OFFICIAL STATEMENT DATED JULY 10, 2023

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on certain corporations.

The Bonds will **NOT** be designated as "Qualified Tax-Exempt Obligations for Financial Institutions."

NEW ISSUE: BOOK-ENTRY-ONLY **RATINGS: S&P Global Ratings.."AA+"**
See "SALE AND DISTRIBUTION OF THE BONDS – Municipal Bond Ratings"

$29,775,000
CITY OF FRIENDSWOOD, TEXAS
(A home rule city of the State of Texas located within Galveston and Harris Counties)

GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2023

Dated: August 1, 2023 Due: March 1, as shown below
Interest Accrual Date: Delivery Date

Principal of and interest on the $29,775,000 City of Friendswood, Texas, General Obligation Improvement Bonds, Series 2023 (the "Bonds") are payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, the initial paying agent/registrar (the "Paying Agent/Registrar"). The definitive Bonds are initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof**. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

Interest on the Bonds will accrue from the date of their initial delivery to the initial purchaser thereof named below (the “Underwriters”), and is payable on March 1 and September 1 of each year, commencing March 1, 2024, to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar on the 15th day of the month preceding each interest payment date. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. See "THE BONDS - Description."

The Bonds, when issued, will constitute valid and binding obligations of the City of Friendswood, Texas (the "City") and will be payable from the proceeds of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See "THE BONDS - Source of Payment."

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, as amended, and, an election held within the City on November 5, 2019. In addition, the Bonds are issued pursuant to an ordinance approved by the City Council of the City on July 10, 2023. See "THE BONDS – Authorization of the Bonds."

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND PRICES
(Due March 1)

$9,270,000 Serial Bonds

Maturity March 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 358568 (b)	Maturity March 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 358568 (b)
2025	$ 265,000	5.00%	3.27%	VP5	2032	$ 955,000	5.00%	3.12%	VW0
2026	295,000	5.00	3.17	VQ3	2033	1,005,000	5.00	3.17	VX8
2027	270,000	5.00	3.09	VR1	2034(c)	1,055,000	5.00	3.22	VY6
2028	280,000	5.00	3.08	VS9	2035(c)	1,110,000	5.00	3.30	VZ3
2029	300,000	5.00	3.08	VT7	2036(c)	980,000	5.00	3.44	WA7
2030	315,000	5.00	3.10	VU4	2037(c)	1,035,000	5.00	3.60	WB5
2031	325,000	5.00	3.11	VV2	2038(c)	1,080,000	4.00	4.06	WC3

$20,505,000 Term Bonds

$3,375,000 Term Bond Due March 1, 2041(a)(c)(d) Interest Rate 4.125% (Price $98.339) CUSIP Number 358568 WF6(b)
$3,530,000 Term Bond Due March 1, 2044(a)(c)(d) Interest Rate 4.250% (Price $98.380) CUSIP Number 358568 WJ8(b)
$5,485,000 Term Bond Due March 1, 2048(a)(c)(d) Interest Rate 4.375% (Price $98.296) CUSIP Number 358568 WN9(b)
$8,115,000 Term Bond Due March 1, 2053(a)(c)(d) Interest Rate 4.375% (Price $97.010) CUSIP Number 358568 WT6(b)

(a) The initial yields have been established by and are the sole responsibility of the Underwriters.
(b) CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright © 2022 CUSIP Global Services. All rights reserved. CUSIP® data herein provided is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the City, the Underwriters (defined below), or their agents or counsel assume responsibility for the accuracy of such numbers.
(c) The Bonds maturing on March 1, 2034 and thereafter are subject to redemption on March 1, 2033 or any date thereafter, at the option of the City, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS - Redemption Provisions – *Optional Redemption*."
(d) Subject to mandatory redemption in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions - *Mandatory Redemption*".

Proceeds of the sale of the Bonds will be used for (i) drainage and flood control improvement projects within the City; and (ii) payment of the costs of issuance of the Bonds. See "THE BONDS - Use of Proceeds" and "- Sources and Uses of Funds."

The Bonds are offered when, as and if issued, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. See "LEGAL MATTERS." Certain legal matters will be passed upon for the Underwriters by Holland & Knight LLP, Houston, Texas, as counsel to the Underwriters. Initial delivery of the Bonds through DTC is expected to be on or about August 8, 2023.

SAMCO CAPITAL

CREWS & ASSOCIATES **CABRERA CAPITAL MARKETS, LLC**

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the City 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 City.

This Official Statement is not to be used in 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 qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. Any information and expressions 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 any implication that there has been no change in the condition of the City or other matters described herein since the date hereof.

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

NEITHER THE CITY, THE FINANCIAL ADVISOR NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE ATTACHED APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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

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.

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, Rule 15c2-12.

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$29,775,000
CITY OF FRIENDSWOOD, TEXAS
(A home rule city of the State of Texas located within Galveston and Harris Counties)

GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2023

INTRODUCTORY STATEMENT

Information contained in this Official Statement, including Appendices A and B, has been obtained from the City of Friendswood, Texas (the "City") in connection with the offering by the City of its $29,775,000 General Obligation Improvement Bonds, Series 2023 (the "Bonds") identified on the cover page hereof.

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 the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

SAMCO Capital Markets, Inc., Crews & Associates and Cabrera Capital Markets, LLC (the "Underwriters") have agreed to purchase the Bonds from the City for $30,130,039.80 (being the principal amount of the Bonds, plus a net premium on the Bonds of $541,133.55 and less an Underwriters' discount of $186,093.75). The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and the public prices of some Bonds may be changed, from time to time, by the Underwriters.

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

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the City of a certificate executed and delivered by the Underwriters on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have been, or were expected to be, sold to the public. For this purpose, the term "public" shall not include any person who is a bondhouse, broker or similar person acting in the capacity of underwriter or wholesaler. The City has no control over trading of the Bonds after a bona fide public offering of the Bonds is made by the Underwriters at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

The prices and other terms respecting the offering and sale of certain of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and such Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such jurisdictions.

Municipal Bond Ratings

In connection with the sale of the Bonds, the City has made application to S&P Global Ratings ("S&P"), for a rating on the Bonds, and a rating of "AA+" has been assigned. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P, and the City makes no representation as to the appropriateness of such rating.

There is no assurance that such rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

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OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

The Issuer	The City of Friendswood, Texas (the "City") is a political subdivision and home rule city of the State of Texas located primarily within Galveston County with a small portion in Harris County, Texas. See "ADMINISTRATION OF THE CITY" and "APPENDIX A – Economic and Demographic Characteristics of the City" herein.
The Bonds	The Bonds shall mature on the dates and in the amounts set forth on the cover page of this Official Statement. Interest on the Bonds will accrue from the date of their initial delivery to the Underwriters of the Bonds and will be payable on March 1, 2024 and semiannually thereafter on each succeeding September 1 and March 1 of each year until the earlier of stated maturity or prior redemption (see “THE BONDS – Description”).
Other Characteristics	The Bonds are issued in fully registered form in integral multiples of $5,000. The Bonds maturing on and after March 1, 2034 are subject to redemption on March 1, 2033 or any date thereafter, in whole or in part, at the option of the City, at a price of the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS - Redemption Provisions – *Optional Redemption*." The Term Bonds (as defined herein) are additionally subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Redemption Provisions - *Mandatory Redemption*".
Authority	The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, as amended, and, an election held within the City on November 5, 2019. In addition, the Bonds are issued pursuant to an ordinance approved by the City Council of the City on July 10, 2023. See "THE BONDS – Authorization of the Bonds."
Paying Agent/Registrar	The initial paying agent/registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). The City intends to use the book-entry-only system of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of the DTC to discontinue use of such system. (See "THE BONDS - Book-Entry-Only System.")
Source of Payment	The Bonds, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See "THE BONDS - Source of Payment."
Use of Proceeds	Proceeds of the sale of the Bonds will be used for (i) drainage and flood control improvement projects within the City; and (ii) payment of the costs of issuance of the Bonds. See "THE BONDS - Use of Proceeds" and "- Sources and Uses of Funds."
Payment Record	The City has never defaulted in the payment of its debt.
Ratings	S&P Global Ratings .... "AA+"
Tax Exemption	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein. See "APPENDIX C." The Bonds will NOT be designated as "Qualified Tax-Exempt Obligations for Financial Institutions."

- Selected Financial Information -
(Unaudited)

2023 Preliminary Taxable Assessed Valuation (100% of market value as of January 1, 2023)	$ 4,989,376,475	(a)
2022 Certified Taxable Assessed Valuation (100% of market value as of January 1, 2022)	$ 4,614,143,928	(a)
Direct Debt:		
Outstanding Tax Supported Debt (as of June 30, 2023)	$ 58,470,000	
Plus: The Bonds	29,775,000	
Less: Self-Supporting General Obligation Debt	(16,920,000)	(b)
Total Tax Supported Debt	$ 71,325,000	
Estimated Overlapping Debt	$ 256,922,582	
Direct and Estimated Overlapping Debt	$ 328,247,582	
Debt Service Fund Balance (unaudited, as of April 30, 2023)	$ 1,278,878	

Debt Ratios:	% of 2023 Preliminary Assessed Valuation	% of 2022 Certified Taxable Assessed Valuation	2023 Estimated Population (42,222)
Direct Tax Supported Debt	1.43%	1.55%	$ 1,689
Direct Tax Supported and Estimated Overlapping Debt	6.58%	7.11%	$ 7,774

2022 Tax Rate (per $100 of Assessed Valuation)	
Maintenance and Operation	$ 0.388560
Debt Service	0.098754
Total	$ 0.487314
Annual Debt Service Requirements: (c)	
Average (Fiscal Years 2023-2053)	$ 3,662,032
Maximum (2029)	$ 5,524,613
Tax Collections:	
Arithmetic Average, Tax Years (2017-2021) - Current Year Collections	99.56%
- Total Collections	99.87%

(a) Provided by the Galveston County Appraisal District and Harris Central Appraisal District (the "Appraisal Districts") and net of exemptions. Such value is further subject to changes as additions, corrections and deletions are made to the tax roll.
(b) Debt supported by funds provided by the City's Waterworks and Sewer System.
(c) Includes the Bonds and excludes debt supported by the Waterworks and Sewer System revenues.

INTRODUCTION

This Official Statement and the Appendices hereto provide certain information with respect to the issuance by the City of Friendswood, Texas (the "City") in connection with the offering by the City of its $29,775,000 General Obligation Improvement Bonds, Series 2023 (the "Bonds").

The Bonds, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See "THE BONDS - Source of Payment."

There follows in this Official Statement descriptions of the Bonds, the plan of financing, and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City upon request. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the Bonds (the "Ordinance"), except as otherwise indicated herein.

THE BONDS

Description

The Bonds are dated August 1, 2023 and interest on the Bonds will accrue from the date of initial delivery to the Underwriters. Interest is payable initially on March 1, 2024, and each September 1 and March 1 thereafter until the earlier of maturity or prior redemption. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are issued in fully registered form in denominations of $5,000 each or any multiple thereof. Principal of the Bonds is payable at the principal payment office of The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar. The Bonds initially will be registered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described below.

In the event the Book-Entry-Only-System is discontinued, the Bonds will be printed and delivered to the registered owners thereof, and thereafter the Bonds may be transferred and exchanged on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity in any authorized denomination upon surrender of the Bonds to be exchanged at the principal payment office of the Paying Agent/Registrar. No service charge will be made for any transfer, but the City may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith. The Paying Agent/Registrar shall not be required to make any transfer or exchange of any Bonds during the period commencing with the close of business on any Record Date (defined below) and ending with the opening of business on the next following principal or interest payment date or, with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

The record date (the "Record Date") for the interest payable on any interest payment date means the 15th day of the month next preceding such interest payment date.

It will be required that all transfers be made within three business days after request and presentation.

The City has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity to keep them harmless. The City may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Redemption Provisions

- Optional Redemption -

The Bonds maturing on March 1, 2034 and thereafter are subject to optional redemption prior to maturity, in whole or in part, on March 1, 2033, or any date thereafter, at the option of the City at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date of redemption. If less than all of the Bonds are redeemed at any time, the maturities of such Bonds to be redeemed shall be selected by the City. If less than all of a maturity of the Bonds is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot or other random selection method the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

- Mandatory Redemption -

In addition to the optional redemption provisions described above, the Bonds maturing March 1 in the years 2041, 2044, 2048 and 2053 (the "Term Bonds") are subject to mandatory sinking fund redemption and shall be redeemed by the City prior to their scheduled maturities on March 1 in the years and in the amounts set forth below at a redemption price equal to the principal amount redeemed plus accrued interest to the mandatory redemption date (the "Mandatory Redemption Dates"):

$3,375,000 Term Bond Maturing March 1, 2041

Mandatory Redemption Date	Principal Amount
March 1, 2039	$1,120,000
March 1, 2040	1,170,000
March 1, 2041 (Maturity)	1,085,000

$3,530,000 Term Bond Maturing March 1, 2044

Mandatory Redemption Date	Principal Amount
March 1, 2042	$1,130,000
March 1, 2043	1,175,000
March 1, 2044 (Maturity)	1,225,000

$5,485,000 Term Bond Maturing March 1, 2048

Mandatory Redemption Date	Principal Amount
March 1, 2045	$1,280,000
March 1, 2046	1,340,000
March 1, 2047	1,400,000
March 1, 2048 (Maturity)	1,465,000

$8,115,000 Term Bond Maturing March 1, 2053

Mandatory Redemption Date	Principal Amount
March 1, 2049	$1,525,000
March 1, 2050	1,600,000
March 1, 2051	1,595,000
March 1, 2052	1,660,000
March 1, 2053 (Maturity)	1,735,000

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory sinking fund shall be reduced by the principal amount of any Bonds that, at least 45 days prior to the mandatory sinking fund redemption date, shall have been (1) purchased by the City and delivered to the Paying Agent/Registrar for redemption or (2) redeemed pursuant to the optional redemption provision described above and delivered to the Paying Agent/Registrar for cancellation.

Book-Entry-Only System

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

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

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

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

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable dates 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 in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest 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 Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Successor Paying Agent/Registrar

Provision is made in the Ordinance for replacing the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor paying agent/registrar (the "Successor Paying Agent/Registrar"), and the Successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any Successor Paying Agent/Registrar selected by the City shall be a commercial bank or trust company organized under the laws of the United States or any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Source of Payment

The Bonds, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City.

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 and interest on all ad valorem tax debt of the City within the limits prescribed by law. Article XI, Section 5 of the Texas Constitution, provides for an overall limitation for Home Rule Cities, including the City, of $2.50 per $100 assessed valuation for all purposes, including the payment of debt service. The Attorney General of Texas follows a policy, with respect to Home Rule Cities which have such a $2.50 limitation, of approving ad valorem tax bonds only to the extent that all of such city's ad valorem tax debt can be serviced by a debt service tax rate of $1.50 at 90% collection.

Use of Proceeds

Proceeds of the sale of the Bonds will be used for (i) drainage and flood control improvement projects within the City; and (ii) payment of the costs of issuance of the Bonds.

Authorization of the Bonds

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, as amended, and, an election held within the City on November 5, 2019 (the "Election").

In addition, the Bonds are issued pursuant to an ordinance approved by the City Council of the City on July 10, 2023, which will specifically authorize the sale and issuance of the Bonds. The Bonds constitute the third installment of the total authorization of $52,100,000 of tax bonds approved at the Election.

The following table illustrates the tax bonds authorized, issued, and remaining authorized after the sale of the Bonds.

Purpose	Amount Authorized	Issued to Date	The Bonds (a)	Authorized But Unissued
Public Works Facilities	$ 2,000,000	$ 2,000,000	$ 0	-0-
Public Safety	9,100,000	9,100,000	0	-0-
Drainage and Flood Control	41,000,000	11,000,000	30,000,000	-0-
	$52,100,000	$22,100,000	$30,000,000	-0-

(a) Includes an $29,775,000 par amount of the Bonds and a portion of the premium in the amount of $225,000 generated on the sale of the Bonds and applied against voter authorization.

Sources and Uses of Funds

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

SOURCES OF FUNDS:	
Principal Amount of Bonds	$ 29,775,000.00
Net Premium on the Bonds	541,133.55
Total Sources of Funds	$ 30,316,133.55
USES OF FUNDS	
Deposit to Construction Fund	$ 30,000,000.00
Expenses:	
Underwriters' Discount	$ 186,093.75
Other Issuance Expenses	130,039.80
Total Uses of Funds	$ 30,316,133.55

Amendments

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

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

Defeasance

The Ordinance provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds 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) Defeasance Securities, that will 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 Bonds, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

Future Debt

After the sale of the Bonds, the City will have no voter authorized but unissued general obligation bonds remaining. Depending on the rate of development within the City, changes in assessed valuation, and the amounts, interest rates, maturities and time of issuance of additional bonds or certificates of obligation, increases in the City's annual ad valorem tax rate may be required to provide for the payment of the principal of and interest on the City's outstanding bonds, the Bonds, and such future tax-supported debt of the City.

Other Obligations

The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt may be issued to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligation, tax anticipation notes, and public property finance contractual obligations.

- Contractual obligations, generally to finance personal property, and tax anticipation notes payable from ad valorem taxes; may be issued for capital improvements. The contractual obligations and tax anticipation notes may be refunded by ad valorem tax-supported bonds without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Tax anticipation notes are limited to seven years' amortization or less.

- Revenue bonds may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer system, electric and gas systems, convention centers, airports and parking systems, and other economic development projects. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.

- In addition to voted tax debt, the City has the legal authority to issue other debt obligations which could include certificates of obligation, public property finance contractual obligations, limited tax notes, revenue bonds, lease purchase agreements, tax anticipation notes, bond anticipation notes, certificates of participation, or traditional bank loans.

Legal Investments in Texas

Pursuant to the Texas Public Securities Procedures Act, Chapter 1201, Texas Government Code, as amended, the Bonds, whether rated or unrated, are (a) legal investments for insurance companies, fiduciaries and trustees and (b) legal investments for the sinking funds of political subdivisions or public agencies of the State. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. The Bonds are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, as amended, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Again, political subdivisions in the State of Texas may impose a requirement that the Bonds have a rating of not less than "A" or its equivalent to be eligible to serve as collateral for their funds.

The City has not made any investigations of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Bonds.

Remedies in the Event of Default

The Ordinance establishes specific events of default with respect to the Bonds, and provides that if the City defaults in the payment of principal or interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or Bonds set forth in the Ordinance and the continuation thereof for a period of 60 days after notice of default is given by the City by any owner, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Ordinance covenants and the City's Bonds are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in Tooke v. City of Mexia, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, owners of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY

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

Legal Investments

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

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

The City's policies require investments in accordance with applicable state law. The City's Statement of Investment Policy does not exclude any investments allowable under State law described above under "Legal Investments." The City generally invests in certificates of deposit, money market accounts and obligations of the United States or its agencies and instrumentalities.

