Property taxes	\$ 161,043	\$ 81,015	\$ -	\$ -	\$ 242,058
Sales tax	947,907	-	-	430,417	1,378,324
Garbage	103,244	-	-	-	103,244
Ambulance	899,504	-	-	-	899,504
Franchise fees	-	-	-	-	-
Other	326,406	-	-	136	326,542
Gross receivables	2,438,104	81,015	-	430,553	2,949,672
Less: allowance for uncollectibles	(698,761)	(32,543)	-	-	(731,304)
Total net receivables	\$ 1,739,343	\$ 48,472	\$ -	\$ 430,553	\$ 2,218,368

City of Watauga, Texas
Notes to the Basic Financial Statements

Proprietary Funds:

	Water and Sewer	Drainage Utility	Total
Receivables:			
Customer accounts	\$ 2,629,760	\$ 207,570	\$ 2,837,330
Other	8,836.00	-	8,836
Gross receivables	2,638,596	207,570	2,846,166
Less: allowance for uncollectibles	(852,629)	(46,372)	(899,001)
Total net receivables	\$ 1,785,967	\$ 161,198	\$ 1,947,165

Note 4. Capital Assets

Capital asset activity for the year ended September 30, 2021, was as follows:

	Balance, September 30, 2020	Additions/ Completions	Retirements/ Transfers	Balance, September 30, 2021
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 19,019,600	\$ -	\$ -	\$ 19,019,600
Construction in progress	1,139,022	2,796,326	(671,361)	3,263,987
Total capital assets, not being depreciated	20,158,622	2,796,326	(671,361)	22,283,587
Capital assets being depreciated				
Buildings and improvements	21,818,209	77,635	-	21,895,844
Improvements other than buildings	735,386	27,150	-	762,536
Equipment	14,506,922	2,387,271	128,078	17,022,271
Infrastructure	35,013,227	490,158	-	35,503,385
Total capital assets, being depreciated	72,073,744	2,982,214	128,078	75,184,036
Less accumulated depreciation				
Buildings and improvements	6,159,870	436,665	-	6,596,535
Improvements other than buildings	73,043	14,717	-	87,760
Equipment	10,374,453	909,835	(503,715)	10,780,573
Infrastructure	26,528,348	1,146,844	-	27,675,192
Total accumulated depreciation	43,135,714	2,508,061	(503,715)	45,140,060
Total capital assets being depreciated, net	28,938,030	474,153	631,793	30,043,976
Governmental activities capital assets, net	\$ 49,096,652	\$ 3,270,479	\$ (39,568)	\$ 52,327,563

City of Watauga, Texas
Notes to the Basic Financial Statements

	Balance, September 30, 2020	Additions/ Completions	Retirements/ Transfers	Balance, September 30, 2021
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 91,000	\$ -	\$ -	\$ 91,000
Construction in progress	6,763,992	2,382,362	(5,339,582)	3,806,772
Total capital assets, not being depreciated	6,854,992	2,382,362	(5,339,582)	3,897,772
Capital assets, being depreciated:				
Buildings and improvements	3,353,778	-	-	3,353,778
Equipment	2,382,504	333,801	(23,906)	2,692,399
Street and drainage improvements	18,763,657	107,081	2,001,997	20,872,735
Waterworks and sewer system	24,037,996	98,126	3,337,585	27,473,707
Total capital assets, being depreciated	48,537,935	539,008	5,315,676	54,392,619
Less accumulated depreciation				
Buildings and improvements	1,317,312	63,675	-	1,380,987
Equipment	1,460,328	155,466	(21,330)	1,594,464
Street and drainage improvements	10,238,055	398,831	-	10,636,886
Waterworks and sewer system	5,201,908	419,652	-	5,621,560
Total accumulated depreciation	18,217,603	1,037,624	(21,330)	19,233,897
Total capital assets being depreciated, net	30,320,332	(498,616)	5,337,006	35,158,722
Business-type activities capital assets, net	\$ 37,175,324	\$ 1,883,746	\$ (2,576)	\$ 39,056,494

Depreciation expense was charged as direct expense to programs of the primary government as follows:

General government	\$ 315,904
Public safety	435,912
Culture and recreation	279,348
Public works	1,253,360
Internal Service Fund	223,537
Total depreciation expense - Governmental Activities	\$ 2,508,061
Business-type activities	
Water and wastewater	\$ 574,931
Drainage	416,924
Internal Service Fund	45,769
Total depreciation expense - Business-type Activities	\$ 1,037,624

During the year ended September 30, 2021, \$1,327,269 and \$382,310 of internal service fund capital assets were recorded in governmental activities and business-type activities, respectively, on the accompanying statement of net position. Additionally, \$223,537 and \$45,769 of internal service fund depreciation expense were recorded in governmental activities and business-type activities, respectively, on the accompanying statement of activities.

