

OFFICIAL STATEMENT
August 21, 2023

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

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

\$7,855,000
CITY OF DAYTON, TEXAS
(A political subdivision of the State of Texas located in Liberty County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023

Dated Date: September 1, 2023

Due: February 1, as shown on inside cover

The \$7,855,000 City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2023 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City of Dayton, Texas (the "City" or the "Issuer") on August 21, 2023, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

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

Interest on the Certificates will accrue from September 1, 2023 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2024, until the earlier of stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; (2) designing, constructing, acquiring, purchasing, renovating, enlarging and improving flood control and storm drainage facilities within the City; (3) designing, constructing, acquiring, purchasing, renovating, enlarging and improving street improvements (including utilities repair, replacement and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (4) designing, constructing, acquiring, purchasing, renovating, enlarging and improving various City facilities and projects, including the animal shelter; (5) the acquisition and purchase of computer hardware and software and other technology and audio visual equipment information technology system upgrades and improvements, and the payment of professional fees relating thereto, including technology improvements for the Police Department and City hall, and City-wide security cameras; (6) designing, constructing, acquiring, purchasing, renovating, enlarging and improving the City parks system and facilities; (7) the acquisition and purchase of vehicles and equipment for various City departments, including the Police Department and the Public Works Department, and the Animal Control Department; (8) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (9) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

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

The Certificates are offered for delivery, when, as and if issued and received by FHN Financial Capital Markets the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" and "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein.) It is expected that the Certificates will be available for initial delivery through DTC on or about September 19, 2023.

\$7,855,000
CITY OF DAYTON, TEXAS
(A political subdivision of the State of Texas located in Liberty County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023

MATURITY SCHEDULE
(Due February 1)

CUSIP Prefix No. 240082⁽¹⁾

\$6,900,000 Serial Certificates

Stated Maturity 2/1	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix ⁽¹⁾	Stated Maturity 2/1	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix ⁽¹⁾
2024	\$ 165,000	5.000	3.500	LH8	2034	\$ 395,000	5.000	3.400 ⁽²⁾	LT2
2025	360,000	5.000	3.500	LJ4	2035	415,000	5.000	3.450 ⁽²⁾	LU9
2026	265,000	5.000	3.400	LK1	2036	430,000	4.000	3.700 ⁽²⁾	LV7
2027	275,000	5.000	3.300	LL9	2037	450,000	4.000	3.850 ⁽²⁾	LW5
2028	290,000	5.000	3.250	LM7	2038	XXX	XXX	XXX	
2029	305,000	5.000	3.250	LN5	2039	XXX	XXX	XXX	
2030	320,000	5.000	3.250	LP0	2040	505,000	4.000	4.050	LZ8
2031	340,000	5.000	3.250	LQ8	2041	530,000	4.125	4.150	MA2
2032	355,000	5.000	3.250	LR6	2042	550,000	4.125	4.200	MB0
2033	375,000	5.000	3.250 ⁽²⁾	LS4	2043	575,000	4.250	4.250	MC8

\$955,000 Term Certificates

\$955,000 4.000% Term Certificates due February 1, 2039 and priced to yield 4.000% ⁽²⁾ 240082 LY1

(Interest to accrue from Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2032, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. Additionally, the Certificates maturing February 1, 2039 (the "Term Certificates") will be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

(1) CUSIP numbers are included solely for the convenience of the owner of the Certificates. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2023 CUSIP Global Services. All rights reserved. CUSIP data herein 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 Financial Advisor, or the Purchaser is responsible for the selection or the correctness of the CUSIP numbers set forth herein.

(2) Yield calculated is based on the assumption that the Certificates denoted and sold at premium will be redeemed on February 1, 2032, the first optional call date for the Certificates, at a redemption price of par plus accrued interest to the date of redemption.

[The remainder of this page intentionally left blank]

CITY OF DAYTON TEXAS
117 Cook Street
Dayton, Texas 77535
Telephone: (936) 258-2642

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)
Martin Mudd Mayor	1	2026
John Headrick Mayor Pro-Tem, Position 3	3	2024
Sherial Lawson Councilmember, Position 1	1	2024
Janette Goulder-Frick Councilmember, Position 2	2	2024
Tonya Smikal Councilmember, Position 4	1	2025
Valorie Barton Councilmember, Position 5	1	2025

ADMINISTRATION

Name	Position	Length of Service (Years)
Kimberly Judge	City Manager	1
Jennifer Billings	City Secretary	5
Leslie Herrera	Finance Director	1

CONSULTANTS AND ADVISORS

Bond CounselNorton Rose Fulbright US LLP
Austin, Texas

Certified Public Accountants BrooksWatson & Co., PLLC
Houston, Texas

Financial AdvisorSAMCO Capital Markets, Inc.
San Antonio, Texas

For Additional Information Please Contact:

Ms. Kimberly Judge
City Manager
City of Dayton
117 Cook Street
Dayton, Texas 77535
Telephone: (936) 258-2642
kjudge@daytontx.org
lherrera@daytontx.org

Mr. Mark M. McLiney
Senior Managing Director
SAMCO Capital Markets, Inc.
1020 Northeast Loop 410, Suite 640
San Antonio, Texas 78209
Telephone: (210) 832-9760
mmcliney@samcocapital.com

Mr. Andrew T. Friedman
Senior Managing Director
SAMCO Capital Markets, Inc.
1020 Northeast Loop 410, Suite 640
San Antonio, Texas 78209
Telephone: (210) 832-9760
afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

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

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

None of the City, the Financial Advisors or the Purchaser makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its Book-Entry-Only System as such information is provided by DTC respectively.

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

TABLE OF CONTENTS

COVER PAGE	1	INVESTMENT POLICIES	14
ELECTED AND APPOINTED OFFICIALS	3	AD VALOREM PROPERTY TAXATION	15
USE OF INFORMATION IN THE OFFICIAL STATEMENT	4	CITY’S APPLICATION OF THE PROPERTY TAX CODE	19
SELECTED DATA FROM THE OFFICIAL STATEMENT	5	TAX MATTERS	19
INTRODUCTORY STATEMENT	7	CONTINUING DISCLOSURE OF INFORMATION	21
THE CERTIFICATES	7	LEGAL MATTERS	23
REGISTRATION, TRANSFER AND EXCHANGE	11	FORWARD LOOKING STATEMENTS	24
BOOK-ENTRY-ONLY SYSTEM	12	OTHER PERTINENT INFORMATION	24

Financial Information Relating to the City of Dayton, Texas	Appendix A
General Information Regarding the City of Dayton and Liberty County, Texas	Appendix B
Form of Legal Opinion of Bond Counsel	Appendix C
Excerpts from the Issuer’s Audited Financial Statements for the Year Ended September 30, 2022.....	Appendix D

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer

The City of Dayton, Texas (the "City" or "Issuer") is in southwest Liberty County, Texas approximately 39 miles northeast of the City of Houston. The City became an incorporated municipality in 1911 after originally being considered part of the original town of Liberty, founded in 1831. The City operates under the council-mayor form of government and as a home rule municipality. The City Manager, appointed by the City Council, is the chief administrative and executive officer of the City. (See "APPENDIX B - General Information Regarding the City of Dayton and Liberty County, Texas" herein.)

The Certificates

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City, on August 21, 2023 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.

Security

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

Redemption Provisions of the Certificates

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2032, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. Additionally, the Certificates maturing February 1, 2039 ("Term Certificates") will be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

Tax Matters

In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS" and will not be included in calculating the alternative minimum taxable income of the owners thereof who are individuals. (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" herein.)

Qualified Tax-Exempt Obligations

The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; (2) designing, constructing, acquiring, purchasing, renovating, enlarging and improving flood control and storm drainage facilities within the City; (3) designing, constructing acquiring, purchasing, renovating, enlarging and improving street improvements (including utilities repair, replacement and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (4) designing, constructing, acquiring, purchasing, renovating, enlarging and improving various City facilities and projects, including the animal shelter; (5) the acquisition and purchase of computer hardware and software and other technology and audio visual equipment information technology system upgrades and improvements, and the payment of professional fees relating thereto, including technology improvements for the Police Department and City hall, and City-wide security cameras; (6) designing, constructing, acquiring, purchasing, renovating, enlarging and improving the City parks system and facilities; (7) the acquisition and purchase of vehicles and equipment for various City departments, including the Police Department and the Public Works Department, and the Animal Control Department; (8) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (9) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

Rating

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

Payment Record

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

Future Debt Issues

The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2023.

Delivery

When issued, anticipated on or about September 19, 2023.

Legality

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

(The remainder of this page intentionally left blank.)

OFFICIAL STATEMENT
relating to

\$7,855,000

CITY OF DAYTON, TEXAS

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

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Dayton, Texas (the "City" or the "Issuer") of its \$7,855,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2023 (the "Certificates") identified on the cover page.

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

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

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

THE CERTIFICATES

General Description of the Certificates

The Certificates will be dated September 1, 2023 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2024, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Dallas, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Certificates is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City (the "City Council") on August 21, 2023, and the City's Home Rule Charter.

Security for Payment

Limited Pledge of Ad Valorem Taxes. The Certificates are general obligations of the City, payable primarily from the proceeds of an ad valorem tax levied annually, within the legal limitations imposed by law, upon all taxable property located in the City. (See "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations" herein.)

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

Redemption Provisions of the Certificates

Optional Redemption: The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after February 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2032, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Certificates maturing on February 1, 2039, (the “Term Certificates”) will also be subject to mandatory sinking fund redemption. The Term Certificates are subject to mandatory sinking fund redemption in part prior to their stated maturity, and will be redeemed by the Issuer at the redemption prices equal to the principal amounts thereof plus interest accrued thereon to the redemption dates, on the dates and in the principal amounts shown in the following schedule:

Term Certificate February 1, 2039	
<u>Redemption Date</u>	<u>Principal Amount</u>
February 1, 2038	\$470,000
February 1, 2039*	485,000

* Payable at Stated Maturity

The principal amount of Term Certificates required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least fifty (50) days prior to a mandatory redemption date (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

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

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

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance

with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Selection of Certificates to be Redeemed

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

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the City’s utility system; (2) designing, constructing, acquiring, purchasing, renovating, enlarging and improving flood control and storm drainage facilities within the City; (3) designing, constructing acquiring, purchasing, renovating, enlarging and improving street improvements (including utilities repair, replacement and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (4) designing, constructing, acquiring, purchasing, renovating, enlarging and improving various City facilities and projects, including the animal shelter; (5) the acquisition and purchase of computer hardware and software and other technology and audio visual equipment information technology system upgrades and improvements, and the payment of professional fees relating thereto, including technology improvements for the Police Department and City hall, and City-wide security cameras; (6) designing, constructing, acquiring, purchasing, renovating, enlarging and improving the City parks system and facilities; (7) the acquisition and purchase of vehicles and equipment for various City departments, including the Police Department and the Public Works Department, and the Animal Control Department; (8) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (9) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects.

Sources and Uses

Sources	
Par Amount of the Certificates	\$ 7,855,000.00
Accrued Interest on the Certificates	17,779.38
Reoffering Premium	<u>338,517.60</u>
Total Sources of Funds	<u>8,211,296.98</u>
Uses	
Project Fund Deposit	\$ 8,000,000.00
Purchaser’s Discount	75,653.57
Certificate Fund Deposit	17,779.38
Costs of Issuance	<u>117,864.03</u>
Total Uses	<u>8,211,296.98</u>

Payment Record

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

Amendments

The Issuer may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then Outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Outstanding Certificates, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of or interest on the Certificates, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of premium, if any, or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, or (3) reduce the aggregate principal amount of Certificates required for consent to any amendment, addition or recession.

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, the City has the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the defeasance, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes, and (iv) at the time of the redemption, satisfies the conditions of (i) and (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Certificates, after taking the redemption into account in determining the sufficiency of the provisions made for payment of the defeased Certificates.

Default and Remedies

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

Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality. In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson*") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to

breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’” and protecting such municipalities “via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources”. While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

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

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

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

Record Date

The record date (“Record Date”) for determining the party to whom interest is payable on a Certificate on any interest payment date means the fifteenth (15th) day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar. (See “REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment” herein.)

Special Record Date for Interest Payment

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

Future Registration

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

Limitation on Transfer of Certificates

Neither the Issuer nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (i) with respect to any Certificate during a period beginning forty-five (45) days prior to the date fixed for redemption of the Certificates or (ii) to transfer or exchange any Certificate selected for redemption; provided, however, that such limitation shall not apply to uncalled portions of a Certificate redeemed in part.

Replacement Certificates

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity,

corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to the holder of such Certificates and will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" hereinabove.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City, the Financial Advisor, and the Purchaser believe to be reliable, but none of the City, the Financial Advisor, or the Purchaser take responsibility for the accuracy thereof.

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

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

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

INVESTMENT POLICIES

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

Legal Investments

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

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

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

Investment Policies

Under State law, the City is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The City is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the City's investments 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." The City is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

As of May 2023 the City held investments as follows:

<u>Type of Security</u>	<u>Market Value</u>
Certificate of Deposit	\$ 996,000
Money Market	18,326
Federal Agency Coupon Securities	800,000
Negotiable CD's	249,000
Money Market	<u>28,027</u>
Total	<u>\$ 2,091,353</u>

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

⁽¹⁾ Unaudited.

AD VALOREM PROPERTY TAXATION

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The Liberty County Appraisal District (the "Appraisal District") is primarily responsible for appraising property within the City generally as of January 1 of each year. Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described

in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

Local Option Freeze for the Elderly and Disabled

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Tax Increment Reinvestment Zones

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

Tax Abatement Agreements

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

For a discussion of how the various exemptions described above are applied by the City, see “CITY’S APPLICATION OF THE PROPERTY TAX CODE” herein.

City and Taxpayer Remedies

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

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at \$57,216,456 for the 2023 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

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

City’s Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the City, having power to tax the property. The City’s tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer’s debt.

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

Public Hearing and Maintenance and Operations Tax Rate Limitations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Debt Tax Rate Limitations

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

2023 Legislative Session. . . The 88th Texas Legislature convened in regular session on January 10, 2023 and concluded on May 29, 2023. The Governor of Texas (the “Governor”) is permitted to call one or more additional special sessions which may last no more than 30 days and for which the Governor sets the agenda. The Governor called a first special session which convened on May 29, 2023 and concluded on June 27, 2023 without any legislation being passed. The Governor called a second special session which convened on June 27, 2023 to address school district taxes. During the regular legislative session, the Legislature adopted a general

appropriations act and adopted certain legislation affecting ad valorem taxation procedures of cities. The City is in the process of analyzing the effect of legislation adopted during the regular session. The City can make no representations or predictions regarding any actions the Legislature may take during any special session of the 88th Texas legislative session concerning the substance or the effect of any legislation that may be passed in the future or how such legislation could affect the City.

CITY'S APPLICATION OF THE PROPERTY TAX CODE

The City grants a local option exemption to the appraised value of the residence homestead of persons 65 years of age or older of \$40,000.

The City has elected to grant a local option exemption to the appraised value of residence homesteads of 15% or \$5,000, whichever is greater.

The City has elected to grant a local exemption to the appraised value of the residence homesteads of the disabled of \$20,000.

The City has adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property

The City does not allow split payments and discounts are not allowed.

The City does tax Goods-in-Transit.

The City does tax Freeport Property.

The City does collect an additional ½ of one percent sales tax for economic development.

The City is also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City has entered into various 380 agreements with businesses in the City. These agreements involve rebates of future ad valorem taxes and/or sales taxes and should not have a significant impact on current tax in future years. Once the terms of the 380 agreements expire, the tax base of the City will be increased to include the new businesses of the City. The City has a Chapter 380 Agreement with Jess-John, Inc. (the "Developer"). The Jess-John, Inc. Agreement allows the City to provide City Grant Payments, less City Service Retainage, to the Developer in order to pay for up to one half (1/2) of actual costs of Public Improvements not to exceed \$674,530. This Agreement took effect on November 17, 2014, for a term expiring the earlier of 15 years thereafter, or on the date that all payments required have been made.

Industrial Districts in Extraterritorial Jurisdiction

Pursuant to Section 42.044, as amended, Texas Local Government Code, the City is authorized to designate any area within its extraterritorial jurisdiction as an "Industrial District" and contract with the Industrial District to guarantee the continuation of the District's extraterritorial status for a period not to exceed 15 years. In lieu of annexation, and the tax burden such annexation would impose, the landowners within an Industrial District typically agree to pay a lesser portion of those property taxes which they would have paid if the property within the District had been within the City limit. The City currently has one such Industrial District.