Current Investments

The City's investment balances on April 30, 2023 were as follows:

	Principal Invested	Market Value	Book Value
Government Securities	$10,000,000	$ 9,767,650	$ 9,767,650
Investment Pool	59,452,623	59,452,623	59,452,623
Total Portfolio	$69,452,623	$69,220,273	$69,220,273

Additional Provisions

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the Mayor and Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to not more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

CITY TAX DEBT

Tax Supported Debt Statement

The following tables and calculations relate to the Bonds and to all other tax-supported debt of the City. In addition to outstanding certificates and bonds, the City also has issued revenue bonds and has incurred contractual and other indebtedness and liabilities which are not included below. The City and various other political subdivisions of government which overlap all or a portion of the City are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of property within the City.

Bonded Indebtedness Payable from Ad Valorem Taxes

2023 Preliminary Taxable Assessed Valuation (100% of market value as of January 1, 2023)	$ 4,989,376,475	(a)
2022 Certified Taxable Assessed Valuation (100% of market value as of January 1, 2022)	$ 4,614,143,928	(a)
Direct Debt:		
Outstanding Tax Supported Debt (as of June 30, 2023)	$ 58,470,000	
Plus: The Bonds	29,775,000	
Less: Self-Supporting General Obligation Debt	(16,920,000)	(b)
Total Tax Supported Debt	$ 71,325,000	
Debt Service Fund Balance (Unaudited, as of April 30, 2023)	$ 1,278,878	

(a) Provided by the Galveston County Appraisal District and Harris Central Appraisal District (the "Appraisal Districts") and net of exemptions. Such value is further subject to changes as additions, corrections and deletions are made to the tax roll.

(b) Debt supported by funds provided by the Waterworks and Sewer System.

Tax Supported Debt Service Schedule

The following sets forth the principal and interest on the City's Outstanding Tax Supported Debt, plus the principal and interest on the Bonds.

Fiscal Ending (9/30)	Current Total Debt Service (a)	Plus: The Bonds Principal	Interest	Total	Less: Self-Supporting Debt Service (b)	Total Debt Service Requirements
2023	$ 6,348,231				($ 2,439,325)	$ 3,908,906
2024	6,344,906		$ 1,422,360	$ 1,422,360	(2,435,700)	5,331,566
2025	6,346,969	$ 265,000	1,330,319	1,595,319	(2,438,500)	5,503,788
2026	6,403,669	295,000	1,316,319	1,611,319	(2,494,000)	5,520,988
2027	6,355,378	270,000	1,302,194	1,572,194	(2,403,575)	5,523,997
2028	6,358,694	280,000	1,288,444	1,568,444	(2,404,750)	5,522,388
2029	6,469,344	300,000	1,273,944	1,573,944	(2,518,675)	5,524,613
2030	6,468,825	315,000	1,258,569	1,573,569	(2,517,800)	5,524,594
2031	4,685,175	325,000	1,242,569	1,567,569	(732,400)	5,520,344
2032	2,319,125	955,000	1,210,569	2,165,569	(731,300)	3,753,394
2033	2,324,025	1,005,000	1,161,569	2,166,569	(734,100)	3,756,494
2034	2,320,800	1,055,000	1,110,069	2,165,069	(732,600)	3,753,269
2035	1,587,850	1,110,000	1,055,944	2,165,944		3,753,794
2036	1,411,800	980,000	1,003,694	1,983,694		3,395,494
2037	1,410,300	1,035,000	953,319	1,988,319		3,398,619
2038	1,412,825	1,080,000	905,844	1,985,844		3,398,669
2039	1,414,300	1,120,000	861,144	1,981,144		3,395,444
2040	1,414,725	1,170,000	813,913	1,983,913		3,398,638
2041	921,600	1,085,000	767,403	1,852,403		2,774,003
2042	920,150	1,130,000	721,013	1,851,013		2,771,163
2043	924,572	1,175,000	672,031	1,847,031		2,771,603
2044	924,897	1,225,000	621,031	1,846,031		2,770,928
2045	924,684	1,280,000	567,000	1,847,000		2,771,684
2046	923,950	1,340,000	509,688	1,849,688		2,773,638
2047	922,694	1,400,000	449,750	1,849,750		2,772,444
2048	920,900	1,465,000	387,078	1,852,078		2,772,978
2049	923,509	1,525,000	321,672	1,846,672		2,770,181
2050	920,522	1,600,000	253,313	1,853,313		2,773,834
2051	591,947	1,595,000	183,422	1,778,422		2,370,369
2052		1,660,000	112,219	1,772,219		1,772,219
2053		1,735,000	37,953	1,772,953		1,772,953
Totals	$81,216,366	$29,775,000	$25,114,350	$54,889,350	($22,582,725)	$113,522,991

Average Annual Requirements (2023-2053).. $3,662,032 (b)
Maximum Annual Requirement (2029) .... $5,524,613 (b)

(a) Includes debt supported by Waterworks and Sewer System revenues.
(b) Includes the Bonds and excludes debt supported by the Waterworks and Sewer System revenues.

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding obligations 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. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes. The City has not independently verified the accuracy or completeness of the information shown below except for amounts related to the City.

	Debt as of	Overlapping	
Taxing Jurisdiction	June 1, 2023	Percent	Amount
Clear Creek Independent School District	$ 993,980,000	2.87%	$ 28,527,226
Friendswood Independent School District	189,905,000	100.00	189,905,000
Galveston County	174,315,041	9.16	15,967,258
Harris County (a)	1,770,442,125	0.14	2,478,619
Harris County Department of Education	13,865,000	0.14	19,411
Harris County Flood Control District	797,615,000	0.14	1,116,661
Harris County Hospital District	70,970,000	0.14	99,358
Port of Houston Authority	445,749,397	0.14	624,049
West Ranch Management District	18,185,000	100.00	18,185,000
TOTAL ESTIMATED OVERLAPPING			$256,922,582
The City (b)			71,325,000
Total Direct and Estimated Overlapping Debt (b)			$328,247,582

(a) Harris County Toll Road Bonds are considered self-supporting and are not included in the amount shown for Harris County.
(b) Includes the Bonds and excludes debt supported by the Waterworks and Sewer System revenues.

Debt Ratios

	Direct Debt (a)	Direct and Overlapping Debt (a)
Per 2023 Preliminary Taxable Assessed Valuation ($4,989,376,475) (b)	1.43%	6.58%
Per 2022 Certified Taxable Assessed Valuation ($4,614,143,928) (b)	1.55%	7.11%
Per Capita (42,222)	$1,689	$7,774

(a) Includes the Bonds and excludes debt supported by the Waterworks and Sewer System revenues.
(b) Provided by the Appraisal Districts and net of exemptions. Such value is further subject to changes as additions, corrections and deletions are made to the tax roll.

TAX DATA

Ad Valorem Property Taxation

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

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

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

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 "TAX DATA - City's Rights in the Event of Tax Delinquencies."

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

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

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

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 or fatally wounded in the line of duty and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions. The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 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 City granted an additional 20% homestead exemption for the 2022 tax year. The City also grants a $25,000 exemption to persons over age 65.

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 Exemptions. Certain goods 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 to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

The City has taken official action and determined not to grant a "Goods-in Transit" exemption.

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

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

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.

Public Hearing and Maintenance and Operation Tax Rate Limitations

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

> "adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.
>
> "de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.
>
> "no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).
>
> "special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per $100 of taxable value.
>
> "unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.
>
> "voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate".

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

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

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

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

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

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

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

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

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

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.

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

Historical Analysis of Tax Collection

- Collection Ratios -

Tax Year	Net Assessed Valuation(a)	Tax Rate Per $100 of Assessed Valuation	Adjusted Tax Levy	% of Collections: Current Year Collection	% of Collections: Total Collections	Fiscal Year Ending 9-30
2012	$2,433,635,561	$0.597000	$14,454,404	99.63%	99.93%	2013
2013	2,504,251,452	0.591400	14,747,526	99.38	99.93	2014
2014	2,589,580,779	0.591400	15,424,948	99.23	99.92	2015
2015	2,974,520,186	0.568700	16,431,153	98.98	99.93	2016
2016	3,267,348,436	0.546000	17,014,685	99.46	99.93	2017
2017	3,499,059,604	0.527300	17,633,192	99.55	99.92	2018
2018	3,374,237,059	0.532390	17,952,134	98.91	99.90	2019
2019	3,688,815,835	0.521439	18,682,563	99.59	99.86	2020
2020	3,918,863,732	0.487314	18,879,840	99.99	99.86	2021
2021	4,243,567,347	0.487314	20,843,713	99.76	99.79	2022
2022	4,614,143,928	0.487314	22,805,105	97.20(b)	97.20(b)	2023

(a) Certified by the Galveston County Central Appraisal District and Harris Central Appraisal District and is net of exemptions. Also, such value is further subject to change as additions, corrections, and deletions are made to the tax roll.
(b) Collections as of April 30, 2023.

- Tax Rate Distribution -

	2022	2021	2020	2019	2018
Maintenance	$0.388560	$0.385147	$0.392153	$0.432160	$0.419899
Debt Service	0.098754	0.102167	0.095161	0.089279	0.112491
Total	$0.487314	$0.487314	$0.487314	$0.521439	$0.532390

- Delinquent Tax Collection Procedures -

In addition to the legal procedures and penalties described under "Levy and Collection of Taxes", the City has retained a delinquent tax attorney on a contract basis to file suit to collect delinquent taxes due the City. The fees due such attorney for acting as delinquent tax attorney are payable from an additional penalty imposed upon the delinquent taxpayer, not to exceed 20% of the tax due.

Analysis of Tax Base

- Tax Base Distribution -

	2022 Tax Roll		2021 Tax Roll		2020 Tax Roll	
Type of Property	Amount	%	Amount	%	Amount	%
Residential	$5,591,194,518	85.21%	$4,940,480,192	85.24%	$4,340,318,506	86.40%
Vacant Lots/Tracts	50,119,752	0.76	48,086,234	0.83	46,372,216	0.92
Acreage	25,710,911	0.39	25,675,671	0.44	23,037,842	0.46
Farm & Ranch	51,289,141	0.78	34,311,522	0.59	27,269,870	0.54
Commercial/Industrial	379,247,117	5.78	328,608,356	5.67	245,852,183	4.89
Minerals	8,381,606	0.13	5,365,617	0.09	7,727,793	0.15
Utilities	61,026,150	0.93	52,558,832	0.91	48,389,752	0.96
Business Personal	75,759,275	1.15	56,649,447	0.98	56,922,052	1.13
Real Inventory	7,505,592	0.11	921,247	0.02	995,090	0.02
Other Personal	311,317,845	4.74	302,993,819	5.23	226,460,928	4.51
Gross Assessed Value	$6,561,551,907	100.00%	$5,795,650,937	100.00%	$5,023,346,232	100.00%
Less: Exemption and Adjustments	1,947,407,979		1,552,083,590		1,104,482,500	
Net Assessed Value (a)	$4,614,143,928		$4,243,567,347		$3,918,863,732	

(a) Value may differ from those shown elsewhere in this Official Statement due to subsequent adjustments to the tax roll.

- Principal Taxpayers –

Principal Taxpayer	Type of Property	2022 Taxable Assessed Valuation	2021 Taxable Assessed Valuation	2020 Taxable Assessed Valuation
Reserve at Autumn Creek Ltd.	Multi-Family Resident	$ 35,632,199	$ 30,972,060	$ 32,597,042
Texas New Mexico Power Co.	Utility Company	28,765,360	22,712,259	19,960,100
Bellevue at Clear Creek LP	Multi-Family Resident	23,669,000	20,016,530	22,640,000
Kroger Co.	Grocery Store	13,708,567	13,020,517	12,914,814
Tannos Land Holding III LLC	Real Estate	13,703,590	14,000,000	8,524,060
Bay Meadows LLP	Multi-Family Resident	11,813,387	11,254,573	9,069,143
The Beldon Friendswood LLC	Multi-Family Resident	11,000,150	8,500,150	8,000,150
Frontier Land VPLL	Multi-Family Resident	11,000,000	7,385,000	6,885,000
Taylor Morrison of Texas, Inc.	Real Estate	9,647,960	(a)	(a)
A-S 108 Friendswood Crossing LP	Shopping Center	8,451,620	8,051,620	8,316,140
Baywood Apartments Ltd.	Multi-Family Resident	(a)	(a)	7,431,980
WOJV Friendswood LLC	Multi-Resident	(a)	7,925,690	(a)
Total Ten Principal Taxpayers		$167,391,833	$143,838,399	$136,338,429
Percentage Ten Principal Taxpayers Comprise of Tax Roll		3.63%	3.39%	3.48%

(a) Not a principal taxpayer in such tax year.

- Tax Adequacy -

Average Annual Tax Debt Service Requirements (2023-2053)	$3,662,032 (a)
Tax Rate of $0.078 per $100 assessed valuation against the 2023 Preliminary Assessed Valuation at 95% collection produces	$3,697,128
Tax Rate of $0.084 per $100 assessed valuation against the 2022 Certified Assessed Valuation at 95% collection produces...............................	$3,682,087
Maximum Annual Tax Debt Service Requirements (in the year 2029)...............................	$5,524,613 (a)
Tax Rate of $0.117 per $100 assessed valuation against the 2023 Preliminary Assessed Valuation at 95% collection produces	$5,545,692
Tax Rate of $0.127 per $100 assessed valuation against the 2022 Certified Assessed Valuation at 95% collection produces...............................	$5,566,965

(a) Includes the Bonds and excludes debt supported by the Waterworks and Sewer System revenues.

Sales Tax

- Authority -

The City has adopted the provisions of Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1 1/2% sales tax. The City has also voted an additional 1/8% sales and use tax for economic development. **The City may not and has not pledged the proceeds from the sales and use tax as security for the Bonds.**

- Collection History -

The State Comptroller, after deduction of a 2% service fee, currently remits the City's portion of sales tax collections monthly. By statute the Comptroller is required to remit at least twice annually. The following is an analysis of the collection history of the City's sales and use tax:

		Ad Valorem Tax Comparisons		
Fiscal Year Ended 9-30	Sales and Use Tax Receipts	Equivalent Tax Year	Tax Rate Equivalent	% of Actual Tax Levy
2013	$ 4,318,768	(2012)	$0.177	30.0%
2014	4,726,283	(2013)	0.188	32.0
2015	5,291,186	(2014)	0.204	34.3
2016	5,393,920	(2015)	0.181	32.9
2017	6,482,367	(2016)	0.198	38.1
2018	7,965,662	(2017)	0.228	45.4
2019	8,407,249	(2018)	0.249	46.8
2020	8,846,359	(2019)	0.240	47.4
2021	9,915,046	(2020)	0.253	52.5
2022	11,176,190	(2021)	0.263	53.6

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SELECTED FINANCIAL DATA

Historical Operations of the City's General Fund

The following is a condensed statement of revenues and expenses of the City's General Fund for the past five fiscal years. The inclusion of the following table is not intended to imply that any revenues of the City, other than receipts from ad valorem taxes as provided in the Ordinance, are pledged to pay principal of and interest on the Bonds.

	Fiscal Year Ended September 30				
	2023 (a)	2022	2021	2020	2019
REVENUES					
Property Taxes (b)	$17,690,517	$16,475,894	$15,267,421	$15,518,951	$14,729,551
Sales Taxes	4,004,484	8,967,803	7,953,859	7,097,134	6,746,466
Franchises Fees and Other	802,770	2,170,152	2,090,001	2,142,660	2,054,395
Fines and Forfeitures	499,985	969,344	1,117,224	690,913	815,090
Permits and Fees	968,371	1,789,147	1,617,433	1,426,880	1,447,013
Intergovernmental	424,094	594,774	3,448,210	2,983,424	1,576,838
Investments Earnings	255,793	(15,254)	35,951	197,606	342,268
Donations	81,100	61,211	55,881	59,473	64,862
Miscellaneous	1,210,051	336,367	124,627	112,876	17,107
Total Revenues	$25,937,165	$31,349,438	$31,710,607	$30,229,917	$27,793,590
EXPENDITURES					
General Government	$ 5,098,002	$ 5,988,239	$ 5,544,348	$ 5,649,705	$ 5,318,898
Public Safety	9,718,964	15,330,928	14,799,066	14,154,341	13,355,797
Public Works	1,543,378	3,047,460	2,603,627	1,923,729	2,472,675
Engineering	322,718	571,010	507,933	434,976	0
Community Development	679,284	1,187,413	1,131,498	1,139,566	1,099,154
Parks and Recreation	2,433,724	4,302,309	3,715,517	3,426,521	3,796,589
Library Services	755,344	1,333,456	1,223,726	1,182,289	1,204,415
Capital Outlay	1,719,785	2,563,859	3,752,551	2,094,024	2,275,993
Total Expenditures	$22,271,199	$34,324,674	$33,278,266	$30,005,151	$29,523,521

(a) Unaudited, as of April 30, 2023.
(b) Includes penalties and interest.
Source: Except as noted, the City's audited financial statements.

General Fund and Debt Service Fund Balance for the Past Five Fiscal Years

	Fiscal Year Ended September 30				
	2023 (a)	2022	2021	2020	2019
General Fund	$21,051,053	$17,385,087	$17,227,145	$16,872,024	$14,223,489
Debt Service Fund	1,278,878	46,375	10,608	31,909	57,009

(a) Unaudited, as of April 30, 2023.
Source: Except as noted, the City's audited financial statements.

Pension Fund

The City participates in the Texas Municipal Retirement System ("TMRS"), an agency operated by the State of Texas. Employees of the City who participate in TMRS contribute a fixed percentage, currently 7%, of their gross pay and the City matching percent is currently 2 to 1. As employees leave municipal employment other than through retirement, they may withdraw from TMRS those funds they contributed, but forfeit their employer's contributions. Each municipal employer's requirements for current contributions are offset by the amounts of such forfeitures.

As of September 30, 2022, the City employed 217 full-time employees and 30 part-time and seasonal employees. All full-time employees are covered by TMRS and the City's contribution for fiscal year 2022, amounted to approximately $2,875,376. The City had a net pension benefit obligation in the amount of $5,157,790 as of December 31, 2021. The liability for prior service benefits will be amortized over a period of twenty-seven years or less by contributions from the City which are a level percentage of payroll.

Financial Statements

A copy of the City's Financial Statements for the fiscal year ended September 30, 2022 is attached hereto in the APPENDIX B. Copies of such statements for preceding years are available, for a fee, upon request.

ADMINISTRATION OF THE CITY

Mayor and City Council

Policy-making and supervisory functions are the responsibility of and are vested in the Mayor and City Council for the City, under provisions of the "Charter of the City of Friendswood" (the "Charter") approved by the electorate October 16, 1971. The Council is elected at large on the first Saturday in May. The Mayor and six Council members serve three-year staggered terms. Members of the Council are described below:

Council Members	Period Served	Term Expires May	Occupation
Mike Foreman Mayor	5 Years	2024	Business Owner
Steve Rockey Council Member	11 Years	2024	Chief Operating Officer
Sally Branson Council Member	6 Years	2026	Financial Advisor
Trish Hanks Council Member	5 Years	2024	Education Consultant
Robert J. Griffon Council Member	5 Years	2025	Investor
Joe Matranga Council Member	(a)	2026	Retired Senior Vice President Oil and Gas
Brent Erenwert Mayor Pro-Tem Council Member	4 Years	2025	Produce Buyer

(a) Elected May 2023.