City of Watauga, Texas

Notes to the Basic Financial Statements

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2021 are as follows:

Project Name	Remaining Commitment	Total in Progress
Governmental Activities		
Whitley Road - Phase 3	\$ 386,360	\$ 1,605,929
CDBG 44TH Year	-	\$ 2,500
Whitley Road - Phase 4	39,346	397,654
Bowie Street	43,813	376,135
Park Vista Park	16,555	21,945
Arcadia Trail	-	33,347
Fire Station Remodel	210,733	782,927
Business Incubator Project	21,450	43,550
	\$ 718,257	\$ 3,263,987
Business-type Activities:		
Water, Sewer and Drainage Projects	\$ 734,287	\$ 3,806,772
	\$ 734,287	\$ 3,806,772

Note 5. Long-Term Debt

Compensated absences, OPEB and pension liabilities are generally liquidated by the General Fund, Water and Sewer Fund, and the Drainage Utility Fund.

During the fiscal year ended September 30, 2021, the City issued \$1,715,000 in General Obligation Refunding Bonds with an interest rate of 1.17%. \$560,000 was used to advance refund the outstanding Series 2011 Certification of Obligation Bonds in the Debt Service Fund and \$1,125,000 was used to advance refund the outstanding Series 2011 Certification of Obligation Bonds in the Water and Sewer Fund. The net proceeds of \$1,667,846 (after payment of issuance costs) and City contribution of \$47,629 were used to pay the outstanding balance on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability for those bonds has been removed from the government-wide and proprietary statements. There is no remaining principal at September 30, 2021 related to the refunded bonds. The refunding resulted in a net present value savings of \$80,852 and a gross savings of \$84,268.

During the fiscal year ended September 30, 2021, the City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021 in amount of \$4,540,000 with an interest rate of 2 to 4% and premiums in the amount of \$271,297. The proceeds for both issuances will be used for street, utility, and park improvement projects as well as capital equipment replacements.

City of Watauga, Texas

Notes to the Basic Financial Statements

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2021:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 585,000	\$ 575,000	\$ (200,000)	\$ 960,000	\$ 310,000
Certificates of obligation	19,480,000	4,540,000	(2,625,000)	21,395,000	2,110,000
Tax Notes	450,000	-	(75,000)	375,000	90,000
Unamortized bond premium	762,060	271,300	(76,829)	956,531	-
Note payable	245,193	-	(71,822)	173,371	55,266
Compensated absences	2,667,766	243,539	(84,407)	2,826,898	202,970
Total governmental activities	24,190,019	5,629,839	(3,133,058)	26,686,800	2,768,236
Business-type activities:					
General obligation bonds	\$ -	\$ 1,140,000	\$ -	\$ 1,140,000	\$ 220,000
Certificates of obligation	20,965,000	-	(2,100,000)	18,865,000	940,000
Unamortized bond premium	923,952	-	(76,050)	847,902	-
Compensated absences	388,517	4,901	(100,844)	292,574	210,199
Total business-type activities	22,277,469	1,144,901	(2,276,894)	21,145,476	1,370,199
Total government-wide activities	\$ 46,467,488	\$ 6,774,740	\$ (5,409,952)	\$ 47,832,276	\$ 4,138,435

A. General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

City of Watauga, Texas

Notes to the Basic Financial Statements

General obligations bonds and certificates of obligation payable at September 30, 2021, are comprised of the following individual issues:

	<u>Governmental</u>	<u>Business-type</u>
\$3,400,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$65,000 to \$255,000 through February 1, 2027; interest at 4.11%.	\$ 1,390,000	\$ -
\$7,730,000 Series 2012 Certificates of Obligation due in annual installments of \$290,000 to \$510,000 through February 1, 2032; interest at 3.00% to 3.25%.	-	4,810,000
\$2,145,000 Series 2013 General Obligation Refunding Bonds due in annual installments of \$125,000 to \$270,000 through February 1, 2023; interest at 2.25%.	385,000	-
\$3,500,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$85,000 to \$900,000 through February 2034; interest at 2.25% to 3.50%.	2,225,000	-
\$5,885,000 Series 2016 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$285,000 to \$355,000 through February 2036; interest at 2.125% to 4.00%	4,615,000	-
\$7,325,000 Series 2017 Certificates of Obligation due in annual installments of \$245,000 to \$480,000 through February 1, 2037; interest at 3.00%.	-	6,210,000
\$6,780,000 Series 2018 Certificates of Obligation due in annual installments of \$245,000 to \$480,000 through February 1, 2038; interest at 3.00% to 5.00%.	5,545,000	-
\$8,490,000 Series 2019 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$195,000 to \$555,000 through February 1, 2039; interest at 2.00% to 5.00%	290,000	7,845,000
\$2,910,000 Series 2020 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$115,000 to \$205,000 through February 1, 2040; interest at 1.50% to 3.00%	2,790,000	-
\$1,715,000 Series 2020 General Obligation Refunding Bonds due in annual installments of \$115,000 to \$235,000 through February 1, 2026; interest at 1.17%.	575,000	1,140,000
\$4,540,000 Series 2021 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$185,000 to \$295,000 through February 1, 2041; interest at 2.00% - 4.00%.	4,540,000	-
Total bonds payable	\$ 22,355,000	\$ 20,005,000

City of Watauga, Texas
Notes to the Basic Financial Statements

Notes payable at September 30, 2021, are comprised of the following:

	<u>Governmental</u>
Note payable to City of North Richland Hills annual installments of \$63,068, including interest at 4.5%, maturing October 2024.	\$ 173,371
Total notes payable	<u>\$ 173,371</u>

Tax notes at September 30, 2021, are comprised of the following individual issues:

	<u>Governmental</u>
\$450,000 Series 2020 Tax Note due in annual installments of \$75,000 to \$100,000 through February 1, 2025; interest at 3.50%	\$ 375,000
Total tax notes	<u>\$ 375,000</u>

B. Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each type of debt obligation for the years subsequent to September 30, 2021, are as follows:

General Obligation Bonds

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2022	\$ 310,000	\$ 12,524	\$ 220,000	\$ 12,051	\$ 554,575
2023	305,000	6,847	225,000	9,448	546,295
2024	115,000	22,883	225,000	6,815	369,698
2025	115,000	2,018	235,000	4,124	356,142
2026	115,000	673	235,000	1,375	352,048
	<u>\$ 960,000</u>	<u>\$ 44,945</u>	<u>\$ 1,140,000</u>	<u>\$ 33,813</u>	<u>\$ 2,178,758</u>

Certificates of Obligation

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2022	\$ 2,110,000	\$ 611,316	\$ 940,000	\$ 550,148	\$ 4,211,464
2023	1,445,000	543,323	975,000	517,312	3,480,635
2024	1,390,000	492,116	1,005,000	480,723	3,367,839
2025	1,380,000	437,138	1,035,000	448,242	3,300,380
2026	1,420,000	389,924	1,075,000	413,935	3,298,859
2027-2031	5,825,000	1,350,730	6,505,000	1,425,246	15,105,976
2032-2036	5,455,000	628,529	5,215,000	582,226	11,880,755
2037-2041	2,370,000	102,587	2,115,000	65,855	4,653,442
	<u>\$ 21,395,000</u>	<u>\$ 4,555,663</u>	<u>\$ 18,865,000</u>	<u>\$ 4,483,687</u>	<u>\$ 49,299,350</u>

City of Watauga, Texas
Notes to the Basic Financial Statements

Tax Notes

	Governmental Activities		Total
	Principal	Interest	
2022	\$ 90,000	\$ 11,550	\$ 101,550
2023	90,000	8,400	98,400
2024	95,000	5,163	100,163
2025	100,000	1,750	101,750
	<u>\$ 375,000</u>	<u>\$ 26,863</u>	<u>\$ 401,863</u>

Notes Payable

	Governmental Activities		Total
	Principal	Interest	
2022	55,266	7,802	63,068
2023	57,753	5,315	63,068
2024	60,352	2,716	63,068
	<u>\$ 173,371</u>	<u>\$ 15,833</u>	<u>\$ 189,204</u>

Note 6. Interfund Receivables, Payables, and Transfers

All interfund transfers between the various funds are approved supplements to the operations of those funds. At September 30, 2021, transfers in/out for governmental and proprietary funds are as follows:

Transfers In	Transfers Out	Amounts
General Fund	Nonmmajor Fund	\$ 222,281
General Fund	Drainage Utility Fund	73,500
General Fund	Nonmmajor Fund	30,000
General Fund	Water and Sewer Fund	430,000
Capital Projects Fund	General Fund	100,000
Debt Service Fund	Nonmmajor Fund	157,503
Internal service fund	Water and Sewer Fund	89,000
		<u>\$ 1,102,284</u>