Kinder Morgan Texas Pipeline LLC ("Kinder Morgan") has also entered into a non-annexation agreement with the City, which will terminate December 31, 2022, unless terminated earlier by the terms of the contract or extended. Pursuant to this agreement, the City has pledged not to annex any property identified in the agreement, owned by Kinder Morgan, for the term of the agreement. Kinder Morgan in return has agreed to pay an increasingly larger portion of the ad valorem taxes it would have paid if it were located within the City limit. For the years 2019 through 2022, Kinder Morgan paid or will pay the City an amount equivalent to 58% of the ad valorem taxes it would have paid upon all taxable property within the industrial development district based upon the land's value on January 1 of the prior calendar year. Kinder Morgan will pay the City in annual installments, on or before September 30 of each year, for the term of the agreement.

TAX MATTERS

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

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the Issuer made in a certificate of even date with the initial delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance with the provisions of the Ordinance by the Issuer subsequent to the issuance of the Certificates.

The Ordinance contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage “profits” and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

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

Tax Changes

Existing law may change to reduce or eliminate the benefit to Certificate holders of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

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

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

Tax Accounting Treatment of Discount Certificates

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

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

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

Tax Accounting Treatment of Premium Certificates

The purchase price of certain Certificates (the "Premium Certificates") paid by an owner may be greater than the amount payable on such Certificates at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Certificate over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Certificate in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity (or, in some cases with respect to a callable Certificate, the yield based on a call date that results in the lowest yield on the Certificate).

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

Qualified Tax Exempt Obligations

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

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

CONTINUING DISCLOSURE OF INFORMATION

The City in the Ordinance has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information".

Annual Reports

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

The City shall provide annually to the MSRB (1) within six months after the end of each fiscal year of the City beginning in the year 2023, financial information and operating data with respect to the City of the general type included in Table 1 of the Official Statement and in Tables 1-14 of APPENDIX A to this Official Statement, and (2) within six months after the end of each fiscal year of the City beginning in the year 2023, the audited financial statements of the City (the "Audited Financial Statements"). If the audit of such financial statements is not complete within six (6) months after any such fiscal year end, then the City shall file unaudited financial statements by the required time and audited financial statements for the applicable fiscal year, when and if the audit report becomes available. Any financial statements to be provided shall be prepared in accordance with the accounting principles described in APPENDIX D to this Official Statement, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and shall be in substantially the form included in this Official Statement as APPENDIX D.

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

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

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City, any of which reflect financial difficulties. In the Ordinance, the City will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

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

Availability of Information

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

Limitations and Amendments

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

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially

impair the interests of the holders or beneficial owners of the Certificates. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent any Purchasers from lawfully purchasing or selling Certificates, respectively, in the primary offering of the Certificates.

Compliance with Prior Agreements

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

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under “TAX MATTERS”, the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, Austin, Texas has reviewed (except for numerical, statistical or technical data) the information under the captions “THE CERTIFICATES” (except under the subcaptions “Use of Certificate Proceeds”, “Sources and Uses”, “Payment Record”, and “Default and Remedies”, as to which no opinion is expressed), “REGISTRATION, TRANSFER AND EXCHANGE”, “TAX MATTERS”, “CONTINUING DISCLOSURE OF INFORMATION” (except under the subheading “Compliance with Prior Undertakings” as to which no opinion is expressed), “LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas”, and “OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale” in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

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

Litigation

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

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

FORWARD LOOKING STATEMENTS

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

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

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

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

Ratings

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

Authenticity of Financial Information

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

Financial Advisor

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

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

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of FHN Financial Capital Markets (previously defined as the "Purchaser" or the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a reoffering premium of \$338,517.60, less a Purchaser's discount of \$ 75,653.57, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) except as disclosed in the Official Statement, there has been no material adverse change in the financial condition of the City, since September 30, 2022, the date of the last financial statements of the City appearing in the Official Statement.

Information from External Sources

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

Concluding Statement

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

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

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

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

CITY OF DAYTON, TEXAS

/s/ Martin Mudd
Mayor
City of Dayton, Texas

ATTEST:

/s/ Jennifer Billings
City Secretary
City of Dayton, Texas

(this page intentionally left blank)

APPENDIX A

**FINANCIAL INFORMATION RELATING TO
THE CITY OF DAYTON, TEXAS**

(this page intentionally left blank)

FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2023 Actual Certified Market Value of Taxable Property (100% of Market Value)	\$ 1,786,922,947
Less Exemptions:	
Over-65 or Disabled Exemption	\$ 23,606,957
Veterans' Exemption	11,016,148
Productivity Value Loss	138,647,024
Abatement Loss	23,890,472
Homestead	58,154,205
10% Cap on Res. Homesteads	21,571,871
Exempt Misc	<u>204,444,393</u>
TOTAL EXEMPTIONS	481,331,070
 2023 Assessed Value of Taxable Property	 <u>\$ 1,305,591,877</u>

Source: Liberty County Appraisal District.

GENERAL OBLIGATION BONDED DEBT ⁽¹⁾

(as of August 1, 2023)

General Obligation Debt Principal Outstanding

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015	\$ 5,465,000
General Obligation Refunding Bonds, Series 2016	3,390,000
General Obligation Refunding Bonds, Series 2017	5,020,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	4,780,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019	1,995,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020A	12,645,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020B	4,400,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021	8,035,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2023 (the "Certificates")	<u>7,855,000</u>
Total Gross General Obligation Debt	<u>\$ 53,585,000</u>
Less: Self Supporting Debt	
General Obligation Refunding Bonds, Series 2016 (100% Utility System)	\$ 3,390,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (73.54% Utility) System)	3,515,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020B (38.07% Utility) Fund)	1,675,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021	<u>8,035,000</u>
Total Self-Supporting Debt	<u>\$ 16,615,000</u>
Total Net General Obligation Debt Outstanding	<u>\$ 36,970,000</u>

Ratio of Total Gross General Obligation Debt Principal to 2023 Net Taxable Assessed Valuation 4.10%

Ratio of Net General Obligation Debt to 2023 Net Taxable Assessed Valuation 2.83%

Population: 1990 - 5,151; 2000 - 5,719; 2010 - 7,242; 2020 - 8,777; 2023 estimate -9,800

Per Capita Certified Net Taxable Assessed Valuation - \$133,223.66

Per Capita Gross General Obligation Debt Principal - \$5,467.86

Per Capita Net General Obligation Debt Principal - \$3,772.45

⁽¹⁾ Unaudited.

DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE

TABLE 2

NONE

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending (9/30)	Current			Combined Debt Service (a)	Less: Self Supporting Debt	Total Net Debt Service	
	Outstanding Debt Service (a)	The Certificates					
		Principal	Interest				Total
2024	\$ 5,155,236	\$ 165,000	\$ 321,830	\$ 486,830	\$ 5,642,066	\$ 1,747,756	\$ 3,894,310
2025	5,060,155	360,000	338,338	698,338	5,758,492	1,738,581	4,019,911
2026	4,867,875	265,000	322,713	587,713	5,455,588	1,743,406	3,712,181
2027	4,862,469	275,000	309,213	584,213	5,446,681	1,737,856	3,708,825
2028	4,865,473	290,000	295,088	585,088	5,450,561	1,744,981	3,705,579
2029	3,156,056	305,000	280,213	585,213	3,741,269	950,756	2,790,513
2030	3,146,247	320,000	264,588	584,588	3,730,834	947,031	2,783,803
2031	2,876,775	340,000	248,088	588,088	3,464,863	954,919	2,509,944
2032	2,876,509	355,000	230,713	585,713	3,462,222	953,122	2,509,100
2033	2,882,381	375,000	212,463	587,463	3,469,844	950,356	2,519,488
2034	2,874,063	395,000	193,213	588,213	3,462,275	946,888	2,515,388
2035	2,882,266	415,000	172,963	587,963	3,470,228	952,419	2,517,809
2036	2,050,263	430,000	153,988	583,988	2,634,250	951,850	1,682,400
2037	2,048,163	450,000	136,388	586,388	2,634,550	949,938	1,684,613
2038	2,044,069	470,000	117,988	587,988	2,632,056	951,925	1,680,131
2039	1,738,750	485,000	98,888	583,888	2,322,638	668,219	1,654,419
2040	1,598,175	505,000	79,088	584,088	2,182,263	668,350	1,513,913
2041	530,250	530,000	58,056	588,056	1,118,306	530,250	588,056
2042	-	550,000	35,781	585,781	585,781	-	585,781
2043	-	575,000	12,219	587,219	587,219	-	587,219
Total	\$ 55,515,173	\$ 7,855,000	\$ 3,881,811	\$ 11,736,811	\$ 67,251,985	\$ 20,088,603	\$ 47,163,382

^(a) Includes self-supporting debt.

TAX ADEQUACY (Includes Self-Supporting Debt)

2023 Assessed Value of Taxable Property	\$ 1,305,591,877
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2025)	\$ 5,758,492
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.4501

TAX ADEQUACY (Excludes Self-Supporting Debt)

2023 Assessed Value of Taxable Property	\$ 1,305,591,877
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2025)	\$ 4,019,911
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.3142

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

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year	Percent of Principal Retired (%)
	Currently Outstanding ^(a)	The Certificates	Total		
2024	\$ 3,795,000	\$ 165,000	\$ 3,960,000	\$ 49,625,000	7.39%
2025	3,825,000	360,000	4,185,000	45,440,000	15.20%
2026	3,755,000	265,000	4,020,000	41,420,000	22.70%
2027	3,875,000	275,000	4,150,000	37,270,000	30.45%
2028	4,015,000	290,000	4,305,000	32,965,000	38.48%
2029	2,420,000	305,000	2,725,000	30,240,000	43.57%
2030	2,495,000	320,000	2,815,000	27,425,000	48.82%
2031	2,300,000	340,000	2,640,000	24,785,000	53.75%
2032	2,370,000	355,000	2,725,000	22,060,000	58.83%
2033	2,445,000	375,000	2,820,000	19,240,000	64.09%
2034	2,505,000	395,000	2,900,000	16,340,000	69.51%
2035	2,585,000	415,000	3,000,000	13,340,000	75.10%
2036	1,815,000	430,000	2,245,000	11,095,000	79.29%
2037	1,865,000	450,000	2,315,000	8,780,000	83.61%
2038	1,915,000	470,000	2,385,000	6,395,000	88.07%
2039	1,660,000	485,000	2,145,000	4,250,000	92.07%
2040	1,565,000	505,000	2,070,000	2,180,000	95.93%
2041	525,000	530,000	1,055,000	1,125,000	97.90%
2042	-	550,000	550,000	575,000	98.93%
2043	-	575,000	575,000	-	100.00%
Total	\$ 45,730,000	\$ 7,855,000	\$ 53,585,000		

^(a) Includes self-supporting debt.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2013-2022

TABLE 3

Tax Year	Net Taxable Assessed Valuation	Change From Preceding Year	
2013	\$ 655,652,364	-	-
2014	714,940,898	\$ 59,288,534	9.04%
2015	749,905,833	34,964,935	4.89%
2016	658,247,341	(91,658,492)	-12.22%
2017	755,333,201	97,085,860	14.75%
2018	796,480,291	41,147,090	5.45%
2019	878,731,164	82,250,873	10.33%
2020	910,067,714	31,336,550	3.57%
2021	998,790,652	88,722,938	9.75%
2022	1,219,645,264	220,854,612	22.11%

Source: Liberty County Appraisal District.

PRINCIPAL TAXPAYERS 2022

TABLE 4

Name	Type of Business/Property	2022 Net Taxable Assessed Valuation	% of Total 2022 Assessed Valuation
Total Petrochemicals USA	Oil and Gas	\$ 49,855,340	4.09%
Global Tubing	Manufacturer	45,831,570	3.76%
Braskem America Inc.	Manufacturer Petrochemical Products	39,703,400	3.26%
Mobil Oil Corporation	Oil and Gas	37,196,300	3.05%
Westlake Polymers LP	Chemical and Plastic Products	27,240,790	2.23%
TRT Lease Co LLC	Energy	26,224,940	2.15%
Insteel Wire Products Co	Wire Products	24,316,690	1.99%
Chevron Phillips Chemical	Petrochemical	20,169,990	1.65%
Westlake Petrochemicals	Manufacturer Petrochemical Products	19,624,070	1.61%
Oxy Vinyls LP	Manufacturer Chemicals	19,597,740	1.61%
		\$ 309,760,830	25.40%*

Note: 2023 Principal Taxpayers not available at time of printing.

Source: Liberty County Appraisal District.

* As shown in the table above, the top ten taxpayers in the City account for in excess of 25% of the City's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the City, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "THE CERTIFICATES- Default and Remedies" and "AD VALOREM PROPERTY TAXATION - City and Taxpayer Remedies" in this Official Statement.

	2023	% of Total	2022	% of Total	2021	% of Total
Real, Residential, Single-Family	\$ 530,491,515	29.69%	\$ 469,589,870	28.16%	\$ 385,878,187	28.67%
Real, Residential, Multi-Family	39,191,124	2.19%	37,222,776	2.23%	32,907,630	2.45%
Real, Vacant Lots/Tracts	46,902,298	2.62%	42,117,329	2.53%	28,173,975	2.09%
Real, Acreage (Land Only)	141,219,904	7.90%	124,179,930	7.45%	95,567,572	7.10%
Real, Farm and Ranch Improvements	41,775,791	2.34%	37,995,091	2.28%	36,266,315	2.69%
Real, Commercial and Industrial	329,554,693	18.44%	274,728,939	16.47%	212,679,723	15.80%
Oil and Gas	11,916	0.00%	39,874	0.00%	39,874	0.00%
Real & Tangible, Personal Utilities	46,191,280	2.58%	41,052,970	2.46%	42,066,640	3.13%
Tangible Personal Business	396,998,510	22.22%	446,802,710	26.79%	341,330,888	25.36%
Tangible Personal, Mobile Homes	9,481,493	0.53%	8,498,486	0.51%	7,578,746	0.56%
Special Inventory	660,030	0.04%	839,670	0.05%	534,820	0.04%
Totally Exempt Property	204,444,393	11.44%	184,702,402	11.07%	162,775,078	12.10%
Total Appraised Value	\$ 1,786,922,947	100.00%	\$ 1,667,770,047	100.00%	\$ 1,345,799,448	100.00%
Less:						
Over-65 or Disabled Exemption	\$ 23,606,957		\$ 23,426,174		\$ 22,960,803	
Veterans' Exemption	11,016,148		8,852,242		7,897,990	
Productivity Value Loss	138,647,024		122,526,647		93,294,544	
Abatement Loss	23,890,472		33,663,778		11,233,156	
Homestead	58,154,205		52,338,929		43,650,025	
Pollution Control	-		-		1,463,822	
10% Per Year Cap on Res. Homesteads	21,571,871		22,614,611		3,733,378	
Exempt Misc	204,444,393		184,702,402		162,775,078	
Total Exemptions	481,331,070		448,124,783		347,008,796	
Net Taxable Assessed Valuation	\$ 1,305,591,877		\$ 1,219,645,264		\$ 998,790,652	

Source: Liberty County Appraisal District.

TAX DATA

TABLE 6

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2013	\$ 655,652,364	\$ 0.722900	\$ 4,739,711	97.22	103.15	9/30/2014
2014	714,940,898	0.690000	4,933,092	96.55	98.24	9/30/2015
2015	749,905,833	0.680000	5,099,360	98.72	101.08	9/30/2016
2016	658,247,341	0.685300	4,510,969	98.09	101.94	9/30/2017
2017	755,333,201	0.670000	5,060,732	98.25	101.78	9/30/2018
2018	796,480,291	0.682100	5,432,792	99.73	100.26	9/30/2019
2019	878,731,164	0.664500	5,839,169	98.71	99.05	9/30/2020
2020	910,067,714	0.706000	6,425,078	92.77	99.79	9/30/2021
2021	998,790,652	0.666900	6,660,935	93.82	96.65	9/30/2022
2022	1,219,645,264	0.663779	8,095,749	96.44	96.44	9/30/2023 *

* Collections as of July 25, 2023.

TAX RATE DISTRIBUTION

TABLE 7

	2022	2021	2020	2019	2018
General Fund	\$ 0.346034	\$ 0.409700	\$ 0.429400	\$ 0.420400	\$ 0.424900
Interest and Sinking Fund	0.317745	0.257200	0.276600	0.244100	0.257200
Total	\$ 0.663779	\$ 0.666900	\$ 0.706000	\$ 0.664500	\$ 0.682100

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Liberty County Appraisal District, the Issuer's Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2022, and information supplied by the Issuer.