Administration

Under provisions of the Charter, the City Council enacts local legislation, adopts budgets, determines policies and appoints the City Manager, who is charged with the duties of executing the laws and administering the government of the City. As the chief executive officer and head of the administrative branch of the City government, the City Manager is given the power and duties to:

(1) Appoint and remove all department heads and all other employees in the administrative service of the City and may authorize the head of a department to appoint and remove subordinates in his respective department;

(2) Prepare the budget annually, submit it to City Council, and be responsible for its administration;

(3) Prepare and submit to City Council a complete report on the finances and administrative activities of the City;

(4) Keep City Council advised of the financial condition and future needs of the City and make appropriate recommendations; and

(5) Perform such other necessary duties as prescribed by the Charter or required by City Council.

Members of the administrative staff are described below:

Name	Position	Period Served
Morad Kabiri	City Manager	15 Years
Steven Rhea	Assistant City Manager	5 Years
Leticia Brysch	City Secretary	2 Years
Katina Hampton	Director of Administrative Services	16 Years
James Toney	Director of Parks and Recreation	18 Years
Rene Ibarra	Director of Public Works	17 Years
Jildardo Arias	Director of Engineering	4 Years
Matthew Riley	Director of Library Services	33 Years
Aubrey Harbin	Director of Community Development	16 Years
Brian Mansfield	Fire Marshal / Emergency Management Coordinator	23 Years
Robert B. Wieners	Police Chief	24 Years
Haley Brown	Director of Human Resources and Risk Management	8 Years
Karen Horner	City Attorney	1Year

Consultants

The City has retained several consultants to perform professional services in connection with the independent auditing of its books and records and other City activities. Several of these consultants are identified below:

Bond Counsel .... McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Certified Public Accountants.. Whitley Penn LLP
Houston, Texas

Financial Advisor .... BOK Financial Securities, Inc.
Houston, Texas

LEGAL MATTERS

Legal Opinion

The delivery of the Bonds is subject to the approving opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limit prescribed by law, upon all taxable property in the City and, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City ("Bond Counsel"), in substantially the form attached as APPENDIX C. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Bonds. The City expects to pay the fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds of the Bonds. Certain legal matters will be passed upon for the Underwriters by Holland & Knight LLP, Houston, Texas, Counsel to the Underwriters, whose legal fees are contingent upon the sale and delivery of the Bonds.

Bond Counsel has reviewed the statements and information appearing in the Official Statement under the captions and subcaptions "THE BONDS" (except the subcaptions "Book-Entry-Only System," "Future Debt," "Other Obligations," "Sources and Uses of Funds" and "Remedies in the Event of Default"), "SALE AND DISTRIBUTION OF THE BONDS – Securities Laws," "LEGAL MATTERS - Legal Opinion" (excluding the last sentence of the first paragraph thereof), "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except the subcaption "Compliance With Prior Undertakings") and such firm is of the view that the information under such captions and subcaptions fairly summarizes the procedures and documents referred to therein and is correct as to matters of law. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

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

No-Litigation Certificate

The City will furnish to the Underwriters a certificate, dated as of the date of delivery of the Bonds, executed by appropriate City officials, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

No Material Adverse Change

The obligations of the Underwriters to take and pay for the Bonds, and of the City to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the City subsequent to the date of sale from that set forth or contemplated in the Official Statement, as it may have been supplemented or amended through the date of sale.

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, and (b) covenants of the City contained in the Bond documents relating to certain matters, including arbitrage, and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

Interest on the Bonds may be includable in certain corporation’s "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such Bonds;

although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

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

State, Local and Foreign Taxes

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, 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"). Information will be available from the MSRB free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings "INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY – Current Investments," "CITY TAX DEBT," "TAX DATA" (except under the subheading "Estimated Overlapping Taxes") and "SELECTED FINANCIAL DATA" (collectively, the "Annual Operating Data"). The City will update and provide the Annual Operating Data within six months after the end of each fiscal year. The City will additionally provide audited financial statements of the City (the "Financial Statements"), and such Financial Statements will be provided within 12 months after the end of each fiscal year ending in or after 2023. If the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such Financial Statements will be prepared in accordance with the accounting principles described in APPENDIX "B" or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12.

The City's current fiscal year end is September 30. Accordingly, the Annual Operating Data must be provided by March 31 in each year, and the Financial Statements must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice in a timely manner not in excess of ten business days after the occurrence of the event of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, , if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. Neither the Bonds nor the Ordinance make any provision for debt service reserves, liquidity enhancement, credit enhancement, merger, consolidation, or acquisition. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

For these purposes, any event described in (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 the City intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018 (the "2018 Release") and any further written guidance provided by the SEC or its staff with respect to the amendment to Rule 15c2-12 effected by the 2018 Release.

Availability of Information

The City has agreed to provide the foregoing information only to the MSRB. The information will be available to the public at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement. The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, if (i) the agreement, as amended, would have permitted an Underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to such amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an Underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with any 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 financial information and operating data so provided.

Compliance With Prior Undertakings

During the last five years, the City has substantially complied in all material respects with its undertakings made in accordance with Rule 15c2-12.

SEVERE WEATHER EVENTS

The City is located near the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. The greater Houston area, including the City, has experienced multiple storms exceeding a 0.2% probability (i.e. "500-year flood" event) since 2015. Several of these storms, including Hurricane Harvey, resulted in damages to City facilities, and also resulted in damages to residential and commercial properties in the City which comprise the City's ad valorem tax base. If a future weather event significantly damaged all or part of the properties comprising the tax base within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the City's tax rate. Further, Texas law allows cities to increase property tax rates without voter approval upon the occurrence of certain natural disasters such as floods and upon a gubernatorial or presidential declaration of disaster. There can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the City could be adversely affected.

INFORMATION TECHNOLOGY AND CYBERSECURITY

The City depends upon information and computing technology to conduct general business operations. These systems may be subject to disruptions or security breaches that could materially disrupt the City's operations, cause reputational damage and/or give rise to losses or legal liability. The City continually monitors these threats, however, no assurance can be given that the City will fully prevent potential business continuity or cybersecurity risks arising from events wholly or partially beyond the City's control, including electrical telecommunications outages, natural disasters, or cyberattacks, or larger scale political events, including terrorist attacks. Any such occurrence could materially and adversely affect the City's operations and reputation, which could lead to decreased financial performance that insurance may not cover and may require the City to expend significant resources to correct the failure or disruption.

EXPOSURE TO OIL AND GAS INDUSTRY

In the past, the greater Houston area has been particularly affected by adverse conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the City resulting in a reduction in property tax revenue. The Bonds are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds.

FINANCIAL ADVISOR

BOK Financial Securities, Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

GENERAL CONSIDERATIONS

Sources and Compilation of Information

The information contained in this Official Statement has been obtained primarily from the City and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the City. The summaries of the statutes, ordinances and other related documents are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

Neither this Official statement nor any statement that may have been made orally or in writing is to be constructed as or as part of a contract with the original purchasers or subsequent owners of the Bonds.

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 would prove to be accurate.

In the Ordinance, the City Council will duly authorize and approve this Official Statement as of the date specified on the first page hereof.

Mike Foreman
Mayor
City of Friendswood

ATTEST:

Leticia Brysch
City Secretary
City of Friendswood

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF FRIENDSWOOD

The following information has been derived from various sources, including the Texas Municipal Reports, U.S. Census data, "Sales Management Survey of Buying Power", and City officials. While such sources are believed to be reliable, no representation is made as to the accuracy thereof.

- City Economics -

The City of Friendswood, Texas (the "City"), is a commercial center located 20 miles southeast of downtown Houston at the intersection of Farm to Market Road 2351 and Farm to Market Road 518 in the northeast corner of Galveston County, with a small portion in Harris County. At present, there are numerous residential subdivisions either developed or under construction within the City with homes ranging in value from approximately $75,000 to over $2,500,000, with the average being approximately $450,000.

Manufacturing and Commerce

Employment in Galveston County (the "County") is provided by the extensive petro-chemical industry. (Source: Texas Municipal Report.) Also adding to the general economy of the County are fishing, tourism and recreation activities and agribusiness. The Gulf Intracoastal Waterway comes through the lowlands near Surfside Beach and is an important waterway in America with reported annual tonnage comparable to the Panama and Suez Canals.

ECONOMIC AND GROWTH INDICATORS

U.S. Census of Population

	City of Friendswood		Galveston County	
	Number	% Change	Number	% Change
1930	---	---	23,054	+11.84
1940	---	---	27,069	+17.42
1950	---	---	46,549	+71.96
1960	1,497	---	76,204	+63.71
1970	6,444	+330.46	108,312	+42.13
1980	13,248	+105.59	169,587	+56.57
1990	18,927	+42.87	191,707	+13.04
2000	29,037	+53.42	250,158	+30.49
2010	35,805	+23.31	291,309	+16.45
2020	41,213	+15.10	350,682	+20.38

(a) Source: U.S. Census Bureau.

Employment Statistics

State of Texas

	2023 (a)	2022	2021	2020	2019
Labor Force	14,968,635	14,662,558	14,311,029	13,955,332	13,921,781
Employed	14,354,834	14,092,833	13,503,671	12,883,803	13,429,073
Unemployed	613,801	569,725	807,358	1,071,529	492,708
Unemployment Rate	4.1%	3.9%	5.6%	7.7%	3.5%

Galveston County

	2023 (a)	2022	2021	2020	2019
Labor Force	172,595	169,058	165,872	163,981	164,492
Employed	164,921	161,647	154,992	149,565	157,827
Unemployed	7,674	7,411	10,880	14,416	6,665
Unemployment Rate	4.4%	4.4%	6.6%	8.8%	4.1%

City of Friendswood

	2023 (a)	2022	2021	2020	2019
Labor Force	20,472	19,984	19,480	19,088	19,761
Employed	19,665	19,278	18,486	17,834	19,118
Unemployed	807	706	994	1,254	643
Unemployment Rate	3.9%	3.5%	5.1%	6.6%	3.3%

(a) As of May 31, 2023.

Employment Statistics
Source: Texas Workforce Commission

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY

CITY OF FRIENDSWOOD, TEXAS

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2022

FRIENDSWOOD
FOUNDED 1895
TEXAS

City of Friendswood Texas

CITY OF FRIENDSWOOD, TEXAS

ANNUAL COMPREHENSIVE
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED

Fiscal Year Ended
September 30, 2022

Officials Issuing Report:

Morad Kabiri
City Manager

Katina Hampton
Director of Administrative Services

City of
Friendswood
Texas

INTRODUCTORY SECTION

CITY OF FRIENDSWOOD

March 22, 2023

The Honorable Mayor, Members of the City Council, and the Citizens of Friendswood:

The Annual Comprehensive Financial Report (ACFR) of the City of Friendswood for the fiscal year ended September 30, 2022, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City 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 City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City Charter requires an annual audit of the financial statements of all of the various funds of the City by independent certified public accountants. The accounting firm of Whitley Penn LLP has performed such an audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2022 are free of material misstatement. 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. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended September 30, 2022, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CITY

Established in 1895 as a Quaker colony, the City of Friendswood is rich in heritage. The City was incorporated in 1960 and chartered a home-rule city under Texas law in 1971. The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the Mayor and six (6) Council Members. The Mayor and Council are responsible, among other things, for passing ordinances, adopting the budget, appointing board and committee members and hiring the City Manager, City Attorney, Municipal Judge, and City Secretary. The City Manager is responsible for carrying out the policies and ordinances of the City Council and overseeing the day-to-day operations of the City government, and for appointing heads of various departments. The Mayor and Council are elected on an at-large, non-partisan basis. The Mayor and Council are elected to serve no more than four consecutive three-year terms.

The City provides a full range of municipal services including public safety (police, fire and emergency medical), maintenance of streets and infrastructure, sanitation services, maintenance of the treated waste distribution system and both sanitary and storm sewer collection transmission systems, recreational activities and cultural events as well as general administrative services.

FACTORS AFFECTING FINANCIAL CONDITION

Location
Encompassing 21 square miles, Friendswood is located in southeast Texas near the Texas Gulf Coast, between downtown Houston and Galveston, spanning across two counties – northern Galveston County and southern Harris County. The current estimated population is 42,222. Residents and visitors can access Friendswood through FM 2351, FM 518, and FM 528 (NASA Parkway). Hobby Airport and Ellington Airport are located within a 15 minute drive from Friendswood, and Bush Intercontinental Airport is just 45 minutes away. Major sectors of the area's economic base include aerospace, specialty chemicals, health care, retail, and tourism.

Community
Friendswood has been nationally recognized as one of the best places to live in the country. With low tax rates, outstanding public education, and the lowest crime rate in the region, Friendswood is the perfect place to live, work, and play. The city features beautiful parks and lush landscaping, along with a championship golf course. Children academically excel via two superior public school systems – Friendswood ISD and Clear Creek ISD. These attributes perfectly match Friendswood's affluent resident base of well-educated, high-income families. More than 50% of residents work in executive, professional, and managerial positions and generate an average household income of over $145,000, one of the highest in the Houston area.

Business
Friendswood is the perfect choice for many types of commercial enterprises. Target markets include professional offices, retail, commercial, and light industrial developments. A key City focus is to encourage redevelopment of the downtown area and development of the City's panhandle area. City leaders have approved special tools and incentives to revitalize downtown to promote mixed-use, multi-story developments with pedestrian streetscapes and other amenities. The City offers competitive business incentives, including a municipal grant program, tax abatement that includes "green" development, freeport tax exemption, and downtown development fee waivers.

Quality Lifestyle
As with any city, the goal is planning for continued quality growth to create a well-balanced community. Friendswood offers single-family residential housing in pleasant park-like settings, tucked-away from the busy stream of vehicular traffic. Friendswood is committed to attracting more local enterprises that will complement and enhance the unique community environment that has been carefully built over the past 100 years; one that has come to be cherished by residents and business owners alike.

LONG TERM PLANNING

Budgeting Controls

The objective of the City's budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by Council. The charter requires the City Manager to submit a proposed budget and an accompanying message to the City Council on or before August 1. The council shall review and revise as deemed appropriate prior to general circulation for the public hearing. The Public Notice and Hearing must be posted in the city hall and published in the official newspaper. The budget must be adopted by the 15th of September or as soon thereafter as practical. The City legally adopts annual budgets for the General, Special Revenue and Debt Service Funds. Annual and project budgets are also adopted for the Proprietary and Capital Projects Funds, respectively.

The level of budgetary control; that is, the level at which expenditures cannot legally exceed the appropriated amount, is established by department within a fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbrances lapse at fiscal year end, but can be re-appropriated through a budget amendment the following fiscal year. The City Manager is authorized to transfer budgeted amounts within departments in any fund, but revisions that increase the total expenditures of any fund or transfers between departments must be approved by Council.

Multi-Year Financial Planning

A Multi-Year financial plan (MYFP) was developed in 2006. Originally, staff was directed to develop a plan to forecast the City's financial condition through 2020, the projected build-out date. The first version of this plan was drafted and later reduced in scope to a five year projection.

The MYFP is based on the City's strategic planning efforts, including the Comprehensive Land Use Plan, Vision 2020 and the Capital Improvements Plan. Departmental operational plans funding requirements to provide programs and services are included in the MYFP as well. Funding needs and available resources, both current and alternative revenue enhancements, are identified. Expenditures are projected based on departmental needs assessments and are organized based on "one-time" and "on-going" expenditures. In collaboration with Council, the plan is updated at least annually and serves as the basis of budget development.

Relevant Financial Policies

As part of the annual budget process, the City adopts Financial Management Policy Statements that establish a framework for fiscal decision making and that ensure that financial resources are available to meet the present and future needs of its citizens. These statements provide guidelines for financial planning and management, addressing every major financial function and process.

Most importantly, the Financial Management Policy requires that the City maintain the General Fund unassigned fund balance at a minimum of 90 days of prior year audited operating expenditures. Any unassigned funds after the fiscal year-end audit will be allowed to accumulate to build this 90-day reserve. After the General Fund has gathered sufficient resources, additional unassigned funds will be allowed to accumulate for future General Fund capital improvements.

The Financial Management Policy also requires the minimum working capital in the Water and Sewer Fund be 90 days of prior year audited operating expenditures. Any unrestricted funds after the fiscal year-end audit will be allowed to accumulate to build this 90-day reserve. After these funds have gathered sufficient resources, additional unrestricted funds will be allowed to accumulate in working capital for future utility /operating fund capital improvements.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Friendswood for its annual comprehensive financial report for the fiscal year ended September 30, 2021. This was the thirty-fourth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized annual comprehensive financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. 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 the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the annual comprehensive financial report was made possible by the dedicated service of the entire staff of the Administrative Services Department. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

In closing, I also express my thanks to the Mayor, members of the City Council and the City Manager for their leadership, interest and support in conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,

Katina Hampton

Katina Hampton
Director of Administrative Services

CITY OF FRIENDSWOOD, TEXAS
PRINCIPAL OFFICIALS
September 30, 2022

Elected Officials	Position	Term Expires
Mike Foreman	Mayor	May 2024
Steve Rockey	Council Member - Position No. 1	May 2024
Sally Branson	Council Member - Position No. 2	May 2023
Trish Hanks	Council Member - Position No. 3	May 2024
Robert J. Griffon	Council Member - Position No. 4	May 2022
John H. Scott	Council Member - Position No. 5	May 2023
Brent Erenwert	Council Member - Position No. 6	May 2022

Key Staff	Position
Morad Kabiri	City Manager
Steven Rhea	Assistant City Manager
Katina Hampton	Director of Administrative Services
Aubrey Harbin	Director of Community Development
Jildardo Arias	Director of Engineering
Matt Riley	Library Director
Brian Mansfield	Fire Marshal/Emergency Management Coordinator
Haley Brown	Director of Human Resources
James O'Brien	Director of Information Technology
Rene Ibarra	Director of Public Works
James Toney	Director of Parks and Recreation
Leticia Brysch	City Secretary
Robert B. Wieners	Police Chief
Karen Horner	City Attorney
James W. Woltz	Judge - Municipal Court