Transfers are primarily used to move funds to:

- General Fund from Nonmajor Fund for Staffing and Reimbursement allocation to recover personnel and administrative costs the City provides for the benefit of the Corporation.
- Debt Service Fund from Nonmajor Fund for the payment of debt service requirements for authorized WEDC funded projects.
- General Fund from Drainage Utility Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

City of Watauga, Texas

Notes to the Basic Financial Statements

- General Fund from Nonmajor Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.
- General Fund from Water and Sewer Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services are also used by other funds.
- Capital Projects Fund from the General Fund for the payment of sidewalk replacements.
- Internal Service Fund from the Water and Sewer Fund for payment of general and administrative charges.

Note 7. Pension Plan

The City of Watauga, Texas participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (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 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 Annual Comprehensive Financial Report (Annual Report) that can be obtained at www.tmr.com.

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

A. 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 based on 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 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 City Council, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	7.00%
Matching ration (city to employee)	2 to 1
Years required for vesting	5
Updated Service Credit	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

City of Watauga, Texas

Notes to the Basic Financial Statements

B. Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	118
Inactive employees entitled to but not yet receiving benefits	163
Active employees	150
	<hr/>
	431
	<hr/>

C. 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 7.00% of their annual compensation during the fiscal year. The contribution rates for the City were 14.20% and 14.79% in calendar years 2020 and 2021, respectively. The city's contributions to TMRS for the year ended September 30, 2021 were \$1,462,002, and were equal to the required contributions.

D. 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.

Actuarial assumptions

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

Inflation	2.50% per year
Overall payroll growth	2.05% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees 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.

City of Watauga, Texas

Notes to the Basic Financial Statements

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

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class 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	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that Member 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 Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of Watauga, Texas
Notes to the Basic Financial Statements

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2019	\$ 55,591,653	\$ 50,704,110	\$ 4,887,543
Changes for the year:			
Service cost	1,745,597	-	1,745,597
Interest (on the Total Pension Liability)	3,748,335	-	3,748,335
Difference between expected and actual experience	(140,317)	-	(140,317)
Changes of assumptions	-	-	-
Contributions - employer	-	1,450,407	(1,450,407)
Contributions - employee	-	714,990	(714,990)
Net investment income	-	3,849,392	(3,849,392)
Benefit payments, including refunds of employee contributions	(2,267,132)	(2,267,132)	-
Administrative expense	-	(24,904)	24,904
Other	-	(972)	972
Balance at December 31, 2020	\$ 58,678,136	\$ 54,425,891	\$ 4,252,245

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

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

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
City's net pension liability	\$ 13,676,509	\$ 4,452,245	\$ (3,003,253)

E. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position by Participating City. That report may be obtained at www.tnrs.com.

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

For the year ended September 30, 2021 the city recognized pension expense of \$984,882.

City of Watauga, Texas

Notes to the Basic Financial Statements

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
	<u> </u>	<u> </u>
Differences in expected and actual experience	\$ 81,495	\$ -
Difference in assumption changes	75,416	-
Difference in projected and actual earnings on pension plan investments	-	(1,439,231)
Employer contributions made after the measurement date	1,062,312	-
	<u>1,062,312</u>	<u>-</u>
Totals	\$ 1,219,223	\$ (1,439,231)

\$1,062,312 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
<u> </u>	<u> </u>
2022	\$ (383,681)
2023	42,829
2024	(856,096)
2025	(85,372)
	<u>(85,372)</u>
Totals	\$ (1,282,320)

Note 8. Other Postemployment Benefits

A. TMRS Supplemental Death Benefits Plan

Benefit Plan Description

The City contributes to a single-employer defined benefit group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another 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).

City of Watauga, Texas

Notes to the Basic Financial Statements

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

Membership in the plan as of the measurement date of December 31, 2020 was as follows:

Inactive employees or beneficiaries currently receiving benefits	71
Inactive employees entitled to but not yet receiving benefits	33
Active employees	<u>150</u>
Total	<u><u>254</u></u>

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.17% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 2.00% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2020.