MUNICIPAL SALES TAX COLLECTIONS

TABLE 8

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development sales tax. The City's approved a 1/2 cent sales tax for property relief to be effective 10/1/96. The City has an additional 1/2 of 1 cent sales tax for its Economic Development Corporation (4B). Collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2013	\$ 2,061,560	43.50%	0.31
2014	2,633,398	53.38%	0.37
2015	2,581,859	50.63%	0.34
2016	2,121,260	47.02%	0.32
2017	2,209,675	43.66%	0.29
2018	2,518,247	46.35%	0.32
2019	2,446,644	41.90%	0.28
2020	2,619,836	40.78%	0.29
2021	2,870,741	43.10%	0.29
2022	3,289,544	40.63%	0.27
2023	2,277,308	(As of August 2023)	

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

OVERLAPPING DEBT INFORMATION

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

Taxing Body	Gross Debt (As of 8/1/2023)	% Overlapping	Amount Overlapping
Dayton ISD	\$ 67,865,000	41.45%	\$ 28,130,043
Liberty County	26,830,000	13.31%	3,571,073
Liberty ISD**	34,915,000	0.00%	-
Total Gross Overlapping Debt			<u>\$ 31,701,116</u>
Dayton, City of			\$ 53,585,000
Total Gross Direct and Overlapping Debt			<u>\$ 85,286,116</u>
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			6.53%
Per Capita Direct and Overlapping Debt			\$8,702.66

Note: The above figures show Gross General Obligation Debt for the City of Dayton, Texas. The Issuer's Net General Obligation Debt is \$36,970,000 . Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Direct and Overlapping Debt	\$ 68,671,116
Ratio of Direct and Overlapping Debt to Net Assessed Valuation	5.26%
Per Capita Direct and Overlapping Debt	\$7,007.26

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

** Less than .01%

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2022 Assessed Valuation	% of Actual	2022 Tax Rate
Dayton ISD	\$ 2,921,179,562	100%	\$ 1.155000
Liberty County	10,660,922,350	100%	0.379000
Liberty ISD	1,122,515,332	100%	1.270000

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

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

Issuer	Date of Authorization
Dayton ISD	None
Liberty County	None
Liberty ISD	None

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

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES**TABLE 9**

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

	Fiscal Year Ended				
	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018
Fund Balance - Beginning of Year	\$ 2,087,759	\$ 2,024,276	\$ 2,385,424	\$ 2,907,185	\$ 3,533,987
Revenues	\$ 8,558,490	\$ 7,779,536	\$ 7,572,341	\$ 7,558,838	\$ 6,627,462
Expenditures	9,059,563	9,147,311	8,630,732	8,148,531	7,516,430
Excess (Deficit) of Revenues Over Expenditures	\$ (501,073)	\$ (1,367,775)	\$ (1,058,391)	\$ (589,693)	\$ (888,968)
Other Financing Sources (Uses):					
Operating Transfers In	\$ 2,996,118	\$ 1,136,930	\$ 720,297	\$ 616,039	\$ 1,008,033
Operating Transfers Out	-	(217,869)	(200)	(1,988)	(745,867)
Debt Issued	-	-	-	-	-
Lease issuance	108,883	-	-	-	-
Proceeds from the Sale of Capital Assets	40,432	512,197	-	-	-
Total Other Financing Sources (Uses):	\$ 3,145,433	\$ 1,431,258	\$ 720,097	\$ 614,051	\$ 262,166
Prior Period Adjustment	-	-	-	-	-
Fund Balance - End of Year	\$ 4,732,119	\$ 2,087,759	\$ 2,047,130	\$ 2,931,543	\$ 2,907,185

Source: The City's Comprehensive Annual Report for Fiscal Year Ending September 30, 2022.

The City estimates the General Fund balance for FYE September 30, 2023 will be \$5,920,354.

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS**TABLE 10**

Information regarding the City's Pension Plan can be found in the 2022 Audit under Notes

	<u>FYE 9/30/2022</u>
Land	\$ 107,408
Construction in Progress	10,629,674
Machinery and Equipment	2,661,938
Buildings and Improvements	3,086,121
Right to use assets	509,291
Infrastructure	<u>40,880,568</u>
Total Capital Assets	57,875,000
Less: Accumulated Depreciation	<u>(25,504,248)</u>
Net Capital Assets	<u>\$ 32,370,752</u>

Source: City of Dayton, Texas Annual Financial Report FYE September 30, 2022

WATERWORKS SYSTEM OPERATING SYSTEM

TABLE 12

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

	Fiscal Year Ended				
	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018
Revenues	\$ 5,792,667	\$ 3,591,586	\$ 4,043,595	\$ 3,979,280	\$ 4,197,764
Less Expenses	<u>2,527,218</u>	<u>2,776,034</u>	<u>3,124,524</u>	<u>2,438,832</u>	<u>2,202,489</u>
for Debt Service	\$ 3,265,449	\$ 815,552	\$ 919,071	\$ 1,540,448	\$ 1,995,275
Customer Count:					
Water	3,005	2,788	3,179	2,423	2,730
Sewer	2,655	2,521	2,695	2,370	2,365

Source: City of Dayton, Texas Annual Financial Report FYE September 30, 2022

WATER RATES

TABLE 13

New Rates	
Effective October 1, 2022	
Residential:	Water base - \$37.80 with 2,000 gallons \$ 5.13 / 1000 over base
Commercial:	Water base - \$45.90 with 2,000 gallons \$ 5.67 / 1000 over base
Institutional:	Water base - \$351.00 with 2,000 gallons \$ 6.21 / 1000 over base
Bulk (Temporary Fire Hydrant):	Water base - \$270.00 (no water included) \$ 6.21 / 1000

SEWER RATES

TABLE 14

New Rates	
Effective October 1, 2022	
Residential:	Sewer base - \$37.80 with 2,000 gallons \$ 5.13 / 1000 over base
Commercial:	Sewer base - \$45.90 with 2,000 gallons \$ 5.67 / 1000 over base
Institutional:	Sewer - \$351.00 with 2,000 gallons \$ 6.21 / 1000 over base

(this page intentionally left blank)

APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF DAYTON
AND LIBERTY COUNTY, TEXAS**

(this page intentionally left blank)

GENERAL INFORMATION

City of Dayton

The City of Dayton (the “City”) is located in southwest Liberty County where State Highway 146 meets U.S. Highway 90. The City was recorded as an incorporated municipality on May 3, 1911.

The City provides a full range of municipal services including public safety, residential solid waste sanitation services, water and wastewater services, public improvements, repair and maintenance of infrastructure, recreational and community activities, and general administrative services. As an independent political subdivision of the State of Texas governed by an elected Mayor and Council, the City is considered a primary government.

The City continued its commitment to the Rosewood Water Well Rebuild project. This multi-year capital improvement project will provide a long-term water solution for our ever-growing community. Analysis of its estimated capacity, once completed, indicates that the City will have the ability to double its current population, without further infrastructure commitments, within the next 15 to 20 years.

Liberty County

Liberty County, is located in southeast Texas on U.S. Highway 90 halfway between Beaumont and Houston. The County occupies an area of approximately 1,176 square miles and serves a population of approximately 76,000. City of Liberty is the County seat. The County’s economy is diversified and has historically been based on mineral production (Oil and gas), agriculture, and lumber. The cities within the County offer many recreational and cultural opportunities.

Liberty County produces diversified crops including rice, sorghum, soybeans, corn, grains, fruits and vegetables. Beef cattle, sheep, poultry, hogs, and goats are raised and honey is produced commercially. Natural resources include timber, oil, natural gas, lignite, sulfur, iron ore, lime, salt, brick clay, and glass sand. Manufacturing facilities include chemicals and machinery.

Labor Force Statistics ⁽¹⁾

	<u>2023⁽²⁾</u>	<u>2022⁽³⁾</u>	<u>2021⁽³⁾</u>	<u>2020⁽³⁾</u>	<u>2019⁽³⁾</u>
Civilian Labor Force	35,884	35,293	35,008	34,337	33,468
Total Employed	33,883	33,230	31,868	30,740	31,793
Total Unemployed	2,001	2,063	3,140	3,597	1,675
% Unemployment	5.6	5.8	9.0%	10.5%	5.0%
Texas Unemployment	4.1	3.9	5.6%	7.7%	3.5%

(1) Source: Texas Workforce Commission.

(2) May 2023.

(3) Average Annual Statistics.

(this page intentionally left blank)

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

(this page intentionally left blank)



September 19, 2023

Norton Rose Fulbright US LLP
98 San Jacinto Boulevard, Suite 1100
Austin, Texas 78701-4255
United States
Tel +1 512 474 5201
Fax +1 512 536 4598
nortonrosefulbright.com

Norton Rose Fulbright US LLP
111 West Houston Street, Suite 1800
San Antonio, Texas 78205
United States
Tel +1 210 224 5575
Fax +1 210 270 7205
nortonrosefulbright.com

FINAL

IN REGARD to the authorization and issuance of the “City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2023” (the *Certificates*), dated September 1, 2023 in the aggregate principal amount of \$7,855,000 we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Dayton, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 2024 through 2037, and 2039 through 2043, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

WE HAVE EXAMINED, the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the Certificates, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Certificates and certain other funds of the Issuer and to certain

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF DAYTON, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023”

other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Certificate executed and delivered initially by the Issuer and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

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

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

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt

Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF DAYTON, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023”

obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Norton Rose Fulbright US LLP

(this page intentionally left blank)

APPENDIX D

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022

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

(this page intentionally left blank)

ANNUAL FINANCIAL REPORT

of the

City of Dayton, Texas

**For the Year Ended
September 30, 2022**

Prepared by:

Leslie Herrera
Director of Finance

(This page intentionally left blank.)

City of Dayton, Texas

TABLE OF CONTENTS

September 30, 2022

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	7

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	20
Statement of Activities	24

Fund Financial Statements

Governmental Funds:

Balance Sheet	26
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental funds	29
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	33

Proprietary Funds:

Statement of Net Position	34
Statement of Revenues, Expenses, and Changes in Fund Net Position	36
Statement of Cash Flows	38

Notes to Financial Statements	45
--------------------------------------	-----------

REQUIRED SUPPLEMENTARY INFORMATION

Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual – General Fund	88
Schedule of Changes in Net Pension Liability and Related Ratios-TMRS	90
Schedule of Changes in Net Pension Liability and Related Ratios-TEERS	92
Schedule of Employer Contributions to Pension Plan-TMRS	94
Schedule of Employer Contributions to Pension Plan-TEERS	96
Schedule of Changes in OPEB Liability and Related Ratios	98

INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

Combining Balance Sheet – Nonmajor Governmental Funds	100
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	102

FINANCIAL SECTION

(This page intentionally left blank.)



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Dayton, 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, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dayton, Texas, as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and 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 City of Dayton, Texas 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

The City's 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 one year after the date that the financial statements are issued.

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 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, 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.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the supplemental schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
March 24, 2023

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

(This page intentionally left blank.)

City of Dayton, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2022

As management of the City of Dayton, 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. We encourage readers to consider the information presented here in conjunction with the financial statements, notes to the financial statements, requirement supplementary information, and other supplementary information.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows (net position) at September 30, 2022 by \$27,834,394.
- The City's total net position increased by \$6,731,842. The majority of the City's net position is invested in capital assets and restricted for specific purposes.
- The City's governmental funds reported combined ending fund balances of \$8,053,186 at September 30, 2022, an increase of \$1,651,546 from the prior fiscal year; this includes an increase of \$2,644,360 in the general fund, a decrease of \$957,705 in the debt service fund, an increase of \$29,314 in the economic development admin grant fund, and a decrease of \$64,423 in nonmajor funds.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$4,663,935 or 51% of total general fund operating expenditures.
- The City recorded a net pension asset totaling \$405,274 as of year end.

Overview of the Financial Statements

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

Government-Wide Statements

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

City of Dayton, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

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

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

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate Dayton Community Development Corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar

City of Dayton, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

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

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

The City adopts an annual appropriated budget for its general, debt service, capital projects, most special revenue, and enterprise funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the respective budget.

Proprietary Funds

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water/sewer and sanitation service, and fiber internet operations. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise. 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 payment of employee benefits. This internal service fund has been included with governmental activities on the government-wide financial statements.

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, refuse, and fiber funds since they are considered major funds of the City.

City of Dayton, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

Component Units

The City maintains the accounting and financial statements for one component unit. The Dayton Community Development Corporation ("DCDC" or "the Corporation") is a discretely presented component unit and displayed on the government-wide financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's changes in net pension/OPEB liability and employer contributions to the plan.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Dayton, Texas, assets and deferred outflows exceed liabilities and deferred inflows by \$27,834,394 as of September 30, 2022, in the primary government.

The largest portion of the City's net position, \$15,424,918, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

City of Dayton, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2022			2021		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 9,519,265	\$ 9,017,710	\$ 18,536,975	\$ 8,121,066	\$ 15,291,810	\$ 23,412,876
Capital assets, net	31,645,872	32,457,774	64,103,646	30,294,679	25,812,047	56,106,726
Total Assets	41,165,137	41,475,484	82,640,621	38,415,745	41,103,857	79,519,602
Deferred Outflows of Resources	407,361	66,543	473,904	412,301	67,729	480,030
Other liabilities	2,629,622	2,929,549	5,559,171	2,957,222	3,022,073	5,979,295
Long-term liabilities	21,149,395	27,743,238	48,892,633	23,086,358	29,378,646	52,465,004
Total Liabilities	23,779,017	30,672,787	54,451,804	26,043,580	32,400,719	58,444,299
Deferred Inflows of Resources	659,293	169,034	828,327	364,501	88,280	452,781
Net Position:						
Net investment in capital assets	9,094,997	6,329,921	15,424,918	6,500,449	7,668,996	14,169,445
Restricted	2,876,058	-	2,876,058	3,894,129	-	3,894,129
Unrestricted	5,163,133	4,370,285	9,533,418	2,025,387	1,013,591	3,038,978
Total Net Position	\$ 17,134,188	\$ 10,700,206	\$ 27,834,394	\$ 12,419,965	\$ 8,682,587	\$ 21,102,552

Governmental activities current and other assets increased by \$1,398,199 due primarily to greater cash on hand, resulting from operating surpluses during the year. Governmental activities capital assets increased by \$1,351,193 due to greater infrastructure investments in the current year. Business-type activities capital assets increased by \$6,645,727 primarily due to a new PSI water meter project, investments in park utility infrastructure, and a new fiber and home project during the year. Long-term liabilities for governmental activities decreased by \$1,936,963 due primarily to current year principal payments. Long-term liabilities for business-type activities decreased by \$1,635,408 due to principal payments made in the current year.