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

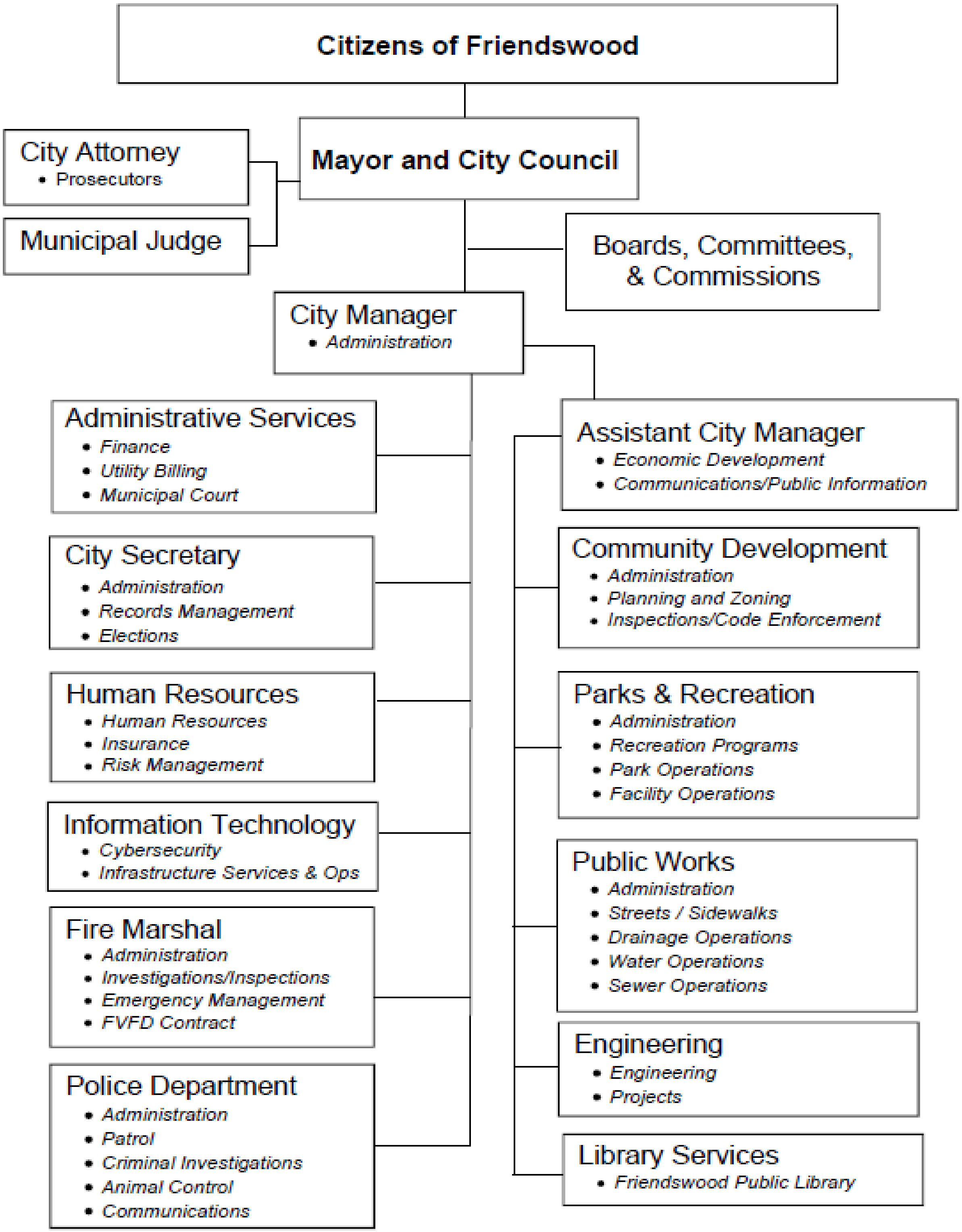
City of Friendswood
Texas

For its Annual Comprehensive Financial Report
For the Fiscal Year Ended

September 30, 2021

Christopher P. Morrill

Executive Director/CEO


Citizens of Friendswood
City Attorney
• Prosecutors
Mayor and City Council
Municipal Judge
Boards, Committees, & Commissions
City Manager
• Administration
Administrative Services
• Finance
• Utility Billing
• Municipal Court
Assistant City Manager
• Economic Development
• Communications/Public Information
City Secretary
• Administration
• Records Management
• Elections
Community Development
• Administration
• Planning and Zoning
• Inspections/Code Enforcement
Human Resources
• Human Resources
• Insurance
• Risk Management
Parks & Recreation
• Administration
• Recreation Programs
• Park Operations
• Facility Operations
Information Technology
• Cybersecurity
• Infrastructure Services & Ops
Public Works
• Administration
• Streets / Sidewalks
• Drainage Operations
• Water Operations
• Sewer Operations
Fire Marshal
• Administration
• Investigations/Inspections
• Emergency Management
• FVFD Contract
Engineering
• Engineering
• Projects
Police Department
• Administration
• Patrol
• Criminal Investigations
• Animal Control
• Communications
Library Services
• Friendswood Public Library

FINANCIAL SECTION

Houston Office
3737 Buffalo Speedway
Suite 1600
Houston, Texas 77098
713.621.1515 Main

whitleypenn.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Friendswood, Texas (the "City"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, based on our report and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2022, 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.

We did not audit the financial statements of West Ranch Management District, a discretely presented component unit of the City, which represents 81%, 100%, and 76%, respectively, of the assets, liabilities, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for West Ranch Management District, is based solely on the report of the other auditors. The financial statements of West Ranch Management District were not audited in accordance with *Government Auditing Standard*s.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, general fund budgetary comparison schedule, pension information, and other-post employment benefit information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

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

Supplementary 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 combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Whitley Penn LLP

Houston, Texas
March 22, 2023

As management of the City of Friendswood, Texas ("the City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2022. Please read this information in conjunction with the basic financial statements that follow this section.

Financial Highlights

Some of the City's financial highlights for the fiscal year ending September 30, 2022 include:

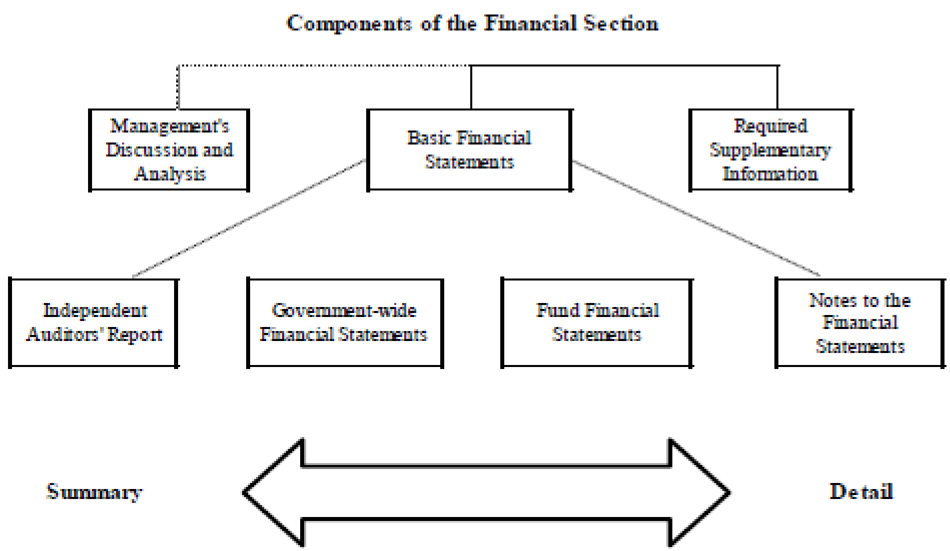
- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $138,408,783.

- The City's total net position increased during the year by $10,173,322. The City's net pension and total OPEB liabilities were $5.2 million and $1.9 million, respectively. The net pension liability and total OPEB liability decreased by $4.6 million and $11.8 thousand, respectively, compared to the prior year.

- As of the close of the current fiscal year, the City reported unrestricted net position of $20,445,699.

- Program revenues of $26,019,424 reduced the net cost of the City's functions to be financed from the City's general revenues to $24,836,928 .

Overview of the Financial Statements



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

Government-wide Financial Statements

The government-wide financial statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

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

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or significant portion of their costs through user fees (business-type activities).

- Governmental activities – Most of the City's basic services are reported here including general government (mayor and council, city secretary, city manager, administrative services, human resources, and information technology); public safety (police and fire marshal); engineering (capital projects administration); public works (streets and drainage); community development (building inspection and planning and zoning); parks and recreation (parks, facility operations and community activities) and library. Interest payments on the City's debt and internal lease payments are also reported here. Property tax, sales tax, franchise taxes, municipal court fines and permit fees finance most of the activities.

- Business-type activities – Services involving a fee for those services, which include the City's water and sewer system are reported here.

- Component Units – Activities of the West Ranch Management District and Friendswood Downtown Economic Development Corporation.

Fund Financial Statements

A fund is a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City uses two fund types – governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements with the exclusion of internal service fund activity. However, unlike the government-wide financial statements, governmental funds 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 the City's near-term financing requirements.

Because the focus of the 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, the reader may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental 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 fourteen governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Coronavirus State and Local Fiscal Recovery Fund, Bond Construction Fund, and Debt Service Fund, which are considered to be major funds. The other ten funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements found in this report.

Proprietary Funds

The City maintains two types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its operation in water distribution and wastewater collection/treatment along with its water and wastewater impact fees, and water construction projects. Management would note that trash collection services are provided by a franchise agreement.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for fleet management services. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information ("RSI"). The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided as RSI to demonstrate compliance with this budget. RSI can be found after the notes to the financial statements. The RSI also includes schedules related to the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees.

The combining and individual fund financial statements and schedules that further support the information in the financial statements are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $138,408,783 as of September 30, 2022 in the primary government, which is an increase in the City's overall financial position compared to the prior year.

The largest portion of the City's net position (79.5%) reflects its investments in capital assets (e.g., land, buildings and improvements, machinery and equipment, infrastructure, water and sewer system, construction in progress and water rights); less any debt outstanding used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the assets themselves cannot be used to liquidate these liabilities.

The following table reflects the condensed Statement of Net Position.

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Current and other assets	$ 48,901,051	$ 44,538,331	$ 42,738,547	$ 48,888,658	$ 91,639,598	$ 93,426,989
Capital assets	115,612,347	108,518,265	71,551,212	62,808,555	187,163,559	171,326,820
Total Assets	164,513,398	153,056,596	114,289,759	111,697,213	278,803,157	264,753,809
Deferred Outflows of Resources	3,221,061	2,969,271	1,002,527	1,023,421	4,223,588	3,992,692
Total Assets and Deferred Outflows of Resources	167,734,459	156,025,867	115,292,286	112,720,634	283,026,745	268,746,501
Long-term liabilities	57,337,086	62,989,424	60,296,656	64,349,995	117,633,742	127,339,419
Other Liabilities	16,380,206	8,080,805	3,611,658	2,429,773	19,991,864	10,510,578
Total Liabilities	73,717,292	71,070,229	63,908,314	66,779,768	137,625,606	137,849,997
Deferred Inflows of Resources	6,282,137	2,336,852	710,219	324,191	6,992,356	2,661,043
Net Position:						
Net investment in capital assets	74,006,329	72,240,727	35,999,342	32,910,959	110,005,671	105,151,686
Restricted	5,059,835	3,491,974	2,897,578	2,721,465	7,957,413	6,213,439
Unrestricted	8,668,866	6,886,085	11,776,833	9,984,251	20,445,699	16,870,336
Total Net Position	$ 87,735,030	$ 82,618,786	$ 50,673,753	$ 45,616,675	$138,408,783	$128,235,461

A portion of the primary government's net position, $7,957,413 or 5.7%, represents resources that are subject to external restrictions on how they may be used. These restrictions include monies accounted for in special revenue funds for which the use is legally restricted and capital project funds. The remaining balance of unrestricted net position, $20,445,699 or 14.8%, may be used to meet the City's ongoing obligations to citizens and creditors.

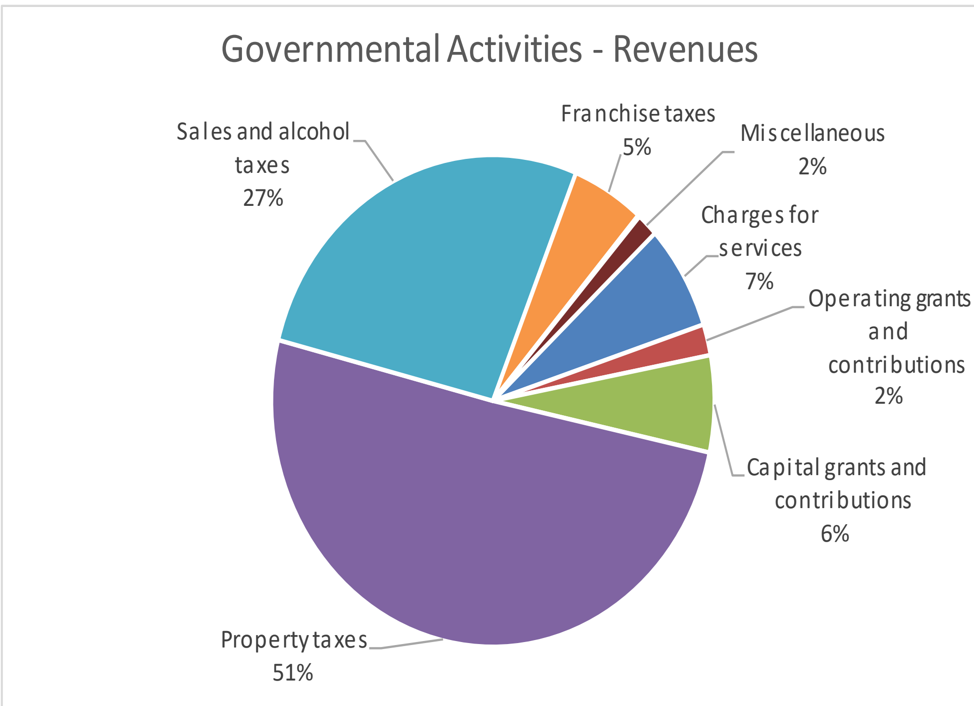
The following table provides a summary of the City's changes in net position.

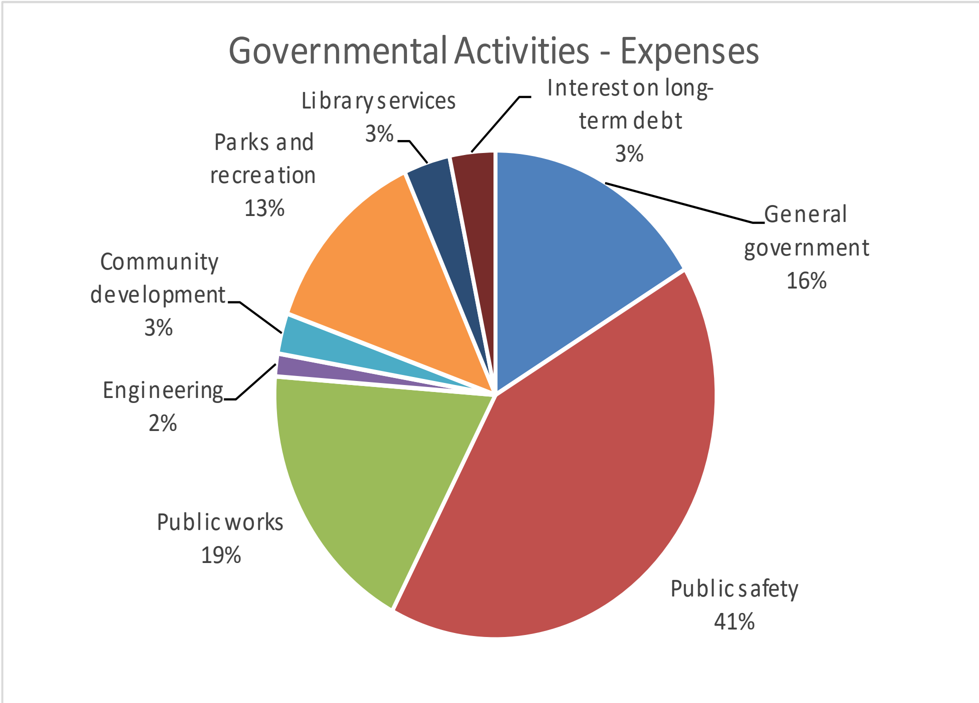
	Governmental Activities		Business Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Revenues						
Program Revenues:						
Charges for services	$ 2,848,589	$ 2,853,702	$ 19,419,622	$ 17,919,751	$ 22,268,211	$ 20,773,453
Operating grants and contributions	841,537	3,874,866	289,181	-	1,130,718	3,874,866
Capital grants and contributions	2,620,495	3,864,589	-	-	2,620,495	3,864,589
General Revenues:						
Property taxes	20,845,938	19,163,858	-	-	20,845,938	19,163,858
Sales and alcohol taxes	11,176,190	9,915,046	-	-	11,176,190	9,915,046
Franchise taxes	2,170,152	2,090,001	-	-	2,170,152	2,090,001
Investment earnings	49,151	50,805	130,401	43,099	179,552	93,904
Miscellaneous	638,418	390,533	-	-	638,418	390,533
Total Revenues	41,190,470	42,203,400	19,839,204	17,962,850	61,029,674	60,166,250
Expenses						
General government	6,210,336	5,867,654	-	-	6,210,336	5,867,654
Public safety	15,655,859	15,645,527	-	-	15,655,859	15,645,527
Public works	6,994,042	7,160,229	-	-	6,994,042	7,160,229
Engineering	570,098	506,959	-	-	570,098	506,959
Community development	1,017,509	1,035,202	-	-	1,017,509	1,035,202
Parks and recreation	4,870,623	4,604,943	-	-	4,870,623	4,604,943
Library services	1,283,007	1,221,740	-	-	1,283,007	1,221,740
Water and sewer	-	-	11,124,562	11,864,245	11,124,562	11,864,245
Interest on long-term debt	1,268,435	1,244,881	1,861,881	1,808,120	3,130,316	3,053,001
Total Expenses	37,869,909	37,287,135	12,986,443	13,672,365	50,856,352	50,959,500
Increase (decrease) in net position before transfers	3,320,561	4,916,265	6,852,761	4,290,485	10,173,322	9,206,750
Transfers	1,795,683	1,541,853	(1,795,683)	(1,541,853)	-	-
Change in net position	5,116,244	6,458,118	5,057,078	2,748,632	10,173,322	9,206,750
Net Position - Beginning	82,618,786	76,160,668	45,616,675	42,868,043	128,235,461	119,028,711
Net Position - Ending	$ 87,735,030	$ 82,618,786	$ 50,673,753	$ 45,616,675	$138,408,783	$128,235,461

Governmental Activities

Governmental activities increased the City's net position by $5,116,244. Key elements of this change are as follows:

- Property taxes continue to be the City's largest revenue source. Property tax revenue increased by $1,682,080 primarily due to new construction within the City to cover operating expenses, deferred facilities maintenance, deferred equipment purchases and debt service obligations.
- Sales and alcohol tax revenue remained strong during fiscal year 2022, providing a 12.72% increase for the year, from $9.9 million to $11.2 million. This increase is primarily a result of commercial growth and inflation.
- Operating grants and contributions decreased $3,033,329 from the prior year. This decrease is primarily a result of the City being awarded $2.5 million in public assistance grant funds related to Hurricane Harvey in the prior year.
- Capital grants and contributions decreased $1,244,094 from the prior year. In the prior year, Flood Mitigation Assistance funds of $1.9 million were received for the acquisition and demolition of flood-prone properties.
- Overall, total expenses increased $0.6 million from the prior year. The largest increase of $342,682 was in General Government which was primarily a result of software support service expenses in the current fiscal year. Parks and Recreation had the next largest increase of $265,680 as a result of facility maintenance items previously deferred.