Actuarial Assumptions

The City's Total OPEB Liability (TOL) was measured at December 31, 2020 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount Rate	2.00%

City of Watauga, Texas

Notes to the Basic Financial Statements

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables and due to the size of the City, rates are multiplied by an additional factor of 100%. . The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is 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. Mortality rates for pre-retirement were based on the PUB(10) mortality tables, with the Public Safety table used for males and General Employee table used for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

Changes in Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2019	\$ 537,459
Changes for the year:	
Service cost	27,578
Interest (on the Total OPEB Liability)	15,117
Difference between expected and actual experience	(17,439)
Changes of assumptions	86,019
Benefit payments	(3,064)
Balance at December 31, 2020	\$ 645,670

Sensitivity Analysis

The following presents the Total OPEB Liability of the employer, 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. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

1% Decrease 1.00%	Current Single Rate Assumption 2.00%	1% Increase 3.00%
\$ 787,874	\$ 645,670	\$ 534,380

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 \$64,197 relating to the SDBF plan.

City of Watauga, Texas

Notes to the Basic Financial Statements

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences in expected and actual experience	\$ -	\$ (35,974)
Differences in assumption changes	123,814	-
Employer contributions made after the measurement date	<u>6,387</u>	<u>-</u>
		-
Totals	<u>\$ 130,201</u>	<u>\$ (35,974)</u>

The \$6,387 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2022.

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

<u>Fiscal Year</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2022	\$ 21,501
2023	19,906
2024	17,767
2025	21,538
2026	<u>7,128</u>
Total	<u>\$ 87,840</u>

B. City of Watauga Retiree Health Care Plan

Plan description

The City's defined benefit OPEB plan, City of Watauga Retiree Health Care Plan (WHCP), provides OPEB through an implicit healthcare premium for retirees for all permanent full-time employees of the City. WHCP is a single-employer defined benefit OPEB plan administered by the City. At this time, no assets are accumulated in a trust to fund the future requirements of the WHCP.

Benefits provided

WHCP provides access to post retirement employees by offering a "blended premium" structure, that is, the overall health care premiums for active employees and non-Medicare retirees, are stated in terms of a single "blended premium". The difference between the underlying retiree claims and the blended overall health care premium is referred to as an "implicit" subsidy. Because the underlying claims costs for a non-Medicare retiree are on average higher than the blended premium, there is a positive implicit subsidy for the non-Medicare retirees.

City of Watauga, Texas

Notes to the Basic Financial Statements

Employees covered by benefit terms. At September 30, 2021, the following employees were covered by the benefit terms:

Retirees and beneficiaries	6
Active members	138
Total	144

Total OPEB Liability

The City's total OPEB liability of \$1,137,252 was measured as of December 31, 2020, and was determined by an actuarial valuation as of December 31, 2019 rolled forward to the measurement date.

Actuarial Assumptions

The total OPEB liability in the December 31, 2019 actuarial valuation (rolled forward to December 31, 2020) was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry-Age
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discount Rate	2.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables and due to the size of the City, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is 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. Mortality rates for pre-retirement were based on the PUB(10) mortality tables, with the Public Safety table used for males and General Employee table used for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

Discount Rate

Because the WHCP is unfunded or pay-as-you go, the discount rate is based on 20 year tax-exempt AA or higher Municipal Bonds or 2.00% as of the measurement date of December 31, 2020 based on the 20 Year Bond GO Index published by bondbuyer.com.

City of Watauga, Texas
Notes to the Basic Financial Statements

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2019	\$ 1,015,393
Changes for the year:	
Service cost	45,223
Interest (on the Total OPEB Liability)	27,887
Difference between expected and actual experience	10,060
Changes of assumptions	86,582
Benefit payments	(47,893)
Balance at December 31, 2020	\$ 1,137,252

Changes of assumptions reflect a change in the discount rate from 2.75% as of December 31, 2019 to 2.00% as of December 31, 2020, revised TMRS demographic and salary increase assumptions, and updates to the health care trend assumption to better reflect the plan's anticipated experience.

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the plan's total OPEB liability, calculated using a discount rate of 2.00%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

1% Decrease 1.00%	Current Single Rate Assumption 2.00%	1% Increase 3.00%
\$ 1,263,505	\$ 1,137,252	\$ 1,023,145

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$ 987,532	\$ 1,137,252	\$ 1,317,832

City of Watauga, Texas

Notes to the Basic Financial Statements

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 \$80,139. 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 in expected and actual experience	\$ -	\$ (101,255)
Differences in assumption changes	180,330	(26,229)
Employer contributions made after the measurement date	31,782	-
Totals	\$ 212,112	\$ (127,484)

The \$31,782 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2022.