City of Dayton, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

Statement of Activities:

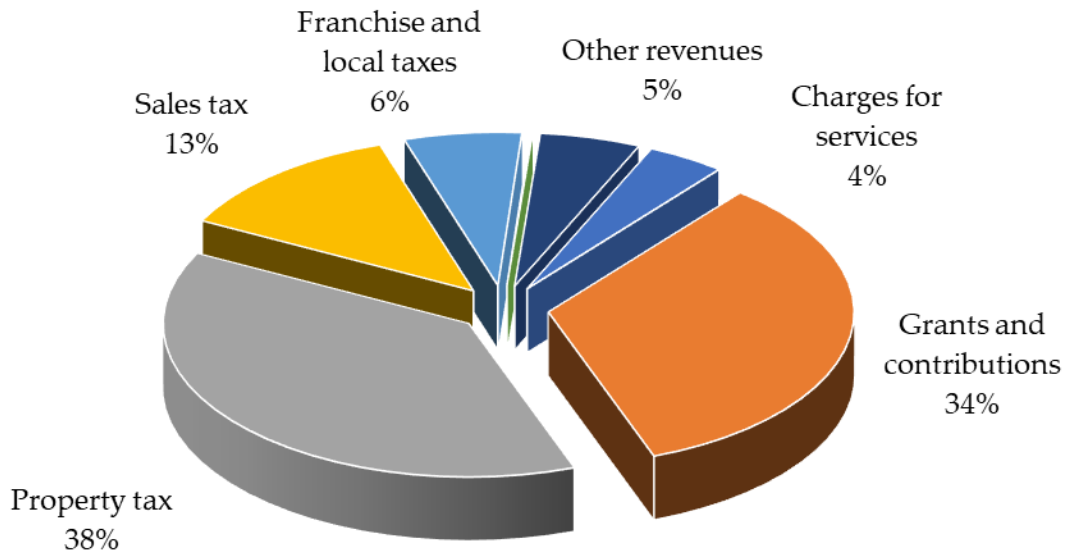
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2022			For the Year Ended September 30, 2021		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 714,172	\$ 6,509,547	\$ 7,223,719	\$ 697,539	\$ 4,153,036	\$ 4,850,575
Operating grants	3,632,138	-	3,632,138	140,516	-	140,516
Capital grants	2,167,240	-	2,167,240	1,236,056	-	1,236,056
General revenues:						
Property tax	6,591,855	-	6,591,855	6,222,546	-	6,222,546
Sales tax	2,152,426	-	2,152,426	1,913,865	-	1,913,865
Franchise and local taxes	1,072,516	-	1,072,516	1,127,538	-	1,127,538
Investment income	15,297	43,956	59,253	42,112	37,727	79,839
Other revenues	918,669	56,149	974,818	314,329	40,842	355,171
Total Revenues	17,264,313	6,609,652	23,873,965	11,694,501	4,231,605	15,926,106
Expenses						
General government	3,662,865	-	3,662,865	3,907,880	-	3,907,880
Public safety	3,338,443	-	3,338,443	3,357,233	-	3,357,233
Public works	1,700,444	-	1,700,444	1,758,786	-	1,758,786
Culture and recreation	597,666	-	597,666	598,732	-	598,732
Community enhancement	990,028	-	990,028	1,096,823	-	1,096,823
Interest and fiscal charges	656,038	758,415	1,414,453	735,337	803,191	1,538,528
Water and sewer	-	4,181,433	4,181,433	-	4,310,656	4,310,656
Refuse	-	868,519	868,519	-	797,706	797,706
Fiber	-	388,272	388,272	-	389,629	389,629
Total Expenses	10,945,484	6,196,639	17,142,123	11,454,791	6,301,182	17,755,973
Change in Net Position						
Before Transfers	6,318,829	413,013	6,731,842	239,710	(2,069,577)	(1,829,867)
Transfers	(1,604,606)	1,604,606	-	603,653	(603,653)	-
Total	(1,604,606)	1,604,606	-	603,653	(603,653)	-
Change in Net Position	4,714,223	2,017,619	6,731,842	843,363	(2,673,230)	(1,829,867)
Beginning Net Position	12,419,965	8,682,587	21,102,552	11,576,602	11,355,817	22,932,419
Ending Net Position	\$ 17,134,188	\$ 10,700,206	\$ 27,834,394	\$ 12,419,965	\$ 8,682,587	\$ 21,102,552

City of Dayton, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

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

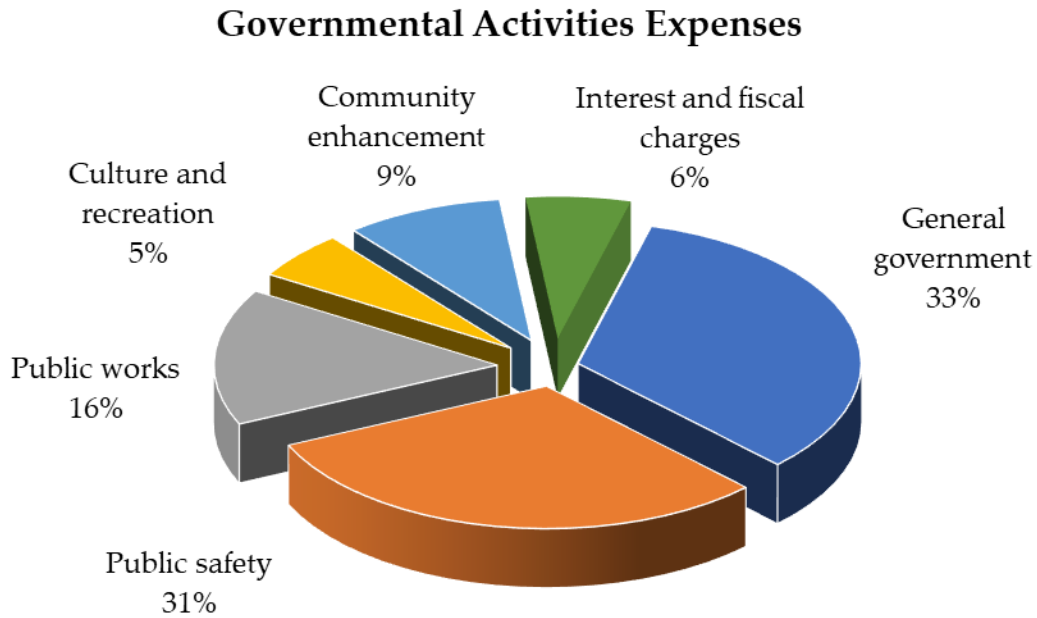
Governmental Activities Revenues



For the year ended September 30, 2022, revenues from governmental activities totaled \$17,264,313. Property tax, grants/contributions, and sales tax were the City's largest general revenue sources. Overall revenue increased \$5,569,812 or 48% from the prior year. This increase is primarily due to an overall nonrecurring capital and intergovernmental operating grants received in the current year. Grants and contributions increased \$4,422,806 due primarily to nonrecurring intergovernmental grants and developer contributions for utility infrastructure investments in the current year. Property tax revenue increased by \$369,309 or 6% due to greater taxable property values in the current year. Sales tax revenue increased by \$238,561 or 12% primarily due to increased economic growth as well as population growth within the City. Other revenue increased by \$604,340 or over 100% due to nonrecurring donations, insurance claims/settlements, and DCDC project participation contributions received in the current year. All remaining revenues remained relatively consistent with the previous year.

City of Dayton, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

This graph shows the governmental function expenses of the City:

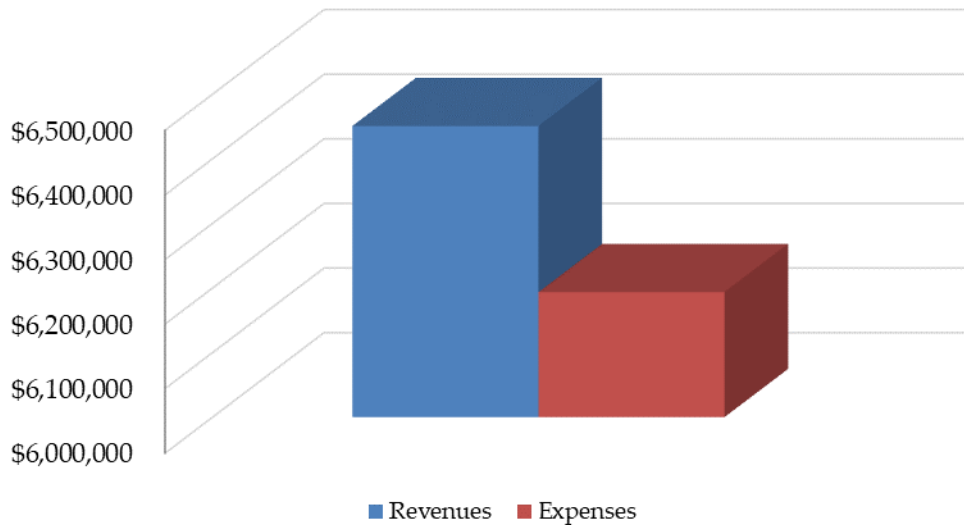


For the year ended September 30, 2022, expenses for governmental activities totaled \$10,945,484. This represents a decrease of \$509,307 or 4% from the prior year. The City's largest functional expense is general government totaling \$3,662,865. General government decreased by \$245,015 or 6% when compared to the prior year, which is primarily due to nonrecurring legal and consulting fees incurred in the current year. Community enhancement expenses decreased by \$106,795 or 10% primarily due to a reduction in personnel costs and office/fuel supplies. Interest and fiscal charges decreased by \$79,299 or 11% primarily due to outstanding long-term debt obligations approaching maturity. All remaining expenses remained relatively consistent with the previous year.

City of Dayton, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

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

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



For the year ended September 30, 2022, charges for services by business-type activities totaled \$6,509,547. This is an increase of \$2,356,511 or 57% from the previous year. This increase directly relates to service rate hikes and greater consumption/active customer base compared to the prior year.

Total expenses decreased \$104,543 or 2% to a total of \$6,196,639. Water/sewer and fiber department expenses remained consistent when compared to the prior year. Refuse expenses increased by \$70,813 or 9% primarily as a result of nonrecurring losses on investments recognized in the current year. Interest and fiscal charges decreased by \$44,776 or 6% primarily due to nonrecurring bond issuance costs recognized in the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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 September 30, 2022, the City's governmental funds reported combined fund balances of \$8,053,186, an increase of \$1,651,546 in comparison with the prior year. Approximately 58% of this amount,

City of Dayton, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

\$4,663,935, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, restricted or committed* to indicate that it is not in spendable form \$68,184 or restricted for particular purposes \$3,321,067.

As of the end of the year the general fund reflected a total fund balance of \$4,732,119. Of this, \$68,184 is considered nonspendable and \$4,663,935 is unassigned. General fund balance increased by \$2,644,360. This increase can be attributed to greater than expected revenues and other financing sources. In addition, the fund recognized less than anticipated expenditures over the course of the year.

As a measure of the general fund's liquidity, it may be useful to compare total unassigned fund balance to total fund expenditures. The unassigned (the amount available for spending) fund balance of the general fund of \$4,663,935 is 51% of total general fund operating expenditures.

The debt service fund had an ending fund balance of \$1,627,054 as of year end. Total fund balance decreased by \$957,705 from the prior year primarily due to transfers to the water and sewer fund.

The economic development admin grant fund had an ending fund balance of \$29,314 at September 30, 2022, an increase of \$29,314 when compared to the previous year. This increase is attributable to current year revenues exceeding transfers to the water and sewer fund during the year.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position in the City's largest proprietary fund, the water and sewer fund, totaled \$11,226,252. Unrestricted net position at the close of the fiscal year amounted to \$3,407,695 and a total increase in net position of \$2,890,391 from the previous year. Total investment in capital assets, net of related debt of was \$7,818,557, and capital assets, net of depreciation totaled \$32,370,752.

GENERAL FUND BUDGETARY HIGHLIGHTS

Supplemental budget amendments were approved during the fiscal year increasing total budgeted expenditures by \$747,999. Total budgeted revenues of \$7,624,104 were less than actual revenues of \$8,558,490, resulting in a total positive revenue variance of \$934,386. The majority of this variance is a result of greater sales tax and other revenue received compared to that which was budgeted. Total budgeted expenditures of \$9,460,680 were more than actual expenditures of \$9,059,563 resulting in a total positive expenditure variance of \$401,117.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$31,327,620 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested \$32,370,752 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles, equipment, park

City of Dayton, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

improvements, and infrastructure. Major capital asset events during the current year include the following:

- Major construction in progress additions of the following:

West Point project infrastructure	\$	1,961,746
CDBG downtown revitalization	\$	235,448
Fiber to home project	\$	4,179,811
PSI water meter project	\$	1,700,261
Gulf Inland Logistics Park utilities	\$	1,731,396
- Lift station pumps purchased for \$50,678.
- Well motors purchased for \$40,071.
- Three public works vehicles purchased for \$94,950.
- Platinum copier printers purchased through lease contract for \$108,883.

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

LONG-TERM DEBT

The City's outstanding bonds and certificates of obligation payable decreased by \$3,280,000 (excluding premiums) from the prior year. The total bonds and certificates of obligation payable at the close of the fiscal year were \$51,558,150, including premiums.

All of the City's debt is backed by a full-faith credit pledge of property taxes with a limited pledge of revenues of the utility system. The City monitors its debt obligations and callable bonds for refinancing opportunities with market conditions.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Dayton and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

City of Dayton, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance at 117 Cook Street, Dayton, TX 77535.

FINANCIAL STATEMENTS

City of Dayton, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 7,116,271	\$ 4,707,012	\$ 11,823,283
Investments	927,475	932,341	1,859,816
Restricted cash	-	2,358,311	2,358,311
Receivables, net	1,512,352	766,865	2,279,217
Inventory	68,184	73,736	141,920
Internal balances	(164,252)	164,252	-
Due from component unit	3,307	-	3,307
Total Current Assets	9,519,265	9,017,710	18,536,975
Net pension asset	318,252	87,022	405,274
Capital assets:			
Non-depreciable	4,455,010	10,737,082	15,192,092
Net depreciable capital assets	26,872,610	21,633,670	48,506,280
Total Noncurrent Assets	31,645,872	32,457,774	64,103,646
Total Assets	41,165,137	41,475,484	82,640,621
Deferred Outflows of Resources			
Deferred charge on refunding	112,247	-	112,247
Pension outflows-TMRS	196,450	53,717	250,167
Pension outflows-TERS	51,395	-	51,395
OPEB outflows	47,269	12,826	60,095
Total Deferred Outflows of Resources	407,361	66,543	473,904

See Notes to Financial Statements.

<u>Component Unit</u>
<u>DCDC</u>
\$ 1,359,616
-
193,072
-
-
-
<u>1,552,688</u>
2,465
905,986
-
<u>908,451</u>
<u>2,461,139</u>
-
1,522
-
-
<u>1,522</u>

City of Dayton, Texas

STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2022

<u>Liabilities</u>	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
Accounts payable and accrued liabilities	\$ 644,951	\$ 866,042	\$ 1,510,993
Customer deposits	150	137,868	138,018
Due to primary government	-	-	-
Accrued interest payable	110,506	149,178	259,684
Compensated absences, current	135,482	18,788	154,270
Long-term debt due within one year	1,738,533	1,757,673	3,496,206
Total Current Liabilities	2,629,622	2,929,549	5,559,171
Noncurrent liabilities:			
Net pension liability-TEERS	42,016	-	42,016
OPEB liability	267,465	72,573	340,038
Compensated absences, noncurrent	15,053	2,088	17,141
Long-term debt due in more than one year	20,824,861	27,668,577	48,493,438
Total Noncurrent Liabilities	21,149,395	27,743,238	48,892,633
Total Liabilities	23,779,017	30,672,787	54,451,804
<u>Deferred Inflows of Resources</u>			
Pension inflows-TMRS	611,204	167,128	778,332
Pension inflows-TEERS	41,064	-	41,064
OPEB inflows	7,025	1,906	8,931
Total Deferred Inflows of Resources	659,293	169,034	828,327
<u>Net Position</u>			
Net investment in capital assets	9,094,997	6,329,921	15,424,918
Restricted for:			
Public safety	99,356	-	99,356
Debt service	1,627,054	-	1,627,054
Tourism	269,024	-	269,024
Library	16,046	-	16,046
Community development	864,578	-	864,578
Economic development	-	-	-
Unrestricted	5,163,133	4,370,285	9,533,418
Total Net Position	\$ 17,134,188	\$ 10,700,206	\$ 27,834,394

See Notes to Financial Statements.