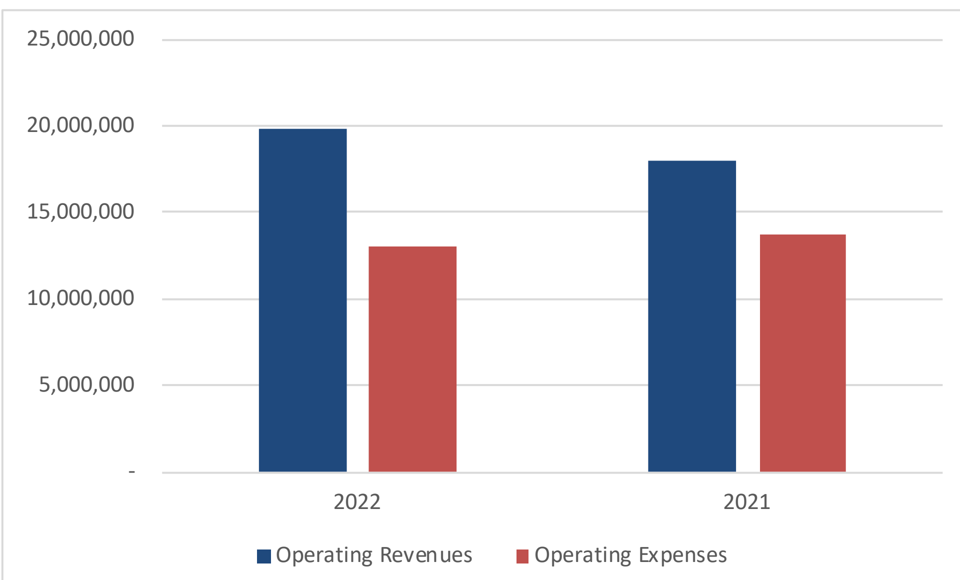




Business-Type Activities

Business-type activities increased the City's net position by $5,057,078. Key elements of this change are as follows:

- Revenues increased by $1.9 million or 10.4% resulting from an increase in utility rates and consumption due to drought like conditions. Expenses decreased $686 thousand which was primarily a result of a decrease in the CIP billings for the Southeast Water Purification Plant offset by engineering costs for the upgrade of Blackhawk WWTP Aeration project.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of $29,958,067. Approximately 39.45% of this amount or $11,817,954 is unassigned fund balance; however, $7.9 million is set aside for the 90-day operating reserve, as set forth in the City's financial policies.

The remaining $18,140,113 is nonspendable, restricted, or assigned as follows:

0.91%	-	Nonspendable	
		Prepaid items	$ 260,457
		Permanent fund	11,093
		Total Nonspendable	$ 271,550
44.07%	-	Restricted	
		Public education and government channels	$ 460,154
		Debt service	46,375
		Municipal court operations	282,910
		Public safety operations	674,536
		Capital projects	11,737,088
		Total Restricted	$ 13,201,063
15.58%	-	Assigned	
		Subsequent year's budget appropriation of fund balance	$ 3,396,348
		Capital projects	1,271,152
		Total Assigned	$ 4,667,500

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance reached $17.4 million of which unassigned fund balance of the General Fund was $12.0 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned and total fund balance to total fund expenditures. Unassigned fund balance represents 35.0% of total General Fund expenditures, while total fund balance represents 50.6% of that same amount. At year end, the City's operating reserve was $7.9 million, representing 25% of total General Fund expenditures, excluding capital expenditures.

Key differences between last year's General Fund activity and this year's include:

- $0.4 million decrease in total revenues - This decrease is primarily related to a decrease in intergovernmental revenue as a result of the City receiving $2.5 million in public assistance grants in the prior year. This decrease is offset by an increase in property taxes of $1.2 million due to new construction to fund operating expenditures. In addition, sales tax revenue increased $1.0 million as a result of commercial growth and inflation.
- $1.0 million increase in total expenditures - This increase can be attributed to $587 thousand in Parks and Recreation resulting from maintenance cost previously deferred, $532 thousand in Public Safety as a result of increased personnel costs, $444 thousand in Public Works due to repairs and maintenance in the streets division and $444 thousand in general government resulting from increased personnel costs and other services and charges. These increases were offset by a decrease of $1.2 million in capital improvements due to in the purchase of a building in the prior year to house the Public Works, Engineering and the Operations Division of Parks and Recreation.

The Coronavirus State and Local Fiscal Recovery Fund received an additional $5.0 million in funding in fiscal year 2022. This amount is unearned revenue and will be expended in fiscal year 2023.

The fund balance of the Bond Construction Fund was $8,152,712, a decrease of $7,059,803 compared to the prior year. This decrease is related to cost incurred for the renovation of the Public Safety building, the construction of new Fire Station #2 and drainage related projects.

The Debt Service Fund had a total fund balance of $46,375 at the end of the fiscal year, all of which is restricted for the payment of debt service. The net increase in the Debt Service fund balance during the year was $35,767.

Other non-major governmental funds fund balance increased by $1,647,379. This increase is primarily a result of a sales tax collections for the Street Improvement fund exceeding improvement cost by $1.9 million.

Proprietary Funds

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

At the end of the year, unrestricted net position was $11.8 million for the Water and Sewer Fund. The total increase in the net position of the Water and Sewer Fund was $5,057,078. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Unrestricted net position of the Internal Service Fund was $910,808. The net position of the Internal Service Fund increased by $569,274 resulting from lease revenue from the City's participating funds.

General Fund Budgetary Highlights

The City made revisions to the original appropriations approved by the City Council. Budgeted revenues increased by $61,717 or 0.21% and budgeted expenditures were increased by $7,114,700 or 21.48%.

Total revenues were above budget by $1,252,321. The more significant variances are detailed below:

- $818,456 over budget in sales and mixed beverage taxes as a result of commercial growth and inflation.
- $244,324 over budget in franchise taxes as a result of increased gas and electric franchise fees and the receipt of unbudgeted Public Education and Government (PEG)/In-Kind fees.
- $120,083 below budget in fines and forfeitures due to a decrease in number of tickets written for traffic violations.
- $124,363 over budget in permits due to an increase in commercial and residential growth.

Total expenditures of the General Fund were $6.0 million below the final expenditure budget. The more significant variances are detailed below:

- $761,530 below budget in general government expenditures as a result of an decrease in other services and charges (legal, contract, consulting, etc.).
- $980,287 below budget in public safety expenditures as a result of personnel vacancies in the patrol division. Also, the implementation of new public safety software included in the budget was not complete at the end of the fiscal year.
- $3,875,714 below budget in capital improvements due to projects either not being started or completed in the current fiscal year. These projects are primarily related to facility and streets improvements.

Capital Assets

The City's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of September 30, 2022 is $187.2 million. The investment in capital assets include land, buildings and improvements, machinery and equipment, infrastructure, water and sewer system, water rights and construction in progress.

Major capital events during the year included the following:

- Business-type improvements include the completion of 42" Southeast Transmission Phases I-III which is a cost share project with the City of Houston and several other government entities for $3,609,532. The Sanitary Sewer Assessment Phases V-VI were also completed in FY22 for $203,726.
- To accommodate future flood mitigation projects, the City purchased ten properties for a total cost of $2,660,075. Grant funds covered a majority of the acquisition costs.
- Heavy equipment purchases included two backhoes, an excavator, and a Freightliner M2106 Truck with loader for a total cost of $672,548.
- The City accepted completion of four sidewalk infrastructure projects at Leisure Lane, a portion of FM 518 along with TXDOT, a sidewalk at Cline Elementary, and a portion of sidewalk at Friendswood Parkway. The total cost of the sidewalk projects was $160,894.
- As part of the Public Safety Building expansion project, computer and server equipment for the Police Department as well as furniture and fixtures for the Emergency Operations Center upgrade totaled $330,972.
- Several improvements were made to City parks including the completion of a new walking trail at Stevenson Park for $445,931, a perimeter fence at Renwick Park for $38,000, and playground equipment at Stevenson Park and Old City Park for $80,435. Bay Area Park had a new security light installed for a cost of $8,886.
- The library received conference room audio and video equipment for a cost of $177,486 purchased with PEG fees.

- The City purchased 15 new vehicles and the equipment to upfit an additional seven vehicles. Public Safety received 8 of the new vehicles, upfit for one vehicle purchased in FY21, and the upfit equipment for an additional 6 vehicles for a total cost of $588,290. EMS purchased a new ambulance for a total cost of $163,000. The Fire Marshal's office purchased a new vehicle with a cost of $52,981. Engineering purchased a new vehicle with a cost of $47,348. Public Works purchased three new vehicles for a total cost of $177,921. The Parks & Recreation department purchased one new vehicle with a cost of $42,589.
- The following major projects are in Construction in Progress at the end of fiscal year 2022: Blackhawk Building Renovation, Fire Station #2, Public Safety Building, Centennial Park Wall, Utility Relocation at Clear Creek Utility Bridge, Forest Bend Detention Pond, Water System Improvement Study & Engineering, Lift Station Mitigation Program, and Automated Water Meter installation.

	Governmental Activities		Business-type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Land	$ 32,355,840	$ 29,695,765	$ 319,473	$ 319,473	$ 32,675,313	$ 30,015,238
Buildings and improvements	22,938,656	23,862,519	318,849	338,606	23,257,503	24,201,125
Machinery and equipment	7,845,397	7,014,572	2,596,552	2,658,943	10,441,949	9,673,515
Infrastructure	43,675,282	46,509,824	38,970,139	36,904,531	82,645,423	83,414,355
Water rights	-	-	19,716,695	19,716,695	19,716,695	19,716,695
Construction in progress	8,797,172	1,435,585	9,629,504	2,870,307	18,426,676	4,305,892
	$ 115,612,347	$ 108,518,265	$ 71,551,212	$ 62,808,555	$ 187,163,559	$ 171,326,820

More detailed information on the City's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At the end of the current fiscal year, the City had a total bonded debt, premiums and notes payable obligation of $109.3 million.

	Governmental Activities		Business-type Activities		Totals	
	2022	2021	2022	2021	2022	2021
General obligation bonds	$ 43,950,000	$ 46,265,000	$ 18,635,000	$ 20,300,000	$ 62,585,000	$ 66,565,000
Revenue bonds	-	-	35,630,000	37,080,000	35,630,000	37,080,000
Premium on bond issuance	3,193,902	3,544,358	5,264,036	5,666,291	8,457,938	9,210,648
Notes payable	2,613,729	1,681,809	-	-	2,613,729	1,681,809
	$ 49,757,631	$ 51,491,167	$ 59,529,036	$ 63,046,291	$ 109,286,667	$ 114,537,457

The City's General Obligation and Revenue Bonds bond ratings are listed below:

	Standard & Poor's
General Obligation Bonds	AA+
Revenues Bonds	AA-

More detailed information about the City's outstanding debt can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Friendswood continues to experience moderate growth. The City's current population is estimated to be 42,222. Friendswood is expected to reach build out with an estimated population of 58,012. The City is continuing to focus on economic development initiatives, including the revitalization of downtown and commercial development. These commercial development projects include a medical office building and another building that will include 30 hotel rooms, retail and office space as well as 30 multifamily units. In addition, to commercial growth the City is also experiencing residential growth with several large master-planned communities in progress or in the planning stages.

The City's largest single source of revenue in the General Fund continues to be ad valorem taxes. The adopted budget for fiscal year 2023 has a tax rate of $0.487314 per $100 taxable value. This rate consists of a maintenance and operation (M&O) tax rate of $0.388560 and an interest and sinking (debt service) tax rate of $0.098754. The rate was set based on a net assessed value of $4,614,143,928. This is an increase of $187,212,608 above certified values including supplemental rolls for tax year 2021. The City's financial management policy sets the guideline to maintain the fund balance and net position of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position from unforeseeable emergencies.

The City second largest source of revenue in the General Fund is sales tax. The City anticipates an increase in this revenue stream from the prior year and has adjusted the budget from $8,095,816 to $8,621,519. The franchise fees budget increased from $1,925,828 to $2,044,100 and the budget for licenses and permits has been increased from $823,839 to $873,730. If all projections are accurate, the total General Fund unassigned fund balance net of the 90 day operating requirement ($7.9 million) is estimated to be approximately $3.6 million at September 30, 2023.

Water revenues are budgeted at $8,548,086 which is an increase of $347,583 in revenues, or 4.23 percent. Sewer revenues are budgeted at $9,037,580 which is an increase of $160,112 or 1.8 percent. Water and Sewer Fund unrestricted net position, net of the 90 day operating requirement ($2.3 million) is projected to be $7.4 million at the end of fiscal year 2023.

Pursuant to the City's financial management policy, funds in excess of the 90 day operating reserve are designated for future capital improvements.

Requests for Information

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finance and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Administrative Services, P.O. Box 1288, Friendswood, Texas 77549-1288, or call Katina Hampton at 281-996-3221, or email khampton@friendswood.com.

Separately issued financial statements for the West Ranch Management District can be obtained by writing to: West Ranch Management District, a Component Unity of the City of Friendswood, c/o Allen Boone Humphries LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

BASIC FINANCIAL STATEMENTS

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF NET POSITION
September 30, 2022

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	West Ranch Management District	Friendswood Downtown EDC
Assets					
Cash and cash equivalents	$ 10,434,204	$ 4,313,653	$ 14,747,857	$ 240,532	$ 818,732
Investments	31,130,049	10,374,899	41,504,948	4,250,759	1,969,545
Receivables, net of allowances					
Taxes	3,055,805	-	3,055,805	10,674	142,602
Leases	1,021,537	-	1,021,537	-	-
Customer accounts	451,998	3,989,589	4,441,587	-	-
Other	734,354	-	734,354	-	-
Accrued interest	17,409	8,258	25,667	32	1,496
Due from other governments	1,795,238	-	1,795,238	-	-
Prepaid items	260,457	63,224	323,681	-	-
Working capital deposit	-	571,884	571,884	-	-
Restricted investments	-	23,417,040	23,417,040	-	-
Capital Assets:					
Non-depreciable	41,153,012	29,665,672	70,818,684	7,762,414	-
Depreciable, net	74,459,335	41,885,540	116,344,875	356,185	-
Total Capital Assets	115,612,347	71,551,212	187,163,559	8,118,599	-
Total Assets	164,513,398	114,289,759	278,803,157	12,620,596	2,932,375
Deferred Outflows of Resources					
Deferred loss on issuance of refunding bonds	54,715	587,418	642,133	287,109	-
Deferred outflow of resources for pensions	2,849,672	368,093	3,217,765	-	-
Deferred outflow of resources for OPEB	316,674	47,016	363,690	-	-
Total Deferred Outflows of Resources	3,221,061	1,002,527	4,223,588	287,109	-
Total Assets and Deferred Outflows of Resources	167,734,459	115,292,286	283,026,745	12,907,705	2,932,375
Liabilities					
Accounts payable	4,850,034	2,694,826	7,544,860	101,485	753
Accrued liabilities	811,325	161,042	972,367	-	-
Retainage payable	442,341	5,797	448,138	-	-
Accrued interest	118,802	179,563	298,365	239,053	-
Unearned revenue	10,003,026	-	10,003,026	-	-
Customer deposits	8,080	570,430	578,510	-	-
Due to other governments	146,598	-	146,598	-	-
Noncurrent liabilities:					
Due within one year	3,331,788	3,246,882	6,578,670	865,000	-
Due in more than one year	47,570,186	56,391,564	103,961,750	18,448,638	-
Net pension liability	4,747,707	410,084	5,157,791	-	-
Total OPEB liability	1,687,405	248,126	1,935,531	-	-
Total Liabilities	73,717,292	63,908,314	137,625,606	19,654,176	753
Deferred Inflows of Resources					
Deferred gain on issuance of refunding bonds	55,814	27,292	83,106	-	-
Deferred Inflows of resources for leases	1,011,689	-	1,011,689	-	-
Deferred Inflows of resources for pensions	4,884,186	630,892	5,515,078	-	-
Deferred Inflows of resources for OPEB	330,448	52,035	382,483	-	-
Total Deferred Inflows of Resources	6,282,137	710,219	6,992,356	-	-
Net Position					
Net investment in capital assets	74,006,329	35,999,342	110,005,671	5,331,558	-
Restricted for:					
Public education and government channels	460,154	-	460,154	-	-
Debt service	46,375	2,521,137	2,567,512	1,991,706	-
Municipal court operations	283,301	-	283,301	-	-
Economic development	-	-	-	-	2,931,622
Public safety	674,536	-	674,536	-	-
Community development - nonexpendable	11,093	-	11,093	-	-
Capital projects	3,584,376	376,441	3,960,817	54,638	-
Unrestricted	8,668,866	11,776,833	20,445,699	(14,124,373)	-
Total Net Position	$ 87,735,030	$ 50,673,753	$ 138,408,783	$ (6,746,471)	$ 2,931,622

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government				
Governmental Activities:				
General government	$ 6,210,336	$ 974,029	$ 16,000	$ -
Public safety	15,655,859	1,197,570	789,849	-
Public works	6,994,042	234,103	-	2,620,495
Engineering	570,098	-	-	-
Community development	1,017,509	1,238	-	-
Parks and recreation	4,870,623	441,649	35,688	-
Library services	1,283,007	-	-	-
Interest on long-term debt	1,268,435	-	-	-
Total Governmental Activities	37,869,909	2,848,589	841,537	2,620,495
Business-type Activities:				
Water and sewer	12,986,443	19,419,622	289,181	-
Total Business-type Activities	12,986,443	19,419,622	289,181	-
Total Primary Government	50,856,352	22,268,211	1,130,718	2,620,495
Component Units				
West Ranch Management District	1,036,725	-	-	-
Friendswood Downtown EDC	36,449	-	-	-
Total Component Units	$ 1,073,174	$ -	$ -	$ -

CITY OF FRIENDSWOOD, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Component Units	
Functions/Programs	**Governmental Activities**	**Business-type Activities**	**Total**	**West Ranch Management District**	**Friendswood Downtown EDC**
Primary government					
Governmental Activities:					
General government	$ (5,220,307)	$ -	$ (5,220,307)	$ -	$ -
Public safety	(13,668,440)	-	(13,668,440)	-	-
Public works	(4,139,444)	-	(4,139,444)	-	-
Engineering	(570,098)	-	(570,098)	-	-
Community development	(1,016,271)	-	(1,016,271)	-	-
Parks and recreation	(4,393,286)	-	(4,393,286)	-	-
Library services	(1,283,007)	-	(1,283,007)	-	-
Interest on long-term debt	(1,268,435)	-	(1,268,435)	-	-
Total Governmental Activities	(31,559,288)	-	(31,559,288)	-	-
Business-type Activities:					
Water and sewer	-	6,722,360	6,722,360	-	-
Total Business-type Activities	-	6,722,360	6,722,360	-	-
Total Primary Government	(31,559,288)	6,722,360	(24,836,928)	-	-
Component Units					
West Ranch Management District				(1,036,725)	-
Friendswood Downtown EDC				-	(36,449)
Total Component Units				(1,036,725)	(36,449)
General revenues:					
Taxes:					
Property taxes	20,845,938	-	20,845,938	2,314,093	-
Franchise and other taxes	2,170,152	-	2,170,152	-	-
Sales taxes	11,176,190	-	11,176,190	-	736,129
Interest	49,151	130,401	179,552	13,385	(855)
Miscellaneous	638,418	-	638,418	-	-
Transfers	1,795,683	(1,795,683)	-	-	-
Total General Revenues and Transfers	36,675,532	(1,665,282)	35,010,250	2,327,478	735,274
Change in net position	5,116,244	5,057,078	10,173,322	1,290,753	698,825
Net Position - Beginning	82,618,786	45,616,675	128,235,461	(8,037,224)	2,232,797
Net Position - Ending	$ 87,735,030	$ 50,673,753	$ 138,408,783	$ (6,746,471)	$ 2,931,622