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

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2022	\$ 7,029
2023	7,029
2024	7,029
2025	7,029
2026	4,179
Thereafter	20,551
Total	\$ 52,846

Note 9. Risk Management

The City is exposed to various risks of loss related to torts such as: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Risk Pool) to provide general liability and property insurance and workers' compensation.

The City, along with other participating entities, contributes annual amounts determined by the Risk Pool. Contributions to the Risk Pool for workers' compensation are based on the City's payroll. As claims arise they are submitted to and paid by the Risk Pool.

The liability of the Texas Municipal League Intergovernmental Risk Pool is limited to a \$2,000,000 annual aggregate for general liability, errors and omissions, and law enforcement. The automobile liability limit for the risk pool is \$1,000,000 for each occurrence.

City of Watauga, Texas

Notes to the Basic Financial Statements

There have been no significant changes in insurance coverage as compared to last year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 10. Litigation

Various claims and lawsuits are pending against the City of Watauga. In the opinion of the City's Legal Counsel and Management, the potential losses will not have a material effect on the City's financial statements.

Note 11. Operating Lease

The City is committed under various noncancelable operating leases, primarily for equipment (principally in the General Fund). Lease and rental expenditures were \$50,622 for the year ended September 30, 2021.

Note 12. Fund Balance Restrictions

Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors are classified as restricted fund balance. A summary of restricted fund balance in the governmental funds at September 30, 2021, follows:

	Debt Service Funds	Capital Projects Fund	Non Major Governmental Funds	Total
Capital acquisitions and contractual obligations	\$ -	\$ 11,248,863	\$ 38,660	\$ 11,287,523
Debt service	758,689	-	-	758,689
Culture and recreation:				
Park improvements	-	-	1,629,929	1,629,929
Library purposes	-	-	56,357	56,357
	-	-	1,686,286	1,686,286
Public works:				
PEG Fees	-	-	82,280	82,280
Street maintenance	-	-	1,501,910	1,501,910
	-	-	1,584,190	1,584,190
Public safety:				
Law enforcement	-	-	1,044,918	1,044,918
Municipal court operations	-	-	246,120	246,120
	-	-	1,291,038	1,291,038
Total	\$ 758,689	\$ 11,248,863	\$ 4,600,174	\$ 16,607,726

Note 13. Subsequent Events

On November 8, 2021, the City Council approved the issuance of \$4,200,000 of General Obligation Refunding Bonds, Series 2021, with interest rates ranging from 2% to 4% and maturities through 2032, for the purpose of refunding certain of the City's currently outstanding obligations for debt service savings, and to pay costs of issuance and expenses relating to the Bonds.

Required Supplementary Information

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City of Watauga, Texas
 Budgetary Comparison Schedule
 General Fund
 Year Ended September 30, 2021

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Taxes and franchise fees	\$ 9,953,500	\$ 10,258,500	\$ 10,503,946	\$ 245,446
Licenses and permits	531,000	691,000	776,817	85,817
Charges for services	851,800	851,800	901,900	50,100
Fines and forfeitures	515,900	515,900	568,795	52,895
Interest income	50,600	50,600	12,909	(37,691)
Intergovernmental	502,600	502,600	503,500	900
Miscellaneous	693,350	593,350	626,455	33,105
	<u>13,098,750</u>	<u>13,463,750</u>	<u>13,894,322</u>	<u>430,572</u>
Expenditures				
Current:				
Administration	492,977	560,977	526,130	34,847
Non-departmental	1,159,810	1,159,810	952,216	207,594
Human resources	182,169	182,169	174,205	7,964
Finance	500,247	500,247	484,178	16,069
Information Technology	402,909	402,909	371,962	30,947
Municipal Court	401,730	401,730	401,371	359
Library	882,480	882,480	811,551	70,929
Recreation and community services	882,505	882,505	705,497	177,008
Police	4,054,124	4,054,124	3,859,755	194,369
Fire/EMS	3,013,152	3,013,152	2,783,103	230,049
Public works	744,277	829,277	771,315	57,962
Fleet maintenance	204,900	204,900	193,814	11,086
Buildings	834,740	877,740	819,209	58,531
	<u>13,756,020</u>	<u>13,952,020</u>	<u>12,854,306</u>	<u>1,097,714</u>
Excess (deficiency) of revenues over expenditures	<u>(657,270)</u>	<u>(488,270)</u>	<u>1,040,016</u>	<u>1,528,286</u>
Other Financing Sources (Uses)				
Transfers in	765,281	765,281	755,781	-
Transfers out	(100,000)	(100,000)	(100,000)	-
	<u>665,281</u>	<u>665,281</u>	<u>655,781</u>	<u>-</u>
Total other financing sources and uses	<u>665,281</u>	<u>665,281</u>	<u>655,781</u>	<u>-</u>
Net change in fund balances	8,011	177,011	1,695,797	1,528,286
Fund balance, beginning of year	<u>5,339,364</u>	<u>5,339,364</u>	<u>5,339,364</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,347,375</u>	<u>\$ 5,516,375</u>	<u>\$ 7,035,161</u>	<u>\$ 1,528,286</u>