Component Unit
DCDC
\$ -
-
3,307
-
-
-
3,307
-
-
-
-
3,307
-
4,735
-
-
4,735
-
905,986
-
-
-
-
1,548,633
-
\$ 2,454,619
\$ 2,454,619

City of Dayton, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 3,662,865	\$ -	\$ 3,632,138	\$ 205,494
Public safety	3,338,443	328,214	-	-
Public works	1,700,444	292,046	-	1,961,746
Culture and recreation	597,666	93,912	-	-
Community enhancement	990,028	-	-	-
Interest and fiscal charges	656,038	-	-	-
Total Governmental Activities	10,945,484	714,172	3,632,138	2,167,240
Business-Type Activities				
Water and sewer	4,536,882	5,737,350	-	-
Refuse	868,519	713,198	-	-
Fiber	791,238	58,999	-	-
Total Business-Type Activities	6,196,639	6,509,547	-	-
Total Primary Government	\$ 17,142,123	\$ 7,223,719	\$ 3,632,138	\$ 2,167,240
Component Unit				
Community development	\$ 1,699,987	\$ -	\$ -	\$ -
Total Component Unit	\$ 1,699,987	\$ -	\$ -	\$ -

General Revenues:

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

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			Component
Primary Government			Unit
Governmental	Business-Type	Total	DCDC
Activities	Activities		
\$ 174,767	\$ -	\$ 174,767	\$ 694,520
(3,010,229)	-	(3,010,229)	-
553,348	-	553,348	-
(503,754)	-	(503,754)	-
(990,028)	-	(990,028)	-
(656,038)	-	(656,038)	-
<u>(4,431,934)</u>	<u>-</u>	<u>(4,431,934)</u>	<u>694,520</u>
-	1,200,468	1,200,468	-
-	(155,321)	(155,321)	-
-	(732,239)	(732,239)	-
<u>-</u>	<u>312,908</u>	<u>312,908</u>	<u>-</u>
(4,431,934)	312,908	(4,119,026)	694,520
			(1,699,987)
			<u>(1,699,987)</u>
6,591,855	-	6,591,855	-
2,152,426	-	2,152,426	1,076,213
1,072,516	-	1,072,516	-
15,297	43,956	59,253	6,230
918,669	56,149	974,818	6,712
(1,604,606)	1,604,606	-	-
<u>9,146,157</u>	<u>1,704,711</u>	<u>10,850,868</u>	<u>1,089,155</u>
4,714,223	2,017,619	6,731,842	(610,832)
12,419,965	8,682,587	21,102,552	3,065,451
<u>\$ 17,134,188</u>	<u>\$ 10,700,206</u>	<u>\$ 27,834,394</u>	<u>\$ 2,454,619</u>

City of Dayton, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2022

	<u>General</u>	<u>Debt Service</u>	<u>Economic Development Admin Grant</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 3,483,034	\$ 1,627,054	\$ 29,314
Investments	927,475	-	-
Receivables, net	1,217,195	286,241	-
Inventory	68,184	-	-
Due from component unit	3,307	-	-
Total Assets	\$ 5,755,123	\$ 1,913,295	\$ 29,314
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 488,117	\$ -	\$ -
Customer deposits	150	-	-
Due to other funds	-	-	-
Total Liabilities	488,267	-	-
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - Property taxes	534,737	286,241	-
Total Deferred Inflows of Resources	534,737	286,241	-
<u>Fund Balances</u>			
Nonspendable:			
Inventory	68,184	-	-
Restricted for:			
Public safety	-	-	-
Debt service	-	1,627,054	-
Capital projects	-	-	-
Tourism	-	-	-
Library	-	-	-
Grant activities	-	-	-
Community development	-	-	-
Economic development	-	-	29,314
Unassigned reported in:			
General fund	4,663,935	-	-
Total Fund Balances	4,732,119	1,627,054	29,314
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 5,755,123	\$ 1,913,295	\$ 29,314

See Notes to Financial Statements.

Nonmjaor Governmental Funds	Governmental Funds
\$ 1,976,869	\$ 7,116,271
-	927,475
8,916	1,512,352
-	68,184
-	3,307
<u>\$ 1,985,785</u>	<u>\$ 9,683,517</u>
\$ 156,834	\$ 644,951
-	150
164,252	164,252
<u>321,086</u>	<u>809,353</u>
-	820,978
-	820,978
-	68,184
99,356	99,356
-	1,627,054
344,072	344,072
269,024	269,024
16,046	16,046
71,623	71,623
864,578	864,578
-	29,314
-	4,663,935
<u>1,664,699</u>	<u>8,053,186</u>
<u>\$ 1,985,785</u>	<u>\$ 9,683,517</u>

(This page intentionally left blank.)

City of Dayton, Texas

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

September 30, 2022

Fund Balances - Total Governmental Funds	\$	8,053,186
 Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		4,455,010
Capital assets - net depreciable		26,872,610
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property taxes		820,978
Net pension asset		318,252
 Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.		
Deferred charge on refunding		112,247
Pension outflows-TMRS		196,450
Pension outflows-TEERS		51,395
OPEB outflows		47,269
 Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.		
Pension inflows-TMRS		(611,204)
Pension inflows-TEERS		(41,064)
OPEB inflows		(7,025)
 Some liabilities, including bonds payable and compensated absences, are not reported as liabilities in the governmental funds.		
Net pension liability-TEERS		(42,016)
OPEB liability		(267,465)
Accrued interest		(110,506)
Bond premium		(751,427)
Compensated absences		(150,535)
Non-current liabilities due in one year		(1,738,533)
Non-current liabilities due in more than one year		(20,073,434)
Net Position of Governmental Activities	\$	<u>17,134,188</u>

See Notes to Financial Statements.

City of Dayton, Texas

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

For the Year Ended September 30, 2022

	General	Debt Service	Economic Development Admin Grant
<u>Revenues</u>			
Property tax	\$ 4,042,664	\$ 2,522,690	\$ -
Sales tax	2,152,426	-	-
Franchise and local taxes	651,550	-	-
Payments in lieu of taxes	312,165	-	-
License and permits	292,046	-	-
Charges for services	92,779	-	-
Fines and forfeitures	314,308	-	-
Intergovernmental	197,421	-	1,251,020
Investment income	12,477	1,893	-
Contributions and grants	-	-	-
Other revenues	490,654	-	423,121
Total Revenues	8,558,490	2,524,583	1,674,141
<u>Expenditures</u>			
General government	3,552,596	-	-
Public safety	3,063,320	-	-
Public works	988,742	-	-
Culture and recreation	223,798	-	-
Community enhancement	703,965	-	-
Community center	244,384	-	-
Capital outlay	268,547	-	-
Debt service			
Principal	11,872	1,795,000	-
Interest and fiscal charges	2,339	687,799	-
Total Expenditures	9,059,563	2,482,799	-
Excess of Revenues Over (Under) Expenditures	(501,073)	41,784	1,674,141
<u>Other Financing Sources (Uses)</u>			
Transfers in	2,996,118	-	-
Transfers (out)	-	(999,489)	(1,644,827)
Proceeds from sale of assets	40,432	-	-
Lease issuance	108,883	-	-
Total Other Financing Sources (Uses)	3,145,433	(999,489)	(1,644,827)
Net Change in Fund Balances	2,644,360	(957,705)	29,314
Beginning fund balances	2,087,759	2,584,759	-
Ending Fund Balances	\$ 4,732,119	\$ 1,627,054	\$ 29,314

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 6,565,354
-	2,152,426
108,801	760,351
-	312,165
-	292,046
1,133	93,912
13,906	328,214
2,389,191	3,837,632
927	15,297
1,961,746	1,961,746
6,658	920,433
4,482,362	17,239,576
27,457	3,580,053
6,075	3,069,395
-	988,742
-	223,798
-	703,965
-	244,384
2,556,945	2,825,492
-	1,806,872
-	690,138
2,590,477	14,132,839
1,891,885	3,106,737
1,210,831	4,206,949
(3,167,139)	(5,811,455)
-	40,432
-	108,883
(1,956,308)	(1,455,191)
(64,423)	1,651,546
1,729,122	6,401,640
\$ 1,664,699	\$ 8,053,186

(This page intentionally left blank.)

City of Dayton, 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

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

Net changes in fund balances - total governmental funds	\$	1,651,546
---	----	-----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		2,592,972
Depreciation expense		(1,517,835)
Adjustment for disposal of capital assets		(42,196)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes		26,501
----------------	--	--------

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

Pension expense-TMRS		293,192
Pension expense-TEERS		20,236
OPEB expense		(24,216)
Compensated absences		(17,966)
Accrued interest		7,555
Amortization of deferred charges on refunding		(18,708)
Amortization of bond premium		45,253

Internal service funds are used by management to charge the cost of health insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

(100)

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

Principal payments		1,806,872
Lease issuance		(108,883)

Change in Net Position of Governmental Activities	\$	4,714,223
--	-----------	------------------

See Notes to Financial Statements.

City of Dayton, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
PROPRIETARY FUNDS
September 30, 2022

	<u>Water and Sewer</u>	<u>Refuse</u>	<u>Fiber</u>
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 735,128	\$ 106,732	\$ 3,865,152
Restricted cash	2,358,311	-	-
Receivables, net	655,910	86,871	24,084
Investments	-	932,341	-
Due from other funds	164,252	-	-
Inventories	73,736	-	-
Prepays and other assets	15,193	-	-
Total Current Assets	4,002,530	1,125,944	3,889,236
<u>Noncurrent Assets</u>			
Net pension asset	68,927	2,319	15,776
Capital assets:			
Non-depreciable	2,123,185	26,185	8,587,712
Net depreciable capital assets	20,709,133	419,034	505,503
Total Noncurrent Assets	22,901,245	447,538	9,108,991
Total Assets	26,903,775	1,573,482	12,998,227
<u>Deferred Outflows of Resources</u>			
Pension outflows	42,547	1,432	9,738
OPEB outflows	12,826	-	-
Total Deferred Outflows of Resources	55,373	1,432	9,738

See Notes to Financial Statements.

**Total
Enterprise
Funds**

\$ 4,707,012
2,358,311
766,865
932,341
164,252
73,736
15,193

9,017,710

87,022

10,737,082

21,633,670

32,457,774

41,475,484

53,717

12,826

66,543

City of Dayton, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
PROPRIETARY FUNDS
September 30, 2022

	<u>Water and Sewer</u>	<u>Refuse</u>	<u>Fiber</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable	\$ 209,208	\$ 52,100	\$ 604,456
Accrued expenses	-	-	278
Customer deposits	128,109	-	9,759
Current maturities of long-term liabilities	1,012,818	-	744,855
Compensated absences, current	18,788	-	-
Accrued interest	76,394	-	72,784
Total Current Liabilities	<u>1,445,317</u>	<u>52,100</u>	<u>1,432,132</u>
<u>Noncurrent Liabilities</u>			
Long-term debt, noncurrent	14,078,637	-	13,589,940
Compensated absences, noncurrent	2,088	-	-
OPEB liability	72,573	-	-
Total Noncurrent Liabilities	<u>14,153,298</u>	<u>-</u>	<u>13,589,940</u>
Total Liabilities	<u>15,598,615</u>	<u>52,100</u>	<u>15,022,072</u>
<u>Deferred Inflows of Resources</u>			
Pension inflows	132,375	4,454	30,299
OPEB inflows	1,906	-	-
Total Deferred Inflows of Resources	<u>134,281</u>	<u>4,454</u>	<u>30,299</u>
<u>Net Position</u>			
Net investment in capital assets	7,818,557	445,219	(1,933,855)
Unrestricted	3,407,695	1,073,141	(110,551)
Total Net Position	<u>\$ 11,226,252</u>	<u>\$ 1,518,360</u>	<u>\$ (2,044,406)</u>

See Notes to Financial Statements.

**Total
Enterprise
Funds**

\$ 865,764
278
137,868

1,757,673
18,788
149,178

2,929,549

27,668,577
2,088
72,573

27,743,238

30,672,787

167,128
1,906

169,034

6,329,921
4,370,285

\$ 10,700,206

City of Dayton, Texas

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

For the Year Ended September 30, 2022

	Water and Sewer	Refuse	Fiber
<u>Operating Revenues</u>			
Water and sewer charges	\$ 5,737,350	\$ -	\$ -
Sanitation revenue	-	713,198	-
Internet services	-	-	58,999
Other revenue	42,359	12,622	1,168
Total Operating Revenues	5,779,709	725,820	60,167
<u>Operating Expenses</u>			
Personnel services	1,211,890	64,552	245,655
Services	412,942	580,105	121,991
Supplies	331,982	19,298	-
Utilities	399,806	2,074	-
Repairs and maintenance	108,474	3,331	-
Depreciation	1,654,215	71,999	20,626
Bad debt expense	8,237	-	-
Miscellaneous	4,945	116,943	-
Insurance claims and expenses	21,751	10,217	-
Capital outlay	27,191	-	-
Total Operating Expenses	4,181,433	868,519	388,272
Operating Income (Loss)	1,598,276	(142,699)	(328,105)
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	12,958	6,493	24,505
Interest expense	(355,449)	-	(402,966)
Total Nonoperating Revenues (Expenses)	(342,491)	6,493	(378,461)
Income (Loss) Before Transfers	1,255,785	(136,206)	(706,566)
<u>Transfers</u>			
Transfers in	2,771,814	-	-
Transfers (out)	(1,137,208)	(30,000)	-
Change in Net Position	2,890,391	(166,206)	(706,566)
Beginning net position	8,335,861	1,684,566	(1,337,840)
Ending Net Position	\$ 11,226,252	\$ 1,518,360	\$ (2,044,406)

See Notes to Financial Statements.

Total Enterprise Funds	Governmental Activities Internal Service
\$ 5,737,350	\$ -
713,198	-
58,999	-
56,149	-
<u>6,565,696</u>	<u>-</u>
1,522,097	-
1,115,038	-
351,280	-
401,880	-
111,805	-
1,746,840	-
8,237	-
121,888	-
31,968	-
27,191	-
<u>5,438,224</u>	<u>-</u>
<u>1,127,472</u>	<u>-</u>
43,956	-
(758,415)	-
<u>(714,459)</u>	<u>-</u>
413,013	-
2,771,814	-
(1,167,208)	(100)
<u>2,017,619</u>	<u>(100)</u>
8,682,587	100
<u>\$ 10,700,206</u>	<u>\$ -</u>

City of Dayton, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2022

	<u>Water and Sewer</u>	<u>Refuse</u>	<u>Fiber</u>
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 5,688,602	\$ 706,254	\$ 80,293
Payments to suppliers and contractors	(1,339,808)	(875,375)	(336,411)
Payments to employees for salaries and benefits	(1,272,541)	(66,299)	(251,488)
Net Cash Provided (Used) by Operating Activities	3,076,253	(235,420)	(507,606)
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers in	2,771,814	-	-
Transfers (out)	(1,137,208)	(30,000)	-
Net Cash Provided (Used) by Noncapital Financing Activities	1,634,606	(30,000)	-
<u>Cash Flows from Capital and Related Financing Activities</u>			
Purchases of capital assets	(3,616,444)	-	(4,179,810)
Principal paid on capital debt	(1,232,705)	-	(442,059)
Interest paid on capital debt	(440,651)	-	(448,941)
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,289,800)	-	(5,070,810)
<u>Cash Flows from Investing Activities</u>			
Sale of investments	-	-	3,895,000
Purchase of investments	-	365,659	-
Interest on investments	12,958	6,493	24,505
Net Cash Provided by Investing Activities	12,958	372,152	3,919,505
Net Increase (Decrease) in Cash and Cash Equivalents	(565,983)	106,732	(1,658,911)
Beginning cash and cash equivalents	3,659,422	-	5,524,063
Ending Cash and Cash Equivalents	\$ 3,093,439	\$ 106,732	\$ 3,865,152

See Notes to Financial Statements.

Total Enterprise Funds	Governmental Activities Internal Service
\$ 6,475,149	\$ -
(2,551,594)	-
(1,590,328)	-
<hr/>	<hr/>
2,333,227	-
<hr/>	<hr/>
2,771,814	-
(1,167,208)	(100)
<hr/>	<hr/>
1,604,606	(100)
<hr/>	<hr/>
(7,796,254)	-
(1,674,764)	-
(889,592)	-
<hr/>	<hr/>
(10,360,610)	-
<hr/>	<hr/>
3,895,000	-
365,659	-
43,956	-
<hr/>	<hr/>
4,304,615	-
<hr/>	<hr/>
(2,118,162)	(100)
9,183,485	100
<hr/>	<hr/>
\$ 7,065,323	\$ -
<hr/> <hr/>	<hr/> <hr/>

City of Dayton, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2022

	<u>Water and Sewer</u>	<u>Refuse</u>	<u>Fiber</u>
<u>Reconciliation of Operating Income (Loss)</u>			
<u>to Net Cash Provided (Used) by Operating Activities</u>			
Operating Income (Loss)	\$ 1,598,276	\$ (142,699)	\$ (328,105)
Adjustments to reconcile operating income to net cash provided (used):			
Depreciation	1,654,215	71,999	20,626
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(90,301)	(19,566)	10,367
Inventory	9,972	-	-
Deferred Outflows of Resources:			
Pension outflows	6,274	(195)	(6,023)
OPEB outflows	1,130	-	24,359
Deferred Inflows of Resources:			
Pension inflows	54,320	2,476	-
OPEB inflows	(401)	-	-
Increase (Decrease) in:			
Accounts payable and accrued expenses	(19,259)	(5,386)	(214,420)
Customer deposits	(806)	-	9,759
Compensated absences	6,523	-	(3,260)
Due to other funds	-	(138,021)	-
Net pension liability	(136,377)	(4,028)	(20,909)
OPEB liability	7,880	-	-
Net Cash Provided (Used) by Operating Activities	\$ 3,076,253	\$ (235,420)	\$ (507,606)

See Notes to Financial Statements.