CITY OF FRIENDSWOOD, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2022

	General Fund	Coronavirus State Fiscal Recovery Fund	Bond Construction	Debt Service Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 5,650,255	$ 2,935,831	$ 9,982	$ 43,584	$ 1,513,649	$ 10,153,301
Investments	10,075,984	7,062,450	9,572,206	104,845	3,638,822	30,454,307
Receivables, net of allowance:						
Taxes	2,573,880	-	-	54,119	427,806	3,055,805
Leases	1,021,537	-	-	-	-	1,021,537
Customer accounts	449,301	-	-	-	2,697	451,998
Other receivables	730,696	-	-	-	3,658	734,354
Accrued interest	10,945	3,079	-	681	2,135	16,840
Due from other funds	1,157,730	-	996,000	-	-	2,153,730
Due from other governments	44,063	-	-	-	1,751,175	1,795,238
Prepaid items	260,066	-	-	-	391	260,457
Total Assets	$ 21,974,457	$ 10,001,360	$ 10,578,188	$ 203,229	$ 7,340,333	$ 50,097,567
Liabilities, Deferred Inflows and Fund Balances						
Liabilities:						
Accounts payable	$ 1,879,444	$ -	$ 2,051,195	$ 104,181	$ 768,808	$ 4,803,628
Accrued liabilities	811,325	-	-	-	-	811,325
Due to other governments	146,598	-	-	-	-	146,598
Customer deposits	8,080	-	-	-	-	8,080
Retainage payable	29,580	-	374,281	-	38,480	442,341
Due to other funds	-	-	-	-	2,153,730	2,153,730
Unearned revenue	-	10,003,026	-	-	-	10,003,026
Total Liabilities	2,875,027	10,003,026	2,425,476	104,181	2,961,018	18,368,728
Deferred Inflows of Resources:						
Unavailable revenue	702,654	-	-	52,673	3,756	759,083
Leases	1,011,689	-	-	-	-	1,011,689
Total Deferred Inflows of resources	1,714,343	-	-	52,673	3,756	1,770,772
Fund Balances:						
Nonspendable:						
Prepaid items	260,066	-	-	-	391	260,457
Permanent fund	-	-	-	-	11,093	11,093
Restricted:						
Public education and government channels	460,154	-	-	-	-	460,154
Municipal court operations	-	-	-	-	282,910	282,910
Debt service	-	-	-	46,375	-	46,375
Public safety	-	-	-	-	674,536	674,536
Capital projects	-	-	8,152,712	-	3,584,376	11,737,088
Assigned:						
Subsequent year's budget appropriation of fund balance	3,396,348	-	-	-	-	3,396,348
Capital projects	1,271,152	-	-	-	-	1,271,152
Unassigned	11,997,367	(1,666)	-	-	(177,747)	11,817,954
Total Fund Balances	17,385,087	(1,666)	8,152,712	46,375	4,375,559	29,958,067
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 21,974,457	$ 10,001,360	$ 10,578,188	$ 203,229	$ 7,340,333	$ 50,097,567

CITY OF FRIENDSWOOD, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2022

Total fund balance, governmental funds	$ 29,958,067
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	113,247,160
The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	3,275,995
Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	
Bonds and certificates of obligation payable	(43,950,000)
Notes payable	(2,613,729)
Compensated absences	(1,144,343)
Accrued interest payable	(118,802)
Unamortized premium on bonds	(3,193,902)
Unavailable revenues in the governmental fund statements is recognized as revenue in the government-wide financial statements.	759,083
Deferred gain on refunding	(55,814)
Deferred loss on refunding	54,715
Certain other long-term assets and liabilities are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	
Net pension liability	(4,747,707)
Total OPEB liabilty	(1,687,405)
Deferred outflows and inflows of resources related to the net pension liability	(2,034,514)
Deferred outflows and inflows of resources related to the total OPEB liability	(13,774)
Net Position of Governmental Activities in the Statement of Net Position	$ 87,735,030

CITY OF FRIENDSWOOD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2022

	General Fund	Coronavirus State Fiscal Recovery Fund	Bond Construction	Debt Service Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	$ 16,475,894	$ -	$ -	$ 4,370,044	$ -	$ 20,845,938
Sales taxes	8,967,803	-	-	-	2,208,387	11,176,190
Franchise fees and other	2,170,152	-	-	-	-	2,170,152
Fines and forfeitures	969,344	-	-	-	83,596	1,052,940
Permits and fees	1,789,147	-	-	-	58,838	1,847,985
Intergovernmental	594,774	-	-	-	2,620,495	3,215,269
Investment income (loss)	(15,254)	(1,666)	68,133	(1,498)	(135)	49,580
Donations	61,211	-	-	-	194,427	255,638
Miscellaneous	336,367	-	-	-	8,997	345,364
Total Revenues	31,349,438	(1,666)	68,133	4,368,546	5,174,605	40,959,056
Expenditures						
Current:						
General government	5,988,239	-	-	-	52,593	6,040,832
Public safety	15,330,928	-	-	-	39,333	15,370,261
Public works	3,047,460	-	163,330	-	2,554,523	5,765,313
Engineering	571,010	-	-	-	-	571,010
Community development	1,187,413	-	-	-	-	1,187,413
Parks and recreation	4,302,309	-	10,547	-	-	4,312,856
Library services	1,333,456	-	-	-	2,729	1,336,185
Debt service:						
Principal	-	-	-	2,721,206	119,514	2,840,720
Interest and other charges	-	-	-	1,611,573	13,318	1,624,891
Capital outlay	2,563,859	-	6,954,059	-	759,216	10,277,134
Total Expenditures	34,324,674	-	7,127,936	4,332,779	3,541,226	49,326,615
Excess (deficiency) of revenues over (under) expenditures	(2,975,236)	(1,666)	(7,059,803)	35,767	1,633,379	(8,367,559)
Other Financing Sources (Uses)						
Notes payable issued	1,457,640	-	-	-	-	1,457,640
Insurance recoveries	74,126	-	-	-	-	74,126
Transfers in	1,708,331	-	-	-	-	1,708,331
Transfers out	(124,948)	-	-	-	-	(124,948)
Sale of capital assets	18,029	-	-	-	14,000	32,029
Total Other Financing Sources (Uses)	3,133,178	-	-	-	14,000	3,147,178
Net change in fund balances	157,942	(1,666)	(7,059,803)	35,767	1,647,379	(5,220,381)
Fund Balances - Beginning	17,227,145	-	15,212,515	10,608	2,728,180	35,178,448
Fund Balances - Ending	$ 17,385,087	$ (1,666)	$ 8,152,712	$ 46,375	$ 4,375,559	$ 29,958,067

CITY OF FRIENDSWOOD, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

Net Change in Fund Balances - Total Governmental Funds	$ (5,220,381)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	
Capital outlay	12,365,688
Depreciation expense	(5,637,471)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	
Unavailable property tax revenue and other revenues	62,599
Governmental funds report proceeds from long-term debt as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of long-term debt principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	
Debt service principal	2,840,720
Proceeds from notes payable	(1,457,640)
Contributions are treated as expenditures in the fund based financial statements, but are treated as reductions in the City's net pension/OBEB liability in the statement of net position. This amount is the difference between contributions and net pension/OPEB expense (revenue) for the current fiscal year.	
Pension	1,454,988
OPEB	(67,626)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
(Increase) decrease in accrued interest	6,003
(Increase) decrease in compensated absences	(148,153)
Amortization of deferred loss on refunding	(6,506)
Amortization of deferred gain on refunding	4,293
Amortization of premium on bonds	350,456
Internal service fund is used by management to charge the cost of fleet management to individual funds. The change in net position of the internal service fund is included in the governmental activities in the statement of activities.	569,274
Change in Net Position of Governmental Activities	$ 5,116,244

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2022

	Business-Type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	**Internal Service**
Assets		
Current Assets		
Cash and cash equivalents	$ 4,313,653	$ 280,903
Investments	10,374,899	675,742
Accounts receivable, net of allowance:		
Customer accounts	3,989,589	-
Accrued interest	8,258	569
Prepaids and other assets	63,224	-
Restricted investments	23,417,040	-
Total Current Assets	42,166,663	957,214
Non-current Assets		
Working capital deposit	571,884	-
Capital Assets:		
Land	319,473	-
Construction in progress	9,629,504	-
Water rights	19,716,695	-
Buildings and improvements	683,906	-
Machinery and equipment	7,878,937	5,216,063
Water and sewer systems	78,013,079	-
Accumulated depreciation	(44,690,382)	(2,850,876)
Total Capital Assets	71,551,212	2,365,187
Total Non-current Assets	72,123,096	2,365,187
Total Assets	114,289,759	3,322,401
Deferred Outflows of Resources		
Deferred loss on bond refunding	587,418	-
Deferred outflows - pension related	368,093	-
Deferred outflows - OPEB related	47,016	-
Total Deferred Outflows of Resources	1,002,527	-
Total Assets and Deferred Outflows of Resources	115,292,286	3,322,401

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2022

	Business-Type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	**Internal Service**
Liabilities		
Current Liabilities		
Accounts payable	$ 2,694,826	$ 46,406
Accrued liabilities	161,042	-
Accrued interest	179,563	-
Unearned revenue	-	-
Customer deposits	570,430	-
Retainage payable	5,797	-
Compensated absences	21,882	-
Bonds and other long-term debt payable	3,225,000	-
Total Current Liabilities	6,858,540	46,406
Non-current Liabilities		
Compensated absences	87,528	-
Net Pension liability	410,084	-
Total OPEB liability	248,126	-
Bonds and other long-term debt payable	56,304,036	-
Total Non-current Liabilities	57,049,774	-
Total Liabilities	63,908,314	46,406
Deferred Inflows of Resources		
Deferred gain on issuance of refunding bonds	27,292	-
Deferred inflows - pension related	630,892	-
Deferred inflows of resources for OPEB	52,035	-
Total Deferred Inflows of Resources	710,219	-
Total Liabilities and Deferred Inflows of Resources	64,618,533	46,406
Net Position		
Net investment in capital assets	35,999,342	2,365,187
Restricted for capital projects	376,441	-
Restricted for debt service	2,521,137	-
Unrestricted	11,776,833	910,808
Total Net Position	$ 50,673,753	$ 3,275,995

City of Friendswood Texas

CITY OF FRIENDSWOOD, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended September 30, 2022

	Business-Type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	**Internal Service**
Operating Revenues		
Charges for services	$ 19,223,542	$ 813,530
Miscellaneous	184,788	-
Total Operating Revenues	19,408,330	813,530
Operating Expenses		
Personnel services	2,626,093	-
Sewer operations	2,588,636	-
Water purchases	1,836,874	-
Repairs and maintenance	819,562	3,568
Supplies	217,565	-
Other services and charges	1,041,844	-
Depreciation	1,993,988	515,648
Total Operating Expenses	11,124,562	519,216
Operating income	8,283,768	294,314
Non-Operating Revenues (Expenses)		
Intergovernmental	289,181	-
Investment income	130,401	(429)
Gain on disposal of capital assets	-	63,089
Insurance proceeds	11,292	-
Interest expense	(1,861,881)	-
Total Non-Operating Revenues (Expenses)	(1,431,007)	62,660
Income before transfers	6,852,761	356,974
Transfers in	47,648	212,300
Transfers out	(1,843,331)	-
Change in net position	5,057,078	569,274
Net position - Beginning	45,616,675	2,706,721
Total Net Position - Ending	$ 50,673,753	$ 3,275,995

CITY OF FRIENDSWOOD, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2022

	Business-Type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	**Internal Service**
Cash flows from operating activities		
Cash received from customers	$ 18,888,531	$ -
Receipts from interfund charges for fleet management	-	813,530
Cash payments to suppliers for goods and services	(4,876,811)	41,100
Cash payments to employees for services	(2,816,162)	-
Net cash provided by operating activities	11,195,558	854,630
Cash flows from noncapital financing activities		
Transfer in from other funds	47,648	212,300
Transfers out to other funds	(1,843,331)	-
Net cash provided (used) by noncapital financing activities	(1,795,683)	212,300
Cash flows from capital and related financing activities		
Acquisition and construction of property, plant and equipment	(10,558,139)	(881,513)
Disposal of capital assets	-	63,089
Repayment of debt	(3,456,348)	-
Interest paid on debt	(2,209,143)	-
Net cash provided (used) by capital and related financing activities	(16,223,630)	(818,424)
Cash flows from investing activities		
Purchase of investments	(2,190,209)	(204,211)
Investment income	126,588	(744)
Net cash provided (used) by investing activities	(2,063,621)	(204,955)
Net increase (decrease) in cash and cash equivalents	(8,887,376)	43,551
Cash and Cash Equivalents, Beginning	36,618,069	237,352
Cash and Cash Equivalents, Ending	$ 27,730,693	$ 280,903
Reconciliation of Total Cash and Cash Equivalents		
Current assets - cash and cash equivalents	$ 4,313,653	$ 280,903
Restricted assets - cash and cash equivalents	23,417,040	-
	$ 27,730,693	$ 280,903

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2022

	Business-type Activities - Enterprise Funds	Governmental Activities
	Water and Sewer	**Internal Service**
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$ 8,283,768	$ 294,314
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,993,988	515,648
Change in assets, deferred inflows and outflows, and liabilities:		
Decrease (increase) in customer receivable	(534,410)	-
Decrease (increase) in prepaids and other assets	(354)	-
pensions	(47,141)	-
Decrease (increase) in deferred outflow for OPEB	4,096	
Increase (decrease) in accounts payable	1,561,167	44,668
Increase (decrease) in accrued liabilities	66,857	-
Increase (decrease) in customer deposits	14,611	-
pensions	381,164	-
Increase (decrease) in deferred inflows for OPEB	7,896	-
Increase (decrease) in total OPEB liability	(3,466)	-
Increase (decrease) in net pension liability	(524,249)	-
Increase (decrease) in compensated absences	(8,369)	-
Total Adjustments	2,911,790	560,316
Net cash provided by operating activities	$ 11,195,558	$ 854,630

Note 1. Summary of Significant Accounting Policies

The City of Friendswood, Texas ("the City") was incorporated on October 15, 1960. The City charter provides for a City Council-City Manager form of government. The Mayor and six Council members are elected from the City at large serving three-year terms. The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for law enforcement, appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The Mayor resides at meetings of the City Council and can vote. The City provides the following services: public safety, streets, parks and recreation, library, water and sewer, sanitation, planning and zoning, building inspection, code enforcement, and general administrative services.

A. Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected six- member Council and Mayor and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. Based on these considerations, the West Ranch Management District and Friendswood Downtown Economic Development Corporation have been included in the City's reporting entity as discretely presented component units. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

The West Ranch Management District ("the District"), a discretely presented component unit, was created under Section 59, Article XVI of the Texas Constitution added by an Act of the 79th Legislature of the State of Texas, effective June 17, 2005, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 3837, Texas Special District Local Laws Code, Chapters 49 and 54 of the Texas Water Code and Chapter 375 of the Texas Local Government Code, and is subject to the continuing supervision of the Texas Commission on Environmental Quality. The District was created to promote and encourage employment and the public welfare within the District. The affairs of the District are managed by a Board of Directors composed of persons appointed by the City Council. The City is financially accountable for the District because City Council must approve any debt issuances. Complete financial statements from the component may be obtained at the District's administrative office.

The Friendswood Downtown Economic Development Corporation ("FDEDC") was incorporated August 1, 2016 as a nonprofit economic development corporation under the Development Corporation Act. The citizens of Friendswood voted to pass a one- half cent sales tax dedicated to support and enhance the welfare and prosperity of the citizens of the City and of this State by promotion of economic development and growth by encouraging the development of new business enterprises and the retention or expansion of existing business enterprises.

Note 1. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

To serve this purpose, the Corporation shall have the authority and power of a Type B corporation to undertake projects as described in Subchapter C of Chapter 501 of the Local Government Code and Chapter 505 of the Local Government Code, including undertaking projects as authorized by law, including but not limited to projects to promote new or expanded business enterprises in the downtown area as defined by the City of Friendswood Downtown District Map, including but not limited to streets, targeted infrastructure, paved sidewalks, pedestrian amenities including lighting, benches, signage, and other related public improvements, and the maintenance and operations expenses for any of the above-described projects. A separate governing board oversees FDEDC, which is appointed by Friendswood City Council, and consists of members of City Council, City's management, and individuals from the community. The City can remove appointed board members and approves the FDEDC's budget. The FDEDC is reported as a discretely presented component unit because the governing body is not identical to the governing body of the City, the FDEDC does not solely serve the City, and the City has the ability to impose its will on FDEDC. Complete financial statements of the FDEDC may be obtained by contacting FDEDC's administration office.

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes 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 operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

The City reports the following major governmental funds:

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

The ***Coronavirus State and Local Fiscal Recovery Fund*** is used to account for federal funds related to the fiscal recovery of Coronavirus. Funds will be used for water and sewer infrastructure projects.

The ***Bond Construction Fund*** is used to account for the construction of public facilities, and park, street and drainage improvements that are funded by the proceeds from Permanent Improvement Bonds.

The ***Debt Service Fund*** is used to account for the accumulation of resources for the payment of general long-term debt principal, interest, and related costs.

Other governmental funds is a summarization of all the non-major governmental funds.

The City reports the following major enterprise fund:

The ***Water and Sewer Fund*** is used to account for the activities of the City's water and wastewater operations.

Additionally, the City reports the following fund type:

The ***Internal Service Fund*** is used to account for fleet management services provided to other departments of the City on a cost reimbursement basis.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund and of the City's internal service fund are charges to customers for sales and services. Operating expenses for the enterprise fund and internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1. Summary of Significant Accounting Policies (continued)

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

Cash and Investments

Cash and investments include cash on hand, deposits with financial institutions, short-term investments in a state-managed public funds investment pool account (TexPool), and a privately managed public funds investment pool (Texas Class). Other investments consist mainly of U.S. government treasury bills, treasury notes and other U.S. government obligations. Restricted cash and investments are assets restricted for specific use. Restricted includes cash deposits with financial institutions and investment pools.

The City maintains a pooled cash and investments account for all funds of the City. Each fund's positive equity in the pooled cash account is presented as "cash and investments" in the financial statements. Negative equity balances are reclassified and are reflected as interfund accounts payable. Interest income and interest expense are allocated monthly to each respective individual fund based on their representative fund balances.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the City are reported at fair value, except for the position in investment pools. The City's investment in pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

TexPool and Texas Class have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

Property Taxes

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Management estimates an allowance for trade accounts receivable based on past experience, historical losses, and other pertinent factors.

The City's property taxes are levied annually in October on the basis of the Appraisal District's assessed values as of January 1 of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value less exemptions. The City's property taxes are billed and collected by Galveston County. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on property on February 1 of the subsequent calendar year.

Property taxes are prorated between operations and debt service based on rates adopted for the year of the levy. For the current year, the City levied property taxes of $0.487314 per $100 of assessed valuation that were prorated between operations and debt service in the amounts of $0.385147 and $0.102167, respectively. The resulting tax levies were approximately $16.4 and $4.4 million for operations and debt service, respectively, based on a total taxable valuation of approximately $4.2 billion for the 2021 tax year.