City of Watauga, Texas

Notes to Required Supplementary Budget Information

Year Ended September 30, 2021

BUDGETARY CONTROLS AND PROCEDURES

The City Charter follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
- The proposed budget and all supporting schedules are filed with the City Secretary when submitted to City Council.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to September 15, the budget is adopted by affirmative vote of at least two thirds of the members of the City Council.
- The City Manager is authorized to transfer budgeted amounts between programs within a department; however, any revisions that alter the total expenditures of any department must be approved by the City Council.
- If at any time during a fiscal year, it is estimated by the City Manager that current year's expenditures in any fund will exceed available revenues (including fund balance at the start of the year), the City Manager shall recommend measures to the City Council to ensure that a positive fund balance is maintained.
- Budgets for the General, WEDC Sales Tax, Watauga Crime Control and Prevention, Library Donation, Municipal Court Security, Municipal Court Technology, Municipal Court Truancy, Traffic Safety, Street Maintenance Sales Tax, PEG, Debt Service and Enterprise funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as amended by the City Council. Such appropriations lapse at year-end.
- Budgetary data for the Capital Projects Fund has not been presented in the accompanying financial statements as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration of the Capital Projects Fund is employed and comparison of actual results of operations to budgetary data for such funds is not presented.
- Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Enterprise Funds. Budgetary control is maintained at the departmental level.
- Budgetary data for the Enterprise Funds has not been presented since the reporting on such budgets is not legally required. Budgetary control is maintained at the departmental level.

City of Watauga, Texas
Schedule of Changes in Net Pension Liability and Related Ratios
Last Seven Measurement Years

	Year Ended December 31						
	2014	2015	2016	2017	2018	2019	2020
TOTAL PENSION LIABILITY							
Service cost	\$ 1,278,209	\$ 1,484,819	\$ 1,513,714	\$ 1,531,337	\$ 1,577,540	\$ 1,705,104	\$ 1,745,597
Interest (on the total pension liability)	2,632,122	2,804,072	2,907,277	3,067,400	3,256,548	3,483,534	3,748,335
Difference between expected and actual experience	(422,782)	(273,667)	(570,355)	(100,072)	22,136	441,878	(140,317)
Changes of assumptions	-	60,403	-	-	-	188,822	-
Benefit payments, including refunds of employee contributions	(1,197,706)	(1,071,136)	(1,083,810)	(1,890,714)	(1,548,423)	(1,566,087)	(2,267,132)
Net change in total pension liability	2,289,843	3,004,491	2,766,826	2,607,951	3,307,801	4,253,251	3,086,483
Total pension liability, beginning	37,561,490	39,851,333	42,855,824	45,622,650	48,230,601	51,538,402	55,791,653
TOTAL PENSION LIABILITY, ending (a)	\$ 39,851,333	\$ 42,855,824	\$ 45,622,650	\$ 48,230,601	\$ 51,538,402	\$ 55,791,653	\$ 58,878,136
PLAN FIDUCIARY NET POSITION							
Contributions - employer	\$ 1,115,845	\$ 1,245,119	\$ 1,197,145	\$ 1,259,752	\$ 1,289,939	\$ 1,342,209	\$ 1,450,407.0
Contributions - employee	609,276	652,873	636,779	642,263	664,427	695,961	714,990
Net investment income	1,871,755	51,790	2,428,960	5,418,502	(1,332,865)	6,732,579	3,849,392
Benefit payments, including refunds of employee contributions	(1,197,706)	(1,071,136)	(1,083,810)	(1,890,714)	(1,548,423)	(1,566,087)	(2,267,132)
Administrative expense	(19,541)	(31,544)	(27,433)	(28,079)	(25,758)	(38,033)	(24,904)
Other	(1,607)	(1,558)	(1,478)	(1,423)	1,155	(3,642)	(972)
Net change in plan fiduciary net position	2,378,022	845,544	3,150,163	5,400,301	(951,525)	7,162,987	3,721,781
Plan fiduciary net position, beginning	32,718,618	35,096,640	35,942,184	39,092,347	44,492,648	43,541,123	50,704,110
PLAN FIDUCIARY NET POSITION, ending (b)	\$ 35,096,640	\$ 35,942,184	\$ 39,092,347	\$ 44,492,648	\$ 43,541,123	\$ 50,704,110	\$ 54,425,891
NET PENSION LIABILITY / (ASSET), ending (a) - (b)	\$ 4,754,693	\$ 6,913,640	\$ 6,530,303	\$ 3,737,953	\$ 7,997,279	\$ 5,087,543	\$ 4,452,245
Plan fiduciary net position as a percentage of total pension liability	88.07%	83.87%	85.69%	92.25%	84.48%	90.88%	92.44%
Covered Payroll	\$ 8,703,943	\$ 9,326,755	\$ 9,096,836	\$ 9,175,179	\$ 9,491,816	\$ 9,942,297	\$ 10,214,144
Net pension liability as a percentage of covered payroll	54.63%	74.13%	71.79%	40.74%	84.25%	51.17%	43.59%