<u>Total Enterprise Funds</u>	<u>Governmental Activities Internal Service</u>
\$ 1,127,472	\$ -
1,746,840	-
(99,500)	-
9,972	-
56	-
25,489	-
56,796	-
(401)	-
(239,065)	-
8,953	-
3,263	-
(138,021)	-
(161,314)	-
7,880	-
<u>\$ 2,333,227</u>	<u>\$ -</u>

City of Dayton, Texas
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
September 30, 2022

	<u>PID No. 1</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 5,318,614
Total Assets	<u>\$ 5,318,614</u>
<u>Liabilities</u>	
Long-term debt, current	117,000
Long-term debt, noncurrent	7,923,000
Total Liabilities	<u>\$ 8,040,000</u>
<u>Net Position</u>	
Restricted	(2,721,386)
Total Net Position	<u>\$ (2,721,386)</u>

City of Dayton, Texas
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
September 30, 2022

	PID No. 1
<u>Additions</u>	
Dividend income	\$ 19,032
Total Additions	\$ 19,032
<u>Deductions</u>	
Developer draws	1,961,746
Interest expense	132,781
Bond issuance costs	645,891
Total Deductions	\$ 2,740,418
Change in Net Position	(2,721,386)
Beginning net position	-
Ending Net Position	\$ (2,721,386)

(This page intentionally left blank.)

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

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

B. Reporting Entity

The City of Dayton, Texas (the “City”) is a Home Rule City. The City operates under a “Mayor-Council” form of government and provides services authorized by its charter. Presently, these services include: public safety (police, fire, and emergency medical services), public works (street and park maintenance), culture and recreation, community enhancement, and general administrative services.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the City Council for the administration of all the affairs of the City. The City Manager is responsible for appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City is an independent political subdivision of the State of Texas (the “State”) governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. The component unit, as listed below, although legally separate, is considered part of the reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Dayton Community Development Corporation

In May 1996, the City formed the Dayton Community Development Corporation (the "DCDC" or "Corporation"), which was created by voters approving an additional sales tax. The mission of the Corporation is to promote economic development within the City and surrounding areas. The Board is composed of seven directors (voting members) and four advisory directors (nonvoting), each of whom is appointed by the City Council. The City Council may remove a Board member from office at any time without cause. Not more than three members of the Board may be a member of City Council or any other officer or employee of the City. The Corporation has been included in the reporting entity as a discretely presented component unit. The City has the ability to impose its will on the Corporation because it approves the Corporation's budget and the City is legally entitled to, and has, complete access to the Corporation's economic resources. As a discretely presented component unit, the Corporation is reported in a separate column in the basic financial statements to emphasize that it is legally separate from the City. The Corporation is funded by the levy of one-half of one percent sales and use tax. The Corporation has a September 30 year end. Financial statements for the Corporation may be obtained by contacting the finance department, City of Dayton, 117 Cook Street, Dayton, Texas 77535.

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

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

As discussed earlier, the government has one discretely presented component unit and is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

charges between the government's water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

The government reports the following major governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales taxes, franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, culture and recreation, and community enhancement. The general fund is always considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Economic Development Admin Grant Fund

This grant fund is used to account for and report the proceeds of federal and state grant sources that are legally restricted or committed to expenditures for purposes related to economic development.

The government reports the following proprietary funds:

Enterprise Funds

The enterprise funds are used to account for the operations that provide water and wastewater collection, wastewater treatment operations, fiber network, and the operations that provide garbage services to the public. The services are financed and operated in a manner similar to private business enterprises where the intent of the

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund, refuse, and fiber funds are considered major funds for reporting purposes.

Additionally, the government reports the following fund types:

Capital Projects Fund

The capital projects fund is used to account for the expenditures of resources accumulated from the sale of long-term debt and related interest earnings for capital improvement projects.

Special Revenue Funds

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Internal Service Funds

Internal service funds account for services provided to other departments of the City, or to other governments, on a cost reimbursement basis. The employee benefits fund is used to account for insurance provided to City employees.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The PID No. 1 is a private purpose trust fund and the City's only fiduciary fund.

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

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

E. Assets, Liabilities, Deferred Outflows / Inflows, and Fund Equity or Net Position

1. Deposits and Investments

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

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

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

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

2. Fair Value

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the general fund are restricted by contractual agreements. Restricted assets of the enterprise fund are restricted for customer deposits and bond covenants.

4. Receivables and Interfund Transactions

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

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

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

5. Inventories and Prepaid Items

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are expensed.

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

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

Asset Description	Estimated Useful Life
Vehicles	5 to 7 years
Furniture and equipment	5 to 7 years
Water and sewer system	30 to 40 years
Buildings and improvements	50 years

7. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, issuance premiums, and lease obligations.

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

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

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

12. Pensions

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

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. Other Postemployment Benefits (“OPEB”)

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

14. Leases

Lessee: The City is a lessee for a noncancellable lease of equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

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

City of Dayton, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

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

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

15. Estimates

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

F. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

Legislation was passed in 1979 and amended in 1981 by the Texas Legislature which affects the method of property assessment and tax collection in the City. This legislation, with certain exceptions, exempts intangible personal property and household goods. In addition, this legislature creates a "Property Tax Code" and provides, among other things, for the establishment of county-wide appraisal districts and for a State Property Tax Board which commenced operation in January 1980. The appraisal of property within the City is the responsibility of the Liberty County Tax Appraisal District. The Appraisal District is required under the Property Tax Code to assess all property within the appraisal district on the basis of 100 percent of its appraised value and is prohibited from applying any assessment ratios. The value of real property within the Appraisal District must be reviewed at least every four years. The City, at its own expense, may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on property within the City limits. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements and revaluation, exceeds the rate of the previous year by more than 3.5 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent above the rate of the previous year.

3. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

The principal operating revenues of the water and sewer fund, refuse fund, fiber funds are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

A. Expenditures Over Appropriations

For the year ended September 30, 2022, expenditures exceeded appropriations at the legal level of control in the following departments within the general fund as follows:

General government		
Nondepartmental	\$	77,169
Community enhancement		71,977
Capital outlay		96,547
Debt service		
Principal		11,872
Interest and fiscal charges		2,339
	<u>\$</u>	<u>259,904</u>

B. Deficit Fund Equity

The Fiber fund had a deficit net position balance of \$2,044,406 as of yearend. This deficit will be corrected in future years through transfers from other funds and revenues generated from charges for services.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The primary government and its component unit may invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposits, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by the Public Funds Investment Act of 1987.

As of September 30, 2022, the primary government had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Federal agency bonds	\$ 708,482	3.00
Certificates of deposit	1,151,334	2.06
Total value	<u>\$ 1,859,816</u>	
Portfolio weighted average maturity		2.42

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

As of September 30, 2022, the Dayton Community Development Corporation had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
External investment pools	\$ 374,253	0.10
Total value	<u>\$ 374,253</u>	
Portfolio weighted average maturity		0.10

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.

Credit risk: The City’s investment policy requires that investment pools must be rated no lower than ‘AAA’ or ‘AAA-m’. Bankers’ acceptances must be issued in the United States and carry a rating of ‘A1’/‘P1’ as provided by two of the top nationally recognized rating agencies. As of September 30, 2022, the City’s investments in TexPool were rated ‘AAAm’ by Standard & Poor’s.

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective fair value of at least 103 percent. As of September 30, 2020, the fair values of pledged securities and FDIC coverage exceeded the City’s bank balances. As of September 30, 2022, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds. As of September 30, 2022, the City’s investments in federal agency bonds were rated ‘AAAm’ by Standard & Poor’s.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

B. Receivables

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

	Primary Government						Total
	General	Debt Service	Nonmajor Govt.	Water and Sewer	Refuse	Fiber	
Property taxes	\$ 534,737	\$ 286,241	\$ -	\$ -	\$ -	\$ -	\$ 820,978
Sales tax	394,462	-	-	-	-	-	394,462
Franchise tax	46,674	-	-	-	-	-	46,674
Accounts, net	-	-	-	715,680	91,159	-	806,839
Other	241,322	-	8,916	-	-	24,084	274,322
Allowance	-	-	-	(59,770)	(4,288)	-	(64,058)
Total	\$ 1,217,195	\$ 286,241	\$ 8,916	\$ 655,910	\$ 86,871	\$ 24,084	\$ 2,279,217

The following receivable balances of the component unit consisted entirely of sales tax at year end.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

C. Capital Assets

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,384,811	\$ -	\$ -	\$ 1,384,811
Construction in progress	3,621,216	2,268,369	(2,819,386)	3,070,199
Total capital assets not being depreciated	<u>5,006,027</u>	<u>2,268,369</u>	<u>(2,819,386)</u>	<u>4,455,010</u>
Capital assets, being depreciated:				
Infrastructure	5,981,441	-	2,777,190	8,758,631
Buildings and improvements	23,449,356	-	-	23,449,356
Right to use assets	14,956	108,883	-	123,839
Machinery and equipment	9,389,232	215,720	-	9,604,952
Total capital assets being depreciated	<u>38,834,985</u>	<u>324,603</u>	<u>2,777,190</u>	<u>41,936,778</u>
Less accumulated depreciation				
Infrastructure	2,208,337	330,274	-	2,538,611
Buildings and improvements	4,982,909	507,130	-	5,490,039
Right to use assets	1,755	12,063	-	13,818
Machinery and equipment	6,353,332	668,368	-	7,021,700
Total accumulated depreciation	<u>13,546,333</u>	<u>1,517,835</u>	<u>-</u>	<u>15,064,168</u>
Net capital assets being depreciated	25,288,652	(1,193,232)	2,777,190	26,872,610
Total Capital Assets	<u>\$ 30,294,679</u>	<u>\$ 1,075,137</u>	<u>\$ (42,196)</u>	<u>\$ 31,327,620</u>

Depreciation was charged to governmental functions as follows:

General	\$ 149,995
Public safety	518,725
Public works	399,435
Culture and recreation	380,147
Community enhancement	69,533
Total Governmental Activities Depreciation Expense	<u>\$ 1,517,835</u>

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 107,408	\$ -	\$ -	\$ 107,408
Construction in progress	12,781,641	7,705,505	(9,857,472)	10,629,674
Total capital assets not being depreciated	<u>12,889,049</u>	<u>7,705,505</u>	<u>(9,857,472)</u>	<u>10,737,082</u>
Capital assets, being depreciated:				
Building and improvements	3,086,121	-	-	3,086,121
Right to use assets	509,291	-	-	509,291
Machinery and equipment	2,661,938	-	-	2,661,938
Infrastructure	30,932,347	90,749	9,857,472	40,880,568
Total capital assets being depreciated	<u>37,189,697</u>	<u>90,749</u>	<u>9,857,472</u>	<u>47,137,918</u>
Less accumulated depreciation				
Building and improvements	1,147,275	144,603	-	1,291,878
Right to use assets	-	18,140	-	18,140
Machinery and equipment	2,034,963	165,640	-	2,200,603
Infrastructure	20,575,170	1,418,457	-	21,993,627
Total accumulated depreciation	<u>23,757,408</u>	<u>1,746,840</u>	<u>-</u>	<u>25,504,248</u>
Net capital assets being depreciated	13,432,289	(1,656,091)	9,857,472	21,633,670
Total Capital Assets	<u>\$ 26,321,338</u>	<u>\$ 6,049,414</u>	<u>\$ -</u>	<u>\$ 32,370,752</u>

Depreciation was charged to business-type activities as follows:

Water and sewer	\$ 1,654,215
Refuse	71,999
Fiber	20,626
Total Business-type Activities Depreciation Expense	<u>\$ 1,746,840</u>

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 905,986	\$ -	\$ -	\$ 905,986
Total capital assets not being depreciated	<u>905,986</u>	<u>-</u>	<u>-</u>	<u>905,986</u>
Total Capital Assets	<u>\$ 905,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 905,986</u>

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

D. Long-term Debt

The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2022. In general, the City uses the general and debt service fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 6,880,000	\$ -	\$ (920,000)	\$ 5,960,000	\$ 940,000
Tax Notes	120,000	-	(120,000)	-	-
Certificates of Obligation	16,495,000	-	(755,000)	15,740,000	775,000
Less deferred amounts:					
For premiums	796,680	-	(45,253)	751,427	-
Total Bonds Payable	<u>24,291,680</u>	<u>-</u>	<u>(1,840,253)</u>	<u>22,451,427</u>	<u>1,715,000</u>
Lease liabilities	14,956	108,883	(11,872)	111,967	23,533
Total	<u>\$ 24,306,636</u>	<u>\$ 108,883</u>	<u>\$ (1,852,125)</u>	<u>\$ 22,563,394</u>	<u>\$ 1,738,533</u>
			Long-term liabilities due in more than one year	<u>\$ 20,824,861</u>	
Business-Type Activities:					
Bonds, notes and other payables:					
Certificates of Obligation	\$ 24,185,000	\$ -	\$ (885,000)	\$ 23,300,000	\$ 945,000
General Obligation Bonds	4,605,000	-	(600,000)	4,005,000	615,000
Lease liabilities	509,291	-	(189,764)	319,527	197,673
Less deferred amounts:					
For premiums	1,932,900	-	(131,177)	1,801,723	-
Total	<u>\$ 31,232,191</u>	<u>\$ -</u>	<u>\$ (1,805,941)</u>	<u>\$ 29,426,250</u>	<u>\$ 1,757,673</u>
			Long-term liabilities due in more than one year	<u>\$ 27,668,577</u>	

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. The City intends to retire all of its general long-term liabilities, plus accrued interest, from property taxes and other current revenues from the debt service fund as has been done in prior years. The proprietary fund type long-term debt will be repaid, plus accrued interest, from operating revenues of the respective fund. The general fund has typically been used to liquidate the liability for compensated absences for governmental activities. Leases are secured by the underlying asset. In the event of default, the lender may demand immediate payment or take possession of the asset.

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

	Governmental Activities
Certificates of Obligation:	
2015 Certificates of Obligation, original principal due of \$6,990,000 with an interest rate rate ranging from 2.00-4.00%	5,645,000
2018 Certificates of Obligation, original principal due of \$6,595,000 with an interest rate rate ranging from 2.00-4.00%	5,170,000
2019 Certificates of Obligation, original principal due of \$2,500,000 with an interest rate rate ranging from 2.00-5.00%	2,090,000
2020B Certificates of Obligation, original principal due of \$3,015,000 with an interest rate rate ranging from 2.00-5.00%	2,835,000
Total Certificates of Obligation	\$ 15,740,000
General Obligations:	
2017 general obligation refunding bonds, original principal due of \$8,045,000 with an an interest rate of 2.23%	\$ 5,960,000
Total General Obligation bonds	\$ 5,960,000
Less deferred amounts:	
Premiums	\$ 751,427
Leases Liabilities:	
Konica Plotter - 2020 lease for \$34,567, int. at 4%, monthly pmt of \$638	10,899
Platinum Printer - 2022 lease for \$108,883, int at 4%, monthly pmt. \$1,923	101,068
Total Lease Liabilities	\$ 111,967
Total Long-term Debt	\$ 22,563,394

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

	<u>Business - Type Activities</u>
Certificates of Obligation:	
2020A Certificates of Obligation, original principal due of \$13,450,000 with an interest rate rate ranging from 2.00-4.00%	\$ 13,195,000
2020B Certificates of Obligation, original principal due of \$1,855,000 with an interest rate rate ranging from 2.00-5.00%	1,740,000
2021 Certificates of Obligation, original principal due of \$1,855,000 with an interest rate rate ranging from 1.25-4.00%	<u>8,365,000</u>
Total Certificates of Obligation	<u>\$ 23,300,000</u>
 General Obligations:	
2016 general obligaiton refunding bonds, original principal due of \$6,880,000 with an interest rate rate ranging from 2.00-4.00%	
Total General Obligation bonds	<u>\$ 4,005,000</u>
 Less deferred amounts:	
Premiums	\$ 1,801,723
 Lease Liabilities:	
Building - 2021 lease for \$575,023, int. at 4%, monthly pmt of \$17,000	312,249
Konica Plotter - 2020 lease for \$34,567, int. at 4%, monthly pmt of \$638	<u>7,278</u>
Total Lease Liabilities	<u>\$ 319,527</u>
Total Long-term Debt	<u><u>\$ 29,426,250</u></u>

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

The annual requirements to amortize the City's long-term activities debt issues outstanding at year ending were as follows:

Certificates of Obligation

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 775,000	\$ 517,550	\$ 945,000	\$ 694,369
2024	805,000	491,400	1,395,000	654,369
2025	835,000	462,025	1,360,000	599,569
2026	865,000	429,603	1,210,000	555,094
2027	900,000	396,631	1,250,000	512,794
2028	935,000	363,147	1,300,000	461,019
2029	1,060,000	329,063	1,360,000	406,994
2030	1,085,000	296,103	1,410,000	355,144
2031	1,125,000	260,019	1,175,000	316,756
2032	1,165,000	218,794	1,205,000	287,716
2033	1,215,000	179,756	1,230,000	257,625
2034	1,245,000	142,588	1,260,000	226,475
2035	1,290,000	103,141	1,295,000	194,125
2036	605,000	72,975	1,210,000	162,288
2037	620,000	52,513	1,245,000	130,650
2038	640,000	31,256	1,275,000	97,813
2039	355,000	14,631	1,305,000	64,119
2040	220,000	4,400	1,345,000	28,775
2041	-	-	525,000	5,250
Total	\$ 15,740,000	\$ 4,365,594	\$ 23,300,000	\$ 6,010,941

General Obligation Bonds

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 940,000	\$ 122,427	\$ 615,000	\$ 131,975
2024	960,000	101,242	635,000	113,225
2025	980,000	79,611	650,000	93,950
2026	3,080,000	104,030	2,105,000	128,500
Total	\$ 5,960,000	\$ 407,310	\$ 4,005,000	\$ 467,650

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Lease Liabilities

		Governmental Activities	
		Principal	Interest
	2023	\$ 23,533	\$ 4,142
	2024	24,514	3,161
	2025	23,219	2,159
	2026	21,822	1,259
	2027	18,879	356
	Total	\$ 111,967	\$ 11,077

The City entered into two separate five-year lease agreements as lessee for the acquisition and use of office equipment. The total initial lease liability was \$123,839. As of September 30, 2022, the value of the lease liability was \$111,967. The City is required to make monthly principal and interest payments of \$638 and \$1,923. The leases have an interest rate of 4%. The equipment has a five-year estimated useful life. The carrying amount of the right-to-use assets as of the end of the current fiscal year was \$110,021.