West Ranch Management District bond resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended July 31, 2022, the District levied an ad valorem tax at the rate of $0.1750 per $100 of assessed valuation, which resulted in tax levy of $1.2 million on the taxable valuation of approximately $697.1 million for the 2021 tax year.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Interfund Receivables/Payables

Activity 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"). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The City applies the consumption method in accounting for prepaid items in the governmental funds.

Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Contract with West Ranch Management District

The District approved a contract with the City effective August 15, 2005, as amended. Under the terms of the contract, the District is to pay for construction of water distribution, sanitary sewer, drainage, transportation, education and recreation facilities to serve the District.

The District shall be the owner of the system until the system is completed, approved by the City and conveyed to it, at which time ownership will vest in the City. The District will own and operate these facilities to serve the District. Pursuant to the contract, the District shall have a security interest therein until all bonds issued by the District are retired.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure, and water rights, are reported in the applicable governmental or business-type activities columns in the government- wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. The City's water rights have an indefinite life.

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

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Capital Assets

The City's property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Machinery and equipment	5 - 10 years
Infrastructure	40-50 years
Water and sewer system	40-50 years

The West Ranch Management District's capital assets are depreciated using the straight-line method over estimated useful lives of 10 to 45 years.

Compensated Absences

The City's employees earn vacation leave, which may either be taken or accumulated, up to certain amounts, until paid upon resignation or retirement. All vacation leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance cost are expenses in the period incurred.

Leases

The City is a lessor for noncancellable lease agreements. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Leases (continued)

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category:

- Deferred loss on refunding debt - A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Deferred outflows of resources for pension - Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences; and 4) changes in the City's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees five year period.

- Deferred outflows of resources for other post-employment benefits (OPEB) - Reported in the government wide financial statement of net position, these deferred outflows result from OPEB plan contributions made after the measurement date of the total OPEB liability and the results of changes in assumptions and other inputs. The deferred outflows of resources resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the next fiscal year. The other OPEB related outflow will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with OPEB benefits.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- Deferred inflows of resources for leases - This deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Deferred Outflows/Inflows of Resources (continued)

- Deferred inflows of resources for pension - Reported in the government wide financial statement of net position, these deferred inflows result primarily from changes in actuarial assumptions. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

- Deferred inflows of resources for gain on issuance of refunding bonds - Reported in the government wide financial statement of net position, these deferred inflows result primarily from differences from the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Deferred inflows of resources for OPEB - Reported in the government wide financial statement of net position, this deferred inflow results primarily from 1) changes in actuarial assumptions; and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the OPEB plans.

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 TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's 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 Gabriel Roeder Smith & Company, 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, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 75.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Non-spendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid items and the fund balance of the City's permanent fund.

Restricted – includes fund balance amounts that are constrained for specific purposes which are imposed by providers, such as creditors or amounts restricted due to constitutional provision or enabling legislation. This classification includes retirement of long-term debt, construction programs, City ordinances, and other federal and state grants.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action in an open meeting of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passes by the City Council.

Assigned – includes fund balance amounts that are self-imposed by the City to be used for particular purpose. Fund balance can be assigned by the City Council or the City Manager, pursuant to the City's fund balance policy. At September 30, 2022, the City's assigned fund balance included amounts assigned for encumbrances and capital projects.

Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications are available.

The City has established a minimum fund balance policy whereby the City's unassigned general fund balance will be maintained at levels sufficient to protect the City's creditworthiness, as well as its financial position, from unforeseeable emergencies. The City will strive to maintain the unassigned general fund balance at a minimum of 90 days of prior year audited operating expenditures.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Net Position

Government-Wide Financial Statements:

The Statement of Net Position includes the following categories of net position:

Net investment in capital assets – the component unit of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, net of premiums and discounts, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted – Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Unrestricted – the difference between assets, deferred outflows and inflows, and liabilities that are not reported in any of the classifications above.

Use of Estimates

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

E. Implementation of New Accounting Standards

The following GASB pronouncements were effective during fiscal year 2022.

GASB Statement No. 87 *Leases* was issued in June 2017 and was effective for periods beginning after June 15, 2021. This Statement established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The financial statements have been updated to reflect this new standard.

Note 2. Cash and Investments

Under provisions of state and local statutes, the City's investment policies, and provisions of the City's depository contract with an area financial institution, the City is authorized to place available deposits and investments in the following:

1. Obligations of the U.S., it's agencies and instrumentalities;
2. Certificates of Deposit issued by state and national banks or savings or loan associations domiciled in this state that are guaranteed or incurred by the Federal Deposit Insurance Corporation or collateralized in accordance with Section 2256.010, the Texas Government Code, in face amounts not to exceed $100,000;
3. No-load money market mutual funds; and
4. TexPool, Lone State Investment Pool and Texas CLASS.

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the Council's investment policies. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year.

At September 30, 2022, the carrying amount of the City and Friendswood Downtown Economic Development Corporation's deposits was $15,561,580 and the bank balance of $16,804,877.

As of September 30, 2022, the City and Friendswood Downtown Economic Development Corporation held the following investments.

	Reported Value of Investments	Weighted Average Maturity (Days)
Investment pools:		
TexPool	$ 6,875,033	24
Texas CLASS	51,226,788	34
Total investment pools	58,101,821	
Debt Securities:		
Federal Farm Credit Bonds	4,377,299	340
Federal Home Loan Bank Bonds	3,449,160	222
Federal Home Loan Mortgage Corporation	494,649	262
Federal National Mortgage Association	468,604	574
Total debt securities	8,789,712	
Total investments	$ 66,891,533	

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The valuation techniques used in the fair value measurement are based on quoted market closing prices for Level 2 inputs.

Note 2. Cash and Investments (continued)

The City has the following recurring fair value measurements as of September 30, 2022:

	Fair Value / Amortized Cost	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investment Securities:				
Federal Farm Credit Bank	$ 4,377,299	$ -	$ 4,377,299	$ -
Federal Home Loan Bank	3,449,160	-	3,449,160	-
Federal Home Loan Mortgage Corp.	494,649	-	494,649	-
Federal National Mortgage Assoc.	468,604	-	468,604	-
Total Investment Securities	$ 8,789,712	$ -	$ 8,789,712	$ -

The City invests in Texas Local Government Investment Pool (TexPool), which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Chapter 791 and the Texas Public Funds Investment Act. The Texas Treasury Safekeeping Trust Company ("the Trust") is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is sole officer, director and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Texas Public Funds Investment Act.

The City invests in Texas CLASS Investment Pool which was established in 1996 pursuant to the Texas Public Funds Investment Act. The pool is governed by a 7-member board of trustees, who are elected by pool participants. The Cutwater Investor Services Corp. serves as the pools program administrator and Wells Fargo Bank Texas, NA, serves as custodian.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2022, all of the City's cash deposits with financial institutions were collateralized with securities held by the pledging financial institution in the City's name.

Credit Risk

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investments as of September 30, 2022, were rated as follows:

Investment Type:	Credit Quality Rating	Rating Agency
Investment Pools:		
Texas CLASS	AAAm	Standard & Poor's
TexPool	AAAm	Standard & Poor's
Debt Securities:		
Federal Home Loan Mortgage Corp.	Aaa	Moody's Investor Service
Federal Home Loan Bank	Aaa	Moody's Investor Service
Federal Farm Credit Bank	Aaa	Moody's Investor Service
Federal National Mortgage Association	Aaa	Moody's Investor Service

Note 3. Receivables and Deferred Inflows of Resources

Receivables as of September 30, 2022 for the City's individual major funds and nonmajor funds in the aggregate including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds			Proprietary Fund	
	General	Debt Service Fund	Nonmajor	Water and Sewer	Total
Receivables:					
Property taxes	$ 247,529	$ 53,104	$ -	$ -	$ 300,633
Penalties and interest	138,675	24,376	-	-	163,051
Sales tax	1,731,350	-	427,806	-	2,159,156
Franchise taxes	572,740	-	-	-	572,740
Customer accounts	321,776	-	2,697	4,268,748	4,593,221
Court fines	873,513	-	-	-	873,513
Leases	1,021,537	-	-	-	1,021,537
Other	730,696	-	3,658	-	734,354
Gross receivables	5,637,816	77,480	434,161	4,268,748	10,418,205
Less: allowance for uncollectibles	(862,402)	(23,361)	-	(279,159)	(1,164,922)
Net total receivables	$ 4,775,414	$ 54,119	$ 434,161	$ 3,989,589	$ 9,253,283

Governmental funds reported deferred inflows of resources in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources for unavailable revenues reported in the governmental funds were as follows:

	Deferred Inflows of Resources
General Fund:	
Delinquent property taxes	$ 173,870
Property tax penalties and interest	100,990
Court fines	174,703
Grants	244,925
Miscellaneous	8,166
Total General Fund	702,654
Debt Service Fund:	
Delinquent property taxes	37,042
Property tax penalties and interest	15,631
	52,673
Nonmajor funds:	
Court fines	3,756
Total Nonmajor Funds	3,756
Total governmental funds	$ 759,083

Note 4. Capital Assets

Capital assets activity for the primary government for the fiscal year ended September 30, 2022, is as follows:

Governmental activities	Beginning Balance	Increases	Reclassification/ Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 29,695,765	$ 2,660,075	$ -	$ 32,355,840
Construction in progress	1,435,585	7,361,587	-	8,797,172
Total capital assets, not being depreciated	31,131,350	10,021,662	-	41,153,012
Capital assets, being depreciated:				
Buildings and improvements	45,778,777	573,252		46,352,029
Machinery and equipment	19,043,530	2,497,550	(321,697)	21,219,383
Infrastructure	105,053,888	160,894	-	105,214,782
Total capital assets, being depreciated	169,876,195	3,231,696	(321,697)	172,786,194
Less accumulated depreciation for:				
Buildings & improvements	(21,916,258)	(1,497,115)	-	(23,413,373)
Machinery and equipment	(12,028,958)	(1,660,569)	315,541	(13,373,986)
Infrastructure	(58,544,064)	(2,995,436)	-	(61,539,500)
Total accumulated depreciation	(92,489,280)	(6,153,120)	315,541	(98,326,859)
Total capital assets - being depreciated	77,386,915	(2,921,424)	(6,156)	74,459,335
Governmental capital assets, net	$ 108,518,265	$ 7,100,238	$ (6,156)	$ 115,612,347

Business-type activities	Beginning Balance	Increases	Reclassification/ Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 319,473	$ -	$ -	$ 319,473
Water rights	19,716,695	-	-	19,716,695
Construction in progress	2,870,307	10,572,454	(3,813,257)	9,629,504
Total capital assets, not being depreciated	22,906,475	10,572,454	(3,813,257)	29,665,672
Capital assets, being depreciated:				
Buildings and improvements	683,906	-	-	683,906
Machinery and equipment	7,725,245	164,191	(10,499)	7,878,937
Water and sewer system	74,199,822	-	3,813,257	78,013,079
Total capital assets, being depreciated	82,608,973	164,191	3,802,758	86,575,922
Less accumulated depreciation for:				
Buildings and improvements	(345,300)	(19,757)	-	(365,057)
Machinery and equipment	(5,066,302)	(226,582)	10,499	(5,282,385)
Water and sewer system	(37,295,291)	(1,747,649)	-	(39,042,940)
Total accumulated depreciation	(42,706,893)	(1,993,988)	10,499	(44,690,382)
Total capital assets - being depreciated	39,902,080	(1,829,797)	3,813,257	41,885,540
Business-type capital assets, net	$ 62,808,555	$ 8,742,657	$ -	$ 71,551,212

Note 4. Capital Assets (continued)

Capital assets activity for the discretely presented component units for the fiscal year ended September 30, 2022, is as follows:

Component Unit	Beginning Balance	Increases	Reclassification/ Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 7,762,414	$ -	$ -	$ 7,762,414
Total capital assets, not being depreciated	7,762,414	-	-	7,762,414
Capital assets, being depreciated:				
Water production and distribution facilities	483,467	-	-	483,467
Total capital assets, being depreciated	483,467	-	-	483,467
Less accumulated depreciation for:				
Water production and distribution facilities	(116,537)	(10,745)	-	(127,282)
Total accumulated depreciation	(116,537)	(10,745)	-	(127,282)
Total capital assets - being depreciated	366,930	(10,745)	-	356,185
Component Unit capital assets, net	$ 8,129,344	$ (10,745)	$ -	$ 8,118,599

Depreciation

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

	Depreciation Expense
Primary Government	
Governmental activities:	
General government	$ 416,913
Public safety	1,197,021
Public works	3,338,400
Community development	5,902
Parks and recreation	679,236
Capital assets held by the City's internal service fund are charged to the various functions based on their usage	515,648
Total Governmental activities	6,153,120
Business-type activities:	
Water and sewer	1,993,988
Total Business-type activities:	1,993,988
Total Primary Government	$ 8,147,108

Note 4. Capital Assets (continued)

Construction commitments

The City has active construction projects as of September 30, 2022. At year end, the City's commitments with contractors were as follows:

Projects	Construction Commitment	Construction in Progress	Remaining Commitment
Governmental funds:			
Parks Master Plan	$ 146,200	$ 95,400	$ 50,800
Blackhawk Emergency Shelter	36,475	27,550	8,925
Blackhawk Building Renovation	260,000	213,825	46,175
Fire Station #2	4,627,683	2,334,587	2,293,096
Public Safety Building	6,077,700	4,700,280	1,377,420
Centennial Wall	435,589	291,864	143,725
Utility Relocation at Clear Creek Utility Bridge	219,200	202,550	16,650
Forest Bend Detention Pond	4,070,225	835,634	3,234,591
Deepwood Flood Control	236,369	63,924	172,445
IT Network Refresh	239,882	31,558	208,324
	16,349,323	8,797,172	7,552,151
Enterprise funds:			
Lift Station Mitigation Program	$ 507,784	$ 428,256	$ 79,528
Automated Water Meters	8,725,441	8,406,911	318,530
Water Systems Improvements	937,316	746,221	191,095
Lift Station SCADA Server Upgrade	3,744	3,744	-
Fire Station #2	44,372	44,372	-
	10,218,657	9,629,504	589,153
Total Commitments	$ 26,567,980	$ 18,426,676	$ 8,141,304

The remaining commitment amounts were encumbered at year end. The encumbrances and related appropriation lapse at the end of the fiscal year, but they are re-appropriated and become a part of the subsequent year's budget because performance under the executory contract is expected in the next year. At year end, the amount of significant encumbrances expected to be honored upon performance by the vendors in the next year were $3,396,348 for General Fund.

Note 5. Long-term Debt

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. These instruments include general obligation bonds, certificates of obligation, revenue bonds, and notes payable. These debt obligations are secured by either future tax revenue, water and sewer system revenue, or liens on property and equipment. Debt obligations that are intended to be repaid from water and sewer system revenue have been recorded as business-type activities. All other long-term obligations of the City are considered to be governmental type activities.

Note 5. Long-term Debt (continued)

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 3l, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS. There was no liability for arbitrage recorded as of year-end.

Bonds Payable and Certificates of Obligation

The following schedule summarizes the terms of the City's general obligation bonds, combination tax and revenue bonds, and certificates of obligation outstanding and their corresponding allocations to the governmental and business-type activities at September 30, 2022:

General Obligation Bonds:	**Original Issue Amount**	**Final Maturity**	**Interest Rates**	**Governmental Activities**	**Business-Type Activities**
2014 General Obligation Refunding	$ 8,805,000	2028	2.0% - 4.0%	$ 1,910,000	$ 4,910,000
2015 General Obligation Refunding	9,595,000	2030	2.0% - 3.0%	6,450,000	-
2016 General Obligation Permanent Improvement and Refunding	19,095,000	2031	2.0% - 5.0%	6,635,000	6,515,000
2016A General Obligation Refunding	9,765,000	2034	2.0% - 4.0%	-	7,210,000
2017 General Obligation Bonds	5,605,000	2031	2.0% - 4.0%	4,295,000	-
2020 General Obligation and Refunding Bonds	10,465,000	2050	2.0% - 4.0%	9,435,000	-
2021 General Obligation and Refunding Bonds	16,235,000	2051	2.375% - 4.0%	15,225,000	-
Total general obligation bonds				43,950,000	18,635,000
Revenue Bonds:					
2016 Waterworks and Sewer System	5,735,000	2036	2.0% - 4.0%	-	4,350,000
2018 Waterworks and Sewer System	20,170,000	2038	4.0% - 5.0%	-	18,060,000
2021 Waterworks and Sewer System	13,690,000	2041	3.0% - 4.0%	-	13,220,000
Total revenue bonds				-	35,630,000
Total				$ 43,950,000	$ 54,265,000

Note 5. Long-term Debt (continued)

Bonds Payable and Certificates of Obligation (continued)

Annual debt service requirements for the City's bonds and revenue bonds are as follows:

	Governmental Activities		Business-type Activities		
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2023	$ 2,400,000	$ 1,508,906	$ 3,225,000	$ 2,096,600	$ 9,230,506
2024	2,485,000	1,424,206	3,345,000	1,973,275	9,227,481
2025	2,575,000	1,333,469	3,485,000	1,837,125	9,230,594
2026	2,670,000	1,239,669	3,685,000	1,687,950	9,282,619
2027	2,815,000	1,136,803	3,760,000	1,528,000	9,239,803
2028-2032	13,510,000	3,886,238	18,260,000	5,072,025	40,728,263
2033-2037	5,505,000	2,083,075	13,485,000	1,994,150	23,067,225
2038-2042	4,835,000	1,248,600	5,020,000	244,450	11,348,050
2043-2047	3,950,000	670,797	-	-	4,620,797
2048-2052	3,205,000	151,878	-	-	3,356,878
	$ 43,950,000	$ 14,683,641	$ 54,265,000	$ 16,433,575	$ 129,332,216

Changes in the City's long-term liability activity for the year ended September 30, 2022, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental activities:					
General obligation bonds	$ 46,265,000	$ -	$ (2,315,000)	$ 43,950,000	$ 2,400,000
Premium on bond issuance	3,544,358	-	(350,456)	3,193,902	-
Notes payable	1,681,809	1,457,640	(525,720)	2,613,729	702,919
Compensated absences	996,190	1,180,525	(1,032,372)	1,144,343	228,869
Governmental activity Long-term liabilities	$ 52,487,357	$ 2,638,165	$ (4,223,548)	$ 50,901,974	$ 3,331,788

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bonds	37,080,000	$ -	$ (1,450,000)	$ 35,630,000	$ 1,510,000
General obligation bonds	20,300,000	-	(1,665,000)	18,635,000	1,715,000
Premium on bond issuance	5,666,291	-	(402,255)	5,264,036	-
Compensated absences	117,779	118,399	(126,768)	109,410	21,882
Business-type activity Long-term liabilities	$ 63,164,070	$ 118,399	$ (3,644,023)	$ 59,638,446	$ 3,246,882
Total Primary government	$ 115,651,427	$ 2,756,564	$ (7,867,571)	$ 110,540,420	$ 6,578,670

Note 5. Long-term Debt (continued)

Bonds Payable and Certificates of Obligation (continued)

The compensated absences, net pension liability and total OPEB liabilities attributable to the governmental activities will be liquidated primarily by the General Fund.