Only seven years of data is presented in accordance with GASB 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement. Additional years' information will be displayed as it becomes available."

City of Watauga, Texas
Schedule of Pension Contributions
Last Ten Fiscal Years

	Year Ended September 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Actuarially Determined Contribution Contributions in relation to the actuarially determined contribution	\$ 1,129,470	\$ 1,082,831	\$ 1,108,798	\$ 1,190,315	\$ 1,194,583	\$ 1,259,325	\$ 1,274,565	\$ 1,332,221	\$ 1,459,430	\$ 1,462,002
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 8,852,583	\$ 8,473,213	\$ 8,638,774	\$ 9,005,317	\$ 9,040,337	\$ 9,169,310	\$ 9,351,625	\$ 9,849,847	\$ 10,293,449	\$ 9,877,694
Contributions as a percentage of covered payroll	12.76%	12.78%	12.84%	13.22%	13.21%	13.73%	13.63%	13.53%	14.18%	14.80%

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method Level	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

City of Watauga, Texas

Schedule of Changes in Total OPEB Liability and Related Ratios Last Four Measurement Years

Texas Municipal Retirement System - Supplemental Death Benefit Plan

	Year Ended December 31			
	2017	2018	2019	2020
Total OPEB Liability				
Service cost	\$ 20,185	\$ 24,679	\$ 20,879	\$ 27,578
Interest	14,766	15,283	16,178	15,117
Difference between expected and actual experience	-	(28,476)	(12,399)	(17,439)
Change in assumptions	36,678	(32,318)	88,671	86,019
Benefit payments, including refunds of employee contributions	(2,753)	(2,848)	(2,983)	(3,064)
Net change in total OPEB liability	68,876	(23,680)	110,346	108,211
Total OPEB liability, beginning	381,917	450,793	427,113	537,459
Total OPEB Liability, ending	\$ 450,793	\$ 427,113	\$ 537,459	\$ 645,670
Covered Payroll	\$ 9,175,179	\$ 9,491,816	\$ 9,942,297	\$ 10,214,144
Total OPEB liability as a percentage of covered payroll	4.91%	4.50%	5.41%	6.32%

City of Watauga, Texas Retiree Health Plan

	Year Ended December 31			
	2017	2018	2019	2020
Total OPEB Liability				
Service cost	\$ 36,285	\$ 41,530	\$ 40,468	45,223
Interest	35,912	34,038	37,486	27,887
Difference between expected and actual experience	-	(10,983)	(134,664)	10,060
Change in assumptions	49,341	(40,515)	101,448	86,582
Benefit payments, including refunds of employee contributions	(32,844)	(43,918)	(39,042)	(47,893)
Net change in total OPEB liability	88,694	(19,848)	5,696	121,859
Total OPEB liability, beginning	940,851	1,029,545	1,009,697	1,015,393
Total OPEB Liability, ending	\$ 1,029,545	\$ 1,009,697	\$ 1,015,393	\$ 1,137,252
Covered Payroll	\$ 9,013,440	\$ 9,791,192	\$ 9,769,698	\$ 10,128,852
Total OPEB liability as a percentage of covered payroll	3.89%	3.89%	10.39%	11.23%

GASB 75, Paragraph 97, requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of December 31, 2020 - the period from January 1, 2020 - December 31, 2020.

Only four years of data is presented in accordance with GASB 75 paragraph 245. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement. Additional years' information will be displayed as it becomes available."

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