Lease Liabilities

		Business-Type Activities	
		Principal	Interest
	2023	\$ 197,673	\$ 9,390
	2024	120,329	1,733
	2025	1,525	18
	Total	\$ 319,527	\$ 11,141

The City entered into two separate lease agreements (one with a five-year term; one with a three-year term) as lessee for the acquisition and use of a building and office equipment. The total initial lease liability was \$513,152. As of September 30, 2022, the value of the lease liability was \$319,527. The City is required to make monthly principal and interest payments of \$638 and \$17,000. The leases have an interest rate of 4%. The equipment has a five-year estimated useful life. The building has a fifty-year estimated useful life. The carrying amount of the right-to-use assets as of the end of the current fiscal year was \$491,151.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

E. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. In general, the City uses the general and water and sewer funds to liquidate compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Compensated absences	132,569	185,473	(167,507)	150,535	135,482
Total Governmental Activities	<u>\$ 132,569</u>	<u>\$ 185,473</u>	<u>\$ (167,507)</u>	<u>\$ 150,535</u>	<u>\$ 135,482</u>
Other long-term liabilities due in more than one year				<u>\$ 15,053</u>	
Business Type Activities:					
Compensated absences	17,613	27,879	(24,616)	20,876	18,788
Total Business Type Activities	<u>\$ 17,613</u>	<u>\$ 27,879</u>	<u>\$ (24,616)</u>	<u>\$ 20,876</u>	<u>\$ 18,788</u>
Other long-term liabilities due in more than one year				<u>\$ 2,088</u>	
Component Unit Activities:					
Compensated absences	2,296	-	(2,296)	-	-
Total Component Unit Activities	<u>\$ 2,296</u>	<u>\$ -</u>	<u>\$ (2,296)</u>	<u>\$ -</u>	<u>\$ -</u>
Other long-term liabilities due in more than one year				<u>\$ -</u>	

F. Deferred Charges on Refunding

Deferred charges resulting from the issuance of series 2017 general obligation refunding bonds have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding bonds. Current year balances for governmental activities totaled \$112,247. Current year amortization expense for governmental totaled \$18,708.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

G. Interfund Transactions

Transfers between the primary government funds during the 2022 year were as follows:

Transfer out:	Transfer In:			Total
	General	Nonmajor		
		Governmental	Water & Sewer	
Debt service	\$ -	\$ -	\$ 999,489	999,489
Econ. Dev. Admin Grants	-	-	1,644,827	1,644,827
Nonmajor govt.	1,916,118	1,123,623	127,398	3,167,139
Water & Sewer	1,050,000	87,208	-	1,137,208
Refuse	30,000	-	-	30,000
Internal service	-	-	100	100
Total	\$ 2,996,118	\$ 1,210,831	\$ 2,771,814	\$ 6,978,763

Transfers between funds were primarily to support construction projects, debt payments and operation of funds.

The compositions of interfund balances as of the year ended September 30, 2022 were as follows:

Due from (receivable fund):	Due to (payable fund):		
	Governmental	DCDC	Total
General	\$ -	\$ 3,307	\$ 3,307
Water and Sewer	164,252	-	164,252
Total	\$ 164,252	\$ 3,307	\$ 167,559

Interfund receivables and payables are used to cover operational, debt, and capital expenditures. All balances are expected to be resolved in the subsequent year.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

B. Commitments and Contingent Liabilities

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

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

Developer Agreements

Master Development and Reimbursement Agreement – CMC Railroad, LLC

In December 2018, the City, the City of Dayton Tax Increment Reinvestment Zone No. 1 (the “Zone”), and CMC Railroad, LLC (the “Developer”) entered into a Master Development and Reimbursement Agreement (the “Agreement”) to provide for the financing and construction of public improvements and associated eligible project costs within the Zone. The Zone was created on May 28, 2018. In order to implement certain plans of the Zone, the City entered into purchase contracts for the necessary right of way for the widening and improvements to Stilson Road from two landowners in the estimated amount of \$306,720 plus related survey and closing costs and real estate agent fees. The Developer has agreed to advance funds necessary to pay for the eligible project costs to be reimbursed in accordance with the Agreement. Liberty County (the “County”) entered into an interlocal agreement with the Zone and the City to participate in the Zone. The County has agreed to pay the City for deposit into the tax increment fund 50 percent of all taxes collected by the County each year during the term of the Agreement at the then-prevailing County tax rate on the captured appraised values. The term of the Agreement shall end on August 1, 2044, or until 100 percent of the County tax increment participation has been paid.

The City and the County have agreed to reimburse the Developer annually for Zone improvements funded by the Developer based upon 50 percent of the tax increment payments collected within the Zone on the captured appraised values. The other 50 percent of the tax increment shall go into the Zone fund for future projects to be named/approved by the Zone board and City. The Agreement has a reimbursement cap up to \$68,200,000 for eligible project costs, plus developer interest (based upon the published prime commercial lending rate in the Wall Street Journal), plus an annual adjustment for the most recently published consumer price index. The agreement shall end upon the expiration of the Zone. No TIRZ collections or developer payments were made during the year.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Development Agreement with CMC Railroad, LLC and creation of Municipal District No. 9

On January 25, 2021, the City entered into a development agreement with CMC Railroad, LLC (the “Developer”) to develop their approximately 1,156 acres of land for primarily industrial use and the creation of a Municipal Utility District (to be known as Liberty County Municipal Utility District No. 9) to fund certain public infrastructure. The Developer has agreed to advance up to \$1 million dollars to build a substation for the police department, fire station, and a training facility. The Developer, as needed, will be responsible for designing and constructing all internal and off-site water and sewer lines and associated facilities and drainage facilities. The Developer advance will be reimbursed from the increment generated within TIRZ No. 1 under the Master Development and Reimbursement Agreement. The Developer will convey these constructed assets to the City. The Agreement is for 30 years. No TIRZ collections or developer payments were made during the year.

Dayton Community Development Corporation Grant Agreements

The Corporation entered into another Grant Performance Agreement for Business and Commerce Development (the “Agreement”) with Sumiden Wire Products Corporation (the “Company”). The Company has agreed to commitments of at least \$13,000,000 for the purchase of real estate for, or construction of, a manufacturing facility in the City. The Company has also agreed to hire a minimum of 15 full-time employees at a minimum salary specified within the Agreement. The minimum number of employees hired will increase each year over the five-year term of the Agreement. The Corporation has agreed to maximum grant payments of \$643,200 over the term of the Agreement if the Company meets the various conditions noted for each year of the Agreement.

In the event of default by the Company, the Company must repay all grant payments with interest of ten percent. During the fiscal year ending September 30, 2022, the Corporation made the final payment of \$43,200 related to this agreement.

C. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Dayton, Texas participates as one of 920 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

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com. All eligible employees of the city are required to participate in TMRS.

2. Benefits Provided

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

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

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

	<u>Plan Year 2021</u>	<u>Plan Year 2020</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI
Active Employees	Yes	Yes
Supplemental Death Benefit to Retirees	Yes	Yes

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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	53
Inactive employees entitled to but not yet receiving benefits	125
Active employees	<u>101</u>
Total	<u>279</u>

3. Contributions

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

Employees for the City of Dayton, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Dayton, Texas were 6.58% and 6.28% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2022, were \$340,248, and were equal to the required contributions.

4. 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:

Inflation	2.5% per year
Overall payroll growth	2.75%
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

City of Dayton, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

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 16 mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

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).

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public/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 statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension (Asset) Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/20	\$ 10,081,090	\$ 9,722,477	\$ 358,613
Changes for the year:			
Service cost	645,810	-	645,810
Interest	683,244	-	683,244
Change in benefit terms	-	-	-
Difference between expected and actual experience	(130,230)	-	(130,230)
Changes of assumptions	-	-	-
Contributions – employer	-	341,606	(341,606)
Contributions – employee	-	363,398	(363,398)
Net investment income	-	1,265,997	(1,265,997)
Benefit payments, including refunds of emp. contributions	(563,737)	(563,737)	-
Administrative expense	-	(5,865)	5,865
Other changes	-	40	(40)
Net changes	635,087	1,401,439	(766,352)
Balance at 12/31/21	<u>\$ 10,716,177</u>	<u>\$ 11,123,916</u>	<u>\$ (407,739)</u>

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 1,128,978	\$ (407,739)	\$ (1,662,877)

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.

5. 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 pension income of \$50,710.

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
Differences between projected and investment earnings	\$ -	\$ (644,590)
Changes in actuarial assumptions	3,223	-
Difference between expected and actual economic experience	-	(138,477)
Contributions subsequent to the measurement date	248,466	-
Total	\$ 251,689	\$ (783,067)

The City reported \$248,466 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2023.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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

Year ended December 31:	
2022	\$ (203,308)
2023	(315,871)
2024	(138,716)
2025	(121,949)
2026	-
Thereafter	-
	\$ (779,844)

Texas Emergency Services Retirement System

1. Plan Description

The Fire Fighter’s Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2021, there were 239 member fire or emergency services departments actively participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2021, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,843
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	1,706
Active Participants (Vested and Nonvested)	<u>3,571</u>
Total	<u>9,120</u>

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

City of Dayton, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

2. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities. According to the state law governing the System, the state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended in 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the August 31, 2020 actuarial valuation, the Part Two contributions are not required for an adequate contribution arrangement.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

3. Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2021, total contributions (dues and prior service) of \$3,813,748 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,329,224 for the fiscal year ending August 31, 2021.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The most recently completed biennial actuarial valuation as of August 31, 2020 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$675,000 each year to pay for part of the System’s administrative expenses.

To the best of our knowledge, the actuarial information supplied in this section is complete, accurate and in compliance with GASB Statement No. 25. In our opinion, the assumptions used are reasonably related to the experience of the System and to reasonable expectations. The assumptions represent a reasonable estimate of anticipated experience of the System over the long-term future, and their selection complies with the appropriate actuarial standards of practice.

Valuation Date	<u>August 31, 2016</u>	<u>August 31, 2018</u>	<u>August 31, 2020</u>
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level dollar, open	Level dollar, open	Level dollar, open
Amortization	30 years	30 years	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value

City of Dayton, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Actuarial Assumptions:

Investment Rate of Return *	7.75% per year, net of investment expenses	7.75% per year, net of investment expenses	7.50% per year, net of investment expenses
Projected Salary Increases *	N/A	N/A	N/A
* Includes Inflation at	3.50%	3.00%	3.00%
Cost-of-Living Adjustments	None	None	None

The target allocation for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities:		
Large cap domestic	20%	5.83%
Small cap domestic	10%	5.94%
Developed international	15%	6.15%
Emerging markets	5%	7.25%
Master limited partnership	5%	6.41%
Real Estate	10%	4.48%
Multi asset income	5%	3.84%
Fixed income	30%	1.99%
Cash	0%	0%
Total	100.0%	4.60%

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.5%. No projection of cash flows was used to determine the discount rate because the August 31, 2020 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

4. Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 8/31/20	\$ 404,203	\$ 336,466	\$ 67,737
Changes for the year:			
Service Cost	6,103	-	6,103
Interest (on the Total Pension Liab.)	43,611	-	43,611
Change in benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions – members	-	14,656	(14,656)
Contributions – state	-	5,213	(5,213)
Net investment income	-	87,448	(87,448)
Benefit payments, including refunds of emp. contributions	(29,153)	(29,153)	-
Administrative expense	-	(1,053)	1,053
Proportion changes	185,754	154,925	30,829
Net changes	206,315	232,036	(25,721)
Balance at 8/31/21	\$ 610,518	\$ 568,502	\$ 42,016

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.5%, 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 (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

1% Decrease 6.5%	Current Single Rate Assumption 7.5%	1% Increase 8.5%
\$ 137,323	\$ 42,016	\$ (21,608)

Pension Plan Fiduciary Net Position:

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

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2022, the City recognized pension expense of \$49.

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual economic experience	\$ -	\$ (39,345)
Difference between projected and investment earnings	-	(57)
Change in actuarial assumptions	-	(1,662)
Changes in pension proportion	31,159	-
Contributions subsequent to the measurement date	20,236	-
Total	\$ 51,395	\$ (41,064)

The City reported \$20,236 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2023. Other amounts reported as deferred outflows related to the TESRS pension will be recognized in pension expense as follows:

Year ended August 31:	
2022	\$ (9,285)
2023	(5,022)
2024	(11,083)
2025	(8,421)
2026	1,813
Thereafter	22,093
	\$ (9,905)

D. Other Postemployment Benefits

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as

City of Dayton, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

The City offers supplemental death to:	Plan Year 2021	Plan Year 2020
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	35
Inactive employees entitled to but not yet receiving benefits	25
Active employees	101
Total	161

The City’s contributions to the TMRS SDBF for the years ended 2022 and 2021 were \$5,491, and \$4,785, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates (*RETIREE-only portion of the rate*)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2020	0.04%	0.04%	100.0%
2021	0.11%	0.11%	100.0%
2022	0.10%	0.10%	100.0%

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2021, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5%, including inflation per year
Discount rate	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

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

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 1.84%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 1.84%, as well as what the City's total OPEB liability (asset) 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:

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

1% Decrease (0.84%)	Current Single Rate Assumption 1.84%	1% Increase (2.84%)
\$ 426,034	\$ 340,038	\$ 276,306

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/20	\$ 312,279
Changes for the year:	
Service Cost	17,132
Interest	6,360
Difference between expected and actual experience	(1,566)
Changes of assumptions	11,544
Benefit payments	(5,711)
Net changes	27,759
Balance at 12/31/21	\$ 340,038

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 \$47,203.

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Changes in actuarial assumptions	\$ 56,138	\$ -
Difference between expected and actual experience	-	(8,931)
Contributions subsequent to measurement date	3,957	-
Total	\$ 60,095	\$ (8,931)

The City reported \$3,957 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2023.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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

Year ended December 31:	
2022	\$ 14,490
2023	12,737
2024	14,596
2025	5,107
2026	277
Thereafter	-
	<u>\$ 47,207</u>

E. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the “Plan”) created in accordance with the Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Plan’s trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payments to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under Plan provisions are disbursed monthly by the City to a third-party administrator. The third-party administrator handles all funds in the Plan and makes investment decisions and disburses funds to employees in accordance with Plan provisions. Employee contributions totaled \$47,690 during the year.

F. Tax Abatements

In accordance with Chapter 312 of the Texas Property Tax Code (the “Tax Code”), the City entered into a tax abatement agreements with two companies. The agreements expire in 2026 and 2030, respectively. During the year Sumiden Wire Products had 60% of their property tax abated, totaling \$42,115. Rail Logix had 54% of their property tax abated, totaling \$29,989.