West Ranch Management District

The following schedule summarizes the terms of the West Ranch Management District's general obligation bonds at July 31, 2022:

General Obligation Bonds:	Amounts Outstanding	Interest Rates	Range of Maturities	Callable Date *
Road Series 2010A	$ 45,000	4.35%	2021-2022	September 1, 2020
Road Series 2014	1,845,000	2.00% - 3.75%	2022-2040	September 1, 2022
Series 2015	3,905,000	2.950% - 4.125%	2022-2030	September 1, 2023
Series 2016	2,080,000	3.00% - 4.00%	2031-2040	September 1, 2024
Refunding Series 2016	665,000	2.00% - 4.00%	2022-2026	September 1, 2024
Series 2020	8,975,000	2.00% - 4.00%	2022-2040	September 1, 2025
Refunding Series 2016	1,535,000	2.00% - 4.00%	2022-2040	September 1, 2025
Total general obligation bonds	$ 19,050,000			

* Or any date thereafter, callable at par plus accrued interest to the date of redemption.

Annual debt service requirements for the District's bonds are as follows:

Fiscal Year	Principal	Interest	Total
2023	$ 865,000	$ 559,587	$ 1,424,587
2024	900,000	530,329	1,430,329
2025	930,000	497,763	1,427,763
2026	970,000	461,806	1,431,806
2027	1,005,000	426,238	1,431,238
2028-2032	5,370,000	1,638,010	7,008,010
2033-2037	4,740,000	947,879	5,687,879
2038-2041	4,270,000	255,216	4,525,216
	$ 19,050,000	$ 5,316,828	$ 24,366,828

The District's bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Note 5. Long-term Debt (continued)

Bonds Payable and Certificates of Obligation (continued)

West Ranch Management District (continued)

Changes in the discretely presented component units' long-term liabilities for the year end July 31, 2022, are as follows:

West Ranch Management District	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Component Unit					
General obligation bonds	$ 21,750,000	$ -	$ (2,700,000)	$ 19,050,000	$ 865,000
Discount on bonds	(277,729)	-	64,319	(213,410)	-
Premium on bonds	76,630	-	(9,182)	67,448	-
Developer advances	40,000	-	-	40,000	-
Due to developer	369,600	-	-	369,600	-
Total	$ 21,958,501	$ -	$ (2,644,863)	$ 19,313,638	$ 865,000

At July 31, 2022, the District had $3,775,000 of unlimited tax bonds and recreational facilities' bonds authorized, but unissued, for the purposes of acquiring, constructing and improving recreational facilities, transportation, education, and the water, sanitary sewer and drainage systems within the District.

A developer of the District has advanced $40,000 to the District for operating expenses. The District has agreed to pay these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities. The District is currently unable to estimate when bonds will be issued to pay this liability.

The developer of the District has constructed underground utilities on behalf of the District. The District's engineer estimates reimbursable costs for completed projects are $369,600. The District has agreed to reimburse the developers for these amounts, plus interest, to the extent approved by the Texas Commission on Environmental Quality from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities.

Defeasance of Bonds

The City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On September 30, 2022, the City has no bonds considered defeased that were outstanding.

Notes Payable

During the current fiscal year, the City entered into a five-year agreement for the acquisition and use of vehicles and equipment. An initial liability was recorded in the amount of $1,457,640 during the current fiscal year. The City is required to make annual principal and interest payments of $318,555. The agreement has an interest rate of 3.03%.

Note 5. Long-term Debt (continued)

Notes Payable (continued)

The following is a summary of future notes payments due on this machinery and equipment:

Fiscal Year	Principal	Interest
2023	$ 702,919	$ 70,085
2024	721,122	51,882
2025	406,103	33,191
2026	386,312	22,032
2027	397,273	11,172
Total	$ 2,613,729	$ 188,362

Pledged Revenues

On February 1, 2016, the City issued $5,735,000 in Waterworks and Sewer System Revenue Bonds, Series 2016. On December 3, 2018, the City issued $20,170,000 in Waterworks and Sewer System Revenue Bonds, Series 2018. On February 4, 2021, the City issued $13,690,000 in Water and Sewer System Revenue Bonds, Series 2021. These bonds represent special obligations of the City and are payable solely from a first lien on and pledge of the net revenues of the City's waterworks and sanitary sewer system. The proceeds of the bonds were and are to be used to finance sanitary sewer and waterworks system extensions and improvements. The outstanding revenue bonds have a final maturity of March 1, 2036 for the 2016 bonds, March 1, 2038 for the 2018 bonds, and March 1, 2041 for the 2021 bonds. The City will commit revenues each year the bonds are outstanding. At September 30, 2022, the remaining principal on the series 2016, 2018 and 2021 bonds was $4,350,000, $18,060,000, and $13,220,000, respectively. Principal and interest payments for the fiscal year were $1,450,000 and $1,434,200, respectively. Net pledged revenue in 2022 produced 385 percent of the current debt service requirement.

Note 6. Interfund Balances and Transfers

Due to/from Other Funds

The City had interfund receivable and payable balances at September 30, 2022 as follows:

Due To	Due From	Amount	Purpose
General Fund	HMGP Acquisition and Demolition	$ 205,180	Expenditures funded by General Fund pending grant reimbursement.
General Fund	2017 CDBG- DR Harvey - Harris County	680,090	Expenditures funded by General Fund pending grant reimbursement.
General Fund	2017 CDBG- DR Harvey - Galveston County	272,460	Expenditures funded by General Fund pending grant reimbursement.
2021 Bond Fund	2017 CDBG- DR Harvey - Galveston County	996,000	Expenditures funded by bond funds pending grant reimbursement
		$ 2,153,730	

Governmental activities:			
General fund	$ 1,157,730	$ -	$ 1,157,730
Bond construction fund	996,000	-	996,000
Nonmajor governmental funds	-	(2,153,730)	(2,153,730)

Interfund Transfers

The composition of interfund transfers for the year ended September 30, 2022, were as follows:

Transfer In	Transfers Out	Amount	Purpose
General Fund	Water and Sewer Fund	$ 1,708,331	Budgeted annual transfers for indirect water and sewer costs by the General Fund
Internal Service Fund	General Fund	77,300	To fund new vehicle for Police Department
Internal Service Fund	Water and Sewer Fund	135,000	To fund 2 new vehicles for Public Works
Water and Sewer Fund	General Fund	47,648	Capital lease proceeds to purchase equipment in the sewer division
		$ 1,968,279	

Note 6. Leases

Lease Receivable

The City leases real property to third parties for the placement of their telecommunication towers. The City recognized $37,563 in lease revenue and $27,178 in interest revenue during the current fiscal year related to these leases. As of September 30, 2022, the City's receivable for lease payments was $1,021,537. Also, the City has a deferred inflow of resources associated with this lease that will be recognized as revenue over the lease term. As of September 30, 2022, the balance of the deferred inflow of resources was $1,011,689.

Note 7. Employee Retirement System

Texas Municipal Retirement System

Plan Description and Provisions

The City participates as one of 901 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS a report (ACFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

The City has approved an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate:	7%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	5
Service retirement eligibility:	Vested at age 60 or 20 years at any age
Updated Service Credit:	100% Repeating
Annuity increase to retirees	50% of CPI; Repeating
Supplement death benefit – active Employees and retirees	Yes

Note 7. Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

Employees covered by benefit terms

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	152
Inactive employees entitled to but not yet receiving benefits	131
Active employees	216
Total	499

Contributions

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

Employees for the City were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.55% and 16.27% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2022, were $2,844,852 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2021, 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, 2021 actuarial valuation was determined using the following actuarial assumptions:

Actuarial cost method:	Entry age normal
Amortization method:	Level percentage of payroll, closed
Remaining amortization period:	24 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%

Note 7. Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

Actuarial Assumptions (continued)

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

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

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

	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public and Private Markets	12.0%	7.22%
Real Estate	12.0%	6.85%
Hedge Funds	5.0%	5.35%
Private Equity	10.0%	10.00%
Total	100.0%	

Discount Rate

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

Note 7. Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**
Balance at 12/31/2020	$ 91,096,245	$ 81,355,616	$ 9,740,629
Changes for the year:			
Service Cost	3,032,100	-	3,032,100
Interest (on the Total Pension Liability)	6,110,807	-	6,110,807
Difference between expected and actual experience	788,166	-	788,166
Changes of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(4,163,654)	(4,163,654)	-
Contributions – employer	-	2,777,049	(2,777,049)
Contributions – employee	-	1,174,582	(1,174,582)
Net investment income	-	10,611,017	(10,611,017)
Administrative Expense	-	(49,073)	49,073
Other	-	337	(337)
Balance at 12/31/2021	$ 96,863,664	$ 91,705,874	$ 5,157,790

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

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

	1% Decrease in Discount Rate (5.75%)	Current Single Rate Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 18,854,597	$ 5,157,790	$ (6,071,734)

Pension Plan Fiduciary Net Position

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

Note 7. Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

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

For the year ended September 30, 2022, the City recognized a pension expense of $1,199,639.

At September 30, 2022, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual economic experience	$ 1,016,277	$ (82,001)
Changes in actuarial assumptions	130,195	-
Difference between projected and actual investment earnings	-	(5,433,077)
Contributions subsequent to the measurement date	2,071,293	-
Total	$ 3,217,765	$ (5,515,078)

The $2,071,293 reported as deferred outflows of resources related to pension 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

	Net Deferred Outflows (Inflows) of Resources
2023	$ (486,639)
2024	(1,949,324)
2025	(991,613)
2026	(941,030)
Thereafter	-
Total	$ (4,368,606)

Note 8. Post Employee Benefits Other Than Pensions

TMRS Supplemental Death Benefits Fund

Benefit Plan Description

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

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

Membership in the plan as of the measurement date of December 31, 2021 was as follows:

Inactive employees currently receiving benefits	104
Inactive employees entitled to but not yet receiving benefits	33
Active employees	216
Total	353

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 active employees and retirees and the assets are not segregated for these groups. Under GASB Statement No. 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 1.84% based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

Note 8. Post Employee Benefits Other Than Pensions (continued)

TMRS Supplemental Death Benefits Fund (continued)

Actuarial Assumptions

The City's total OPEB liability was measured at December 31, 2021 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Valuation Date: December 31, 2021

Methods and Assumptions:

Inflation:	2.50%
Salary Increases:	3.50% to 11.50%, including inflation
Discount rate *:	1.84%
Retirees' share of benefit related costs:	$0
Administrative expenses:	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees:	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees:	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31,2021.

Note: The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Changes in the Total OPEB Liability

Service cost	$	45,305
Interest		17,025
Changes of benefit terms		-
Difference between expected and actual experience		(9,842)
Changes of assumptions		29,168
Benefit payments		(15,102)
Net change in total OPEB liability		66,554
Total OPEB liability - beginning		836,154
Total OPEB liability - ending	$	902,708

Ending total OPEB liability is $902,708 as of December 31, 2021. Changes of assumptions reflect a change in the discount rate from 2.00% as of December 31, 2020 to 1.84% as of December 31,2021.

Note 8. Post Employee Benefits Other Than Pensions (continued)

TMRS Supplemental Death Benefits Fund (continued)

Sensitivity Analysis

The following presents the total OPEB liability of the employer, calculated using the discount rate of 1.84%, 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 (0.84%) or 1 percentage point higher (2.84%) 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 to 0.84%	Current Discount Rate Assumption 1.84%	1% Increase to 2.84%
$ 1,116,891	$ 902,708	$ 740,283

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

For the year ended September 30, 2022, the City recognized OPEB expense of $85,258 related to the TMRS Supplemental Death Benefit Fund and OPEB expense of $63,783 related to the City's retiree healthcare plan for total OPEB expense of $149,041. As of September 30, 2022, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (75,182)
Changes in assumptions and other inputs	159,032	-
Contributions made subsequent to the measurement date	3,819	-
Total	$ 162,851	$ (75,182)

The $3,819 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expenses as follows:

	Net Deferred Outflows (Inflows) of Resources
2023	$ 22,928
2024	17,482
2025	20,637
2026	16,524
2027	5,355
Thereafter	924
Total	$ 83,850

Note 8. Post Employee Benefits Other Than Pensions (continued)

Retiree Health Care Plan (RHCP)

Plan Description

The City's defined benefit OPEB plan, City of Friendswood Retiree Health Care Plan (RHCP), provides OPEB through an implicit healthcare premium for retirees for all permanent full-time employees of the City. RHCP 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 RHCP.

Benefits Provided

RHCP 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.

Employees covered by benefit terms. At December 31, 2020, the following employees were covered by the benefit terms:

Retirees and beneficiaries	7
Inactive, nonretired members	0
Active members	204
Total	211

Total OPEB Liability

The City's total OPEB liability of $1,032,823 was measured as of December 31, 2021, and was determined by an actuarial valuation as of December 31, 2020.

Note 8. Post Employee Benefits Other Than Pensions (continued)

Retiree Health Care Plan (RHCP) (continued)

Actuarial Assumptions and Methods

The actuarial valuation was performed as of December 31, 2020. Update procedures were used to roll forward the total OPEB liability to December 31, 2021. The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date:	December 31, 2020
Measurement Date:	December 31, 2021
Methods and Assumptions:	
Actuarial Cost Method:	Individual Entry-Age Normal
Discount Rate:	1.84% as of December 31, 2021
Inflation:	2.50%
Salary Increases:	3.50% to 11.50%, including inflation
Demographic Assumptions:	Based on the experience study covering the four year period ending December 31, 2018 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality:	For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rate are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables published through 2019 to account for future mortality improvements.
Health Care Trend Rates:	Initial rate of 6.80% declining to an ultimate rate of 4.25% after 12 years.
Participation Rates:	It was assumed 20% of employees retiring at the age of 50 or over would choose to receive retiree health care coverage through the City. Employees retiring before the age of 50 were not assumed to elect coverage.
Other Information:	
Notes:	The discount rate changed from 2.00% as of December 31, 2020 to 1.84% as of December 31, 2021. Additionally, the period of service used for the allocation of service costs was changed to only reflect service with the City.

Discount Rate

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rate is 1.84% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-Year Municipal GO AA Index”). The discount rate was 2.00% as of the prior measurement date.

Plan Assets

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Note 8. Post Employee Benefits Other Than Pensions (continued)

Retiree Health Care Plan (RHCP) (continued)

Changes in the Total OPEB Liability

Service cost	$	60,759
Interest		22,218
Changes of benefit terms		-
Difference between expected and actual experience		11,967
Changes of assumptions		(111,991)
Benefit payments		(61,339)
Net change in total OPEB liability		(78,386)
Total OPEB liability - beginning		1,111,209
Total OPEB liability - ending	$	1,032,823

The ending Total OPEB Liability was $1,032,823 as of December 31, 2021.

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 1.84%, 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 to 0.84%	Current Discount Rate Assumption 1.84%	1% Increase to 2.84%
$ 1,128,772	$ 1,032,823	$ 944,844

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
$ 909,992	$ 1,032,823	$ 1,179,741

Note 8. Post Employee Benefits Other Than Pensions (continued)

Retiree Health Care Plan (RHCP) (continued)

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

For the year ended September 30, 2022, the City recognized OPEB expense of $85,258 related to the TMRS Supplemental Death Benefit Fund and OPEB expense of $63,783 related to the City's retiree healthcare plan for total OPEB expense of $149,041. As of September 30, 2022, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 18,959	$ (206,886)
Changes assumptions	148,501	(100,415)
Contributions subsequent to the measurement date	33,379	-
Total	$ 200,839	$ (307,301)

The $33,379 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expenses as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2023	$ (19,194)
2024	(19,194)
2025	(19,194)
2026	(19,194)
2027	(20,836)
Thereafter	(42,229)
Total	$ (139,841)

Note 9. Commitments and Contingencies

Southeast Water Purification Plant

The City has entered into a contract with the City of Houston for construction, operating and maintaining a water purification plant known as Southeast Water Purification Plant. The City's pro rata share of the actual pumping construction costs is 1.33 percent.

The City began receiving water from the plant on October 15, 1990. The City is billed on a monthly basis for the actual gallons of water received times the City's pro rata share of actual costs. At the end of each quarter, the City of Houston computes the total operation and maintenance expenses for the quarter just ended, recalculates the cost per one thousand gallons, and adjusts previous billings on the next invoice.

The relationship of the parties is of a fiduciary character, no partnership or joint venture is created by this contract.

Blackhawk Regional Wastewater Treatment Facility

On December 12, 1974, the City entered into an agreement with Gulf Coast Waste Disposal Authority to construct the Blackhawk Regional Wastewater Treatment Facility. The Blackhawk Wastewater Treatment Facility was constructed in the early 1980s and is a regional wastewater treatment plant serving MUD 55, Baybrook MUD 1, City of Houston and the City of Friendswood. The plant has a capacity of 9.25 million gallons per day (MGD) and is operated and maintained by Gulf Coast Waste Disposal Authority. Friendswood is the majority owner having 52.465% or 4.853 MGD of its capacity.

As a part of the contract with Gulf Coast Waste Disposal Authority, the City and all participants pay their share of operational costs and expenses (direct and indirect) incurred monthly at the Blackhawk Wastewater Treatment Facility based upon actual flows. This includes the maintenance of the plant and the creation and maintenance of reasonable reserves for repairs and other contingencies. Capital expenditures on the other hand shall be the responsibility of all participants based upon their purchased capacity in the plant. For Friendswood, that equates to 52.465% for capital projects identified and approved at the plant.

Federal and State Programs

The City recognizes grant monies received as reimbursement for costs incurred in certain federal and state programs it administers as revenue. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk Pool. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in TML is limited to payment of premiums. During the year ended September 30, 2022, the City paid premiums to TML for provision of various liability, property and casualty insurance. The City has various deductible amounts ranging from $500 to $5,000 on various policies.

Note 9. Commitments and Contingencies (continued)

The City also provides workers' compensation insurance on its employees through TML. Workers' compensation is subject to change when audited by TML. At year-end, September 30, 2022, the City believed the amounts paid on workers' compensation would not change significantly from the amounts recorded.

During the year ended September 30, 2022, employees of the City were covered by a health and dental insurance plan. The City pays 90% of the monthly premium of employees choosing individual coverage only. The City pays 70% of the monthly premium for employees choosing to cover themselves and their dependents.

Note 10 – Deficit Fund Balance

As of September 30, 2022, the Coronavirus State and Local Fiscal Recovery fund had a fund balance deficit of $1,666 and the CDBG-DR Harris County with a deficit of $204,422. The City plans to record revenue in the future to cover the deficits for the fund.

APPENDIX C

FORM OF BOND COUNSEL OPINION

August 8, 2023

CITY OF FRIENDSWOOD, TEXAS
GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2023
IN THE AGGREGATE PRINCIPAL AMOUNT OF $29,775,000

AS BOND COUNSEL for the City of Friendswood, Texas, the issuer (the "Issuer") of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the date specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates as stated in the text of the Bonds, and maturing serially on the dates specified in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-I).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to governmental immunity and bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law, all as provided in the Ordinance of the Issuer authorizing the issuance of the Bonds.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

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

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

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

Respectfully,