City of Dayton, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

G. Restatement

Due to the implementation of GASB Statement No. 87, *Leases*, the City restated beginning net position for governmental activities. The restatement of beginning net position is as follows:

	Governmental Activities
Prior year ending net position, as reported	\$ 12,421,720
Adoption of GASB 87 - lessee	(1,755)
Adoption of GASB 87 - increase to lease liab.	(14,956)
Adoption of GASB 87 - increase to right-to-use assets	14,956
Restated beginning net position	\$ 12,419,965

	Business-Type Activities	Water and Sewer	Fiber
Prior year ending net position/fund balance, as reported	\$ 8,682,587	\$ 8,335,861	\$ (1,337,840)
Adoption of GASB 87 - increase to lease liab.	(509,291)	(9,983)	(499,308)
Adoption of GASB 87 - increase to right-to-use assets	509,291	9,983	499,308
Restated beginning net position	\$ 8,682,587	\$ 8,335,861	\$ (1,337,840)

H. Subsequent Events

There were no material subsequent events through March 24, 2023, the date the financial statements were issued.

I. New Accounting Pronouncements

The City has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 87, entitled *Leases*. Due to the implementation of GASB 87 in the current year, the City recorded right to use assets and lease liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

City of Dayton, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND (Page 1 of 2)

For the Year Ended September 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 3,959,538	\$ 3,959,538	\$ 4,042,664	\$ 83,126
Sales tax	1,926,000	1,926,000	2,152,426	226,426
Franchise and local taxes	493,460	493,460	651,550	158,090
Payments in lieu of taxes	277,750	277,750	312,165	34,415
License and permits	305,723	305,723	292,046	(13,677)
Charges for services	117,522	117,522	92,779	(24,743)
Fines and forfeitures	523,111	523,111	314,308	(208,803)
Intergovernmental	-	-	197,421	197,421
Investment income	12,000	12,000	12,477	477
Other revenues	9,000	9,000	490,654	481,654
Total Revenues	7,624,104	7,624,104	8,558,490	934,386
<u>Expenditures</u>				
Current:				
General government				
Administration	1,324,519	1,479,518	1,473,562	5,956
Technology	535,952	565,953	552,740	13,213
Office of City Mgr. & Sec.	421,820	497,820	488,326	9,494
Planning & Code Enforcement	764,913	764,913	758,641	6,272
Animal Control	128,347	128,347	116,749	11,598
Parks-Aquatics	105,032	105,032	6,909	98,123
Nondepartmental	48,500	78,500	155,669	(77,169) *
Total General Government	3,329,083	3,620,083	3,552,596	67,487
Public safety				
Municipal Court	355,780	365,780	355,422	10,358
Volunteer Fire	93,900	183,900	89,910	93,990
Planning & Code Enforcement	11,000	11,000	-	11,000
Police & Dispatch	2,482,161	2,582,161	2,542,988	39,173
EMS Services	50,000	80,000	75,000	5,000
Total Public Safety	2,992,841	3,222,841	3,063,320	159,521

City of Dayton, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND (Page 2 of 2)

For the Year Ended September 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Public works				
Fleet Maintenance	323,643	438,643	412,944	25,699
Streets & Drainage	767,507	767,507	575,798	191,709
Total Public Works	1,091,150	1,206,150	988,742	217,408
Culture and recreation				
Library	267,412	267,412	222,225	45,187
Parks-Maintenance	15,000	15,000	1,573	13,427
Total Culture and Recreation	282,412	282,412	223,798	58,614
Community enhancement	519,988	631,988	703,965	(71,977) *
Community center	325,207	325,207	244,384	80,823
Capital outlay	172,000	172,000	268,547	(96,547) *
Debt service				
Principal	-	-	11,872	(11,872) *
Interest and fiscal charges	-	-	2,339	(2,339) *
Total Expenditures	8,712,681	9,460,680	9,059,563	401,117
Revenues Over (Under)				
Expenditures	(1,088,577)	(1,836,576)	(501,073)	1,335,503
Other Financing Sources (Uses)				
Transfers in	\$ 1,296,906	\$ 1,296,906	\$ 2,996,118	\$ 1,699,212
Proceeds from sale of assets	5,000	5,000	40,432	35,432
Lease proceeds	-	-	108,883	108,883
Total Other Financing Sources (Uses)	1,301,906	1,301,906	3,145,433	1,843,527
Net Change in Fund Balance	\$ 213,329	\$ (534,670)	2,644,360	\$ 3,179,030
Beginning fund balance			2,087,759	
Ending Fund Balance			\$ 4,732,119	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

* Expenditures exceeded appropriations at the legal level of control.

City of Dayton, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

Years Ended:

	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>
Total pension liability			
Service cost	\$ 645,810	\$ 691,091	\$ 654,534
Interest	683,244	636,851	593,767
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(130,230)	(66,921)	(153,335)
Changes of assumptions	-	-	21,131
Benefit payments, including refunds of participant contributions	(563,737)	(538,444)	(453,744)
Net change in total pension liability	<u>635,087</u>	<u>722,577</u>	<u>662,353</u>
Total pension liability - beginning	<u>10,081,090</u>	<u>9,358,513</u>	<u>8,696,160</u>
Total pension liability - ending (a)	<u>10,716,177</u>	<u>10,081,090</u>	<u>9,358,513</u>
Plan fiduciary net position			
Contributions - employer	\$ 341,606	\$ 382,803	\$ 374,020
Contributions - members	363,398	383,331	359,634
Net investment income	1,265,997	669,208	1,143,957
Benefit payments, including refunds of participant contributions	(563,737)	(538,444)	(453,744)
Administrative expenses	(5,865)	(4,337)	(6,476)
Other	40	(170)	(194)
Net change in plan fiduciary net position	<u>1,401,439</u>	<u>892,391</u>	<u>1,417,197</u>
Plan fiduciary net position - beginning	<u>9,722,477</u>	<u>8,830,086</u>	<u>7,412,889</u>
Plan fiduciary net position - ending (b)	<u>\$ 11,123,916</u>	<u>\$ 9,722,477</u>	<u>\$ 8,830,086</u>
Fund's net pension liability - ending (a) - (b)	<u>\$ (407,739)</u>	<u>\$ 358,613</u>	<u>\$ 528,427</u>
 Plan fiduciary net position as a percentage of the total pension liability	 103.80%	 96.44%	 94.35%
Covered payroll	\$ 5,191,397	\$ 5,476,155	\$ 5,137,633
Fund's net pension liability as a percentage of covered payroll	-7.85%	6.55%	10.29%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten calendar years. However, until a full ten-year trend is compiled, only available information is shown.

<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	¹
\$ 570,125	\$ 540,698	\$ 490,826	\$ 415,360	\$ 324,986	
562,917	517,680	474,157	430,539	396,895	
-	-	-	-	-	
(273,080)	81,411	54,782	37,731	(19,939)	
-	-	-	216,362	-	
(436,505)	(532,131)	(267,708)	(259,770)	(273,230)	
<u>423,457</u>	<u>607,658</u>	<u>752,057</u>	<u>840,222</u>	<u>428,712</u>	
<u>8,272,703</u>	<u>7,665,045</u>	<u>6,912,988</u>	<u>6,072,766</u>	<u>5,644,054</u>	
<u>8,696,160</u>	<u>8,272,703</u>	<u>7,665,045</u>	<u>6,912,988</u>	<u>6,072,766</u>	
\$ 337,358	\$ 313,664	\$ 239,287	\$ 214,234	\$ 177,101	
316,736	296,309	268,002	241,488	215,977	
(221,728)	892,777	393,037	8,300	298,309	
(436,505)	(532,131)	(267,708)	(259,770)	(273,230)	
(4,297)	(4,637)	(4,449)	(5,059)	(3,114)	
(222)	(235)	(240)	(250)	(256)	
<u>(8,658)</u>	<u>965,747</u>	<u>627,929</u>	<u>198,943</u>	<u>414,787</u>	
<u>7,421,547</u>	<u>6,455,800</u>	<u>5,827,871</u>	<u>5,628,928</u>	<u>5,214,141</u>	
<u>\$ 7,412,889</u>	<u>\$ 7,421,547</u>	<u>\$ 6,455,800</u>	<u>\$ 5,827,871</u>	<u>\$ 5,628,928</u>	
<u>\$ 1,283,271</u>	<u>\$ 851,156</u>	<u>\$ 1,209,245</u>	<u>\$ 1,085,117</u>	<u>\$ 443,838</u>	
85.24%	89.71%	84.22%	84.30%	92.69%	
\$ 4,524,803	\$ 4,230,816	\$ 3,828,596	\$ 3,449,831	\$ 3,085,380	
28.36%	20.12%	31.58%	31.45%	14.39%	

City of Dayton, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

Years Ended:

	<u>8/31/2021</u>	<u>8/31/2020</u>	<u>8/31/2019</u>	<u>8/31/2018</u>
Total pension liability				
Service cost	\$ 6,103	\$ 5,013	\$ 4,975	\$ 4,373
Interest	43,611	29,553	28,137	27,181
Changes in benefit terms	-	8,031	-	7,754
Differences between expected and actual experience	-	(5,280)	-	(248)
Changes of assumptions	-	(182)	-	-
Benefit payments, including refunds of participant contributions	(29,153)	(18,490)	(17,149)	(16,026)
Net change in total pension liability	<u>20,561</u>	<u>18,645</u>	<u>15,962</u>	<u>23,034</u>
Total pension liability - beginning	<u>\$ 589,956</u>	<u>\$ 385,558</u>	<u>366,653</u>	<u>354,363</u>
Total pension liability - ending (a)	<u>\$ 610,517</u> ³	<u>\$ 404,203</u>	<u>\$ 382,616</u>	<u>\$ 377,397</u>
Plan fiduciary net position				
Contributions - employer	\$ 14,956	\$ 10,090	\$ 9,280	\$ 11,249
Contributions - state	5,212	3,571	3,544	3,648
Net investment income	87,448	32,757	3,041	31,050
Benefit payments, including refunds of participant contributions	(29,153)	(18,490)	(17,149)	(16,026)
Administrative expenses	(1,053)	(861)	(605)	(434)
Net change in plan fiduciary net position	<u>77,410</u>	<u>27,067</u>	<u>(1,889)</u>	<u>29,486</u>
Plan fiduciary net position - beginning	<u>491,091</u>	<u>309,399</u>	<u>308,927</u>	<u>288,493</u>
Plan fiduciary net position - ending (b)	<u>\$ 568,501</u>	<u>\$ 336,467</u>	<u>\$ 307,038</u>	<u>\$ 317,979</u>
Fund's net pension liability - ending (a) - (b)	<u>\$ 42,016</u>	<u>\$ 67,737</u>	<u>\$ 75,578</u>	<u>\$ 59,418</u>
Plan fiduciary net position as a percentage of the total pension liability	93.12%	83.24%	80.25%	84.26%
Number of active members	3,702	3,702	3,702	3,927
Net pension liability per active member	\$ 11	\$ 18	\$ 20	\$ 15
City's proportion of the net pension liability	0.3922%	0.2687%	0.2666%	0.2744%

Notes to schedule:

- 1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- 2) There is no compensation for active members, so number of active members is used instead.
- 3) The System's net pension liability was measured as of August 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2020.

	<u>8/31/2017</u>	<u>8/31/2016</u>	<u>8/31/2015</u> ¹
\$	4,732	\$ 4,979	\$ 5,268
	28,119	26,162	26,340
	-	2,122	-
	-	190	-
	-	2,616	-
	<u>(14,945)</u>	<u>(13,818)</u>	<u>(13,989)</u>
	<u>17,906</u>	<u>22,250</u>	<u>17,619</u>
	<u>365,560</u>	<u>339,500</u>	<u>341,599</u>
\$	<u>383,466</u>	<u>\$ 361,750</u>	<u>\$ 359,219</u>
\$	14,885	\$ 10,179	\$ 10,932
	4,704	4,655	5,091
	29,034	14,567	(10,239)
	<u>(14,945)</u>	<u>(13,818)</u>	<u>(13,989)</u>
	<u>(547)</u>	<u>(490)</u>	<u>(671)</u>
	<u>33,130</u>	<u>15,093</u>	<u>(8,877)</u>
	<u>279,055</u>	<u>261,054</u>	<u>285,094</u>
\$	<u>312,185</u>	<u>\$ 276,147</u>	<u>\$ 276,217</u>
\$	<u>71,280</u>	<u>\$ 85,603</u>	<u>\$ 83,002</u>
	81.41%	76.34%	76.89%
	4,046	3,634	4,036 ²
\$	18	\$ 100	\$ 89
	0.2970%	0.2939%	0.3110%

City of Dayton, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN TEXAS MUNICIPAL RETIREMENT SYSTEM

Years Ended:

	9/30/2022	9/30/2021	9/30/2020
Actuarially determined employer contributions	\$ 340,248	\$ 355,127	\$ 368,161
Contributions in relation to the actuarially determined contribution	\$ 340,248	\$ 355,127	\$ 368,161
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Annual covered payroll	\$ 5,351,329	\$ 5,303,686	\$ 5,215,600
Employer contributions as a percentage of covered payroll	6.36%	6.70%	7.06%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018

Mortality Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u> ¹
\$ 364,812	\$ 331,541	\$ 296,886	\$ 244,564	\$ 201,762	\$ 170,209
\$ 364,812	\$ 331,541	\$ 296,886	\$ 244,564	\$ 201,762	\$ 170,209
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>\$ 4,981,259</u>	<u>\$ 4,421,733</u>	<u>\$ 4,150,979</u>	<u>\$ 3,919,546</u>	<u>\$ 3,316,114</u>	<u>\$ 3,032,125</u>
7.32%	7.50%	7.15%	6.24%	6.08%	5.61%

City of Dayton, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

Years Ended:

	9/30/2022	9/30/2021	9/30/2020
Actuarially determined employer contributions	\$ 20,236	\$ 18,828	\$ 12,928
Contributions in relation to the actuarially determined contribution	\$ 20,236	\$ 18,828	\$ 12,928
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Active members	29	29	29
 Contributions per active member	 698	 649	 446

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes Contribution rates are determined by board rule and become effective August 31.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	19 years
Asset Valuation Method	5 Year smoothed market; 20% soft corridor
Inflation	3.00%
Salary Increases	n/a
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits.

Mortality Mortality rates were based on the PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-

Other Information:

Notes There were no benefit changes during the year.

<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u> ¹
\$ 11,948	\$ 13,738	\$ 14,364	\$ 17,342	\$ 14,852	\$ 14,852
\$ 11,948	\$ 13,738	\$ 14,364	\$ 17,342	\$ 14,852	\$ 14,852
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>29</u>	<u>28</u>	<u>30</u>	<u>30</u>	<u>34</u>	<u>34</u>
412	491	479	578	437	437

City of Dayton, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFITS PLAN

Years Ended:

	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
Total OPEB liability				
Service cost	\$ 17,132	\$ 15,881	\$ 13,872	\$ 11,764
Interest	6,360	7,081	7,174	6,841
Differences between expected and actual experience	(1,566)	(4,757)	1,432	(16,702)
Changes of assumptions	11,544	45,608	43,021	(14,056)
Benefit payments, including refunds of participant contributions	(5,711)	(2,190)	(2,569)	(1,810)
Net change in total OPEB liability	<u>27,759</u>	<u>61,623</u>	<u>62,930</u>	<u>(13,963)</u>
Total OPEB liability - beginning	<u>\$ 312,279</u>	<u>\$ 250,656</u>	<u>\$ 187,726</u>	<u>\$ 201,689</u>
Total OPEB liability - ending	<u><u>\$ 340,038</u></u>	<u><u>\$ 312,279</u></u>	<u><u>\$ 250,656</u></u>	<u><u>\$ 187,726</u></u>
Covered payroll	\$ 5,191,397	\$ 5,476,155	\$ 5,137,633	\$ 4,524,803
City's total OPEB liability as a percentage of covered payroll	6.55%	5.70%	4.88%	4.15%

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten calendar years. However, until a full ten-year trend is compiled, only available information is shown.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits

	<u>12/31/2017</u> ¹
\$	9,731
	6,621
	-
	15,885
	<u>(1,692)</u>
	<u>30,545</u>
\$	<u>171,144</u>
\$	<u><u>201,689</u></u> ²
\$	4,230,816
	4.77%

(This page intentionally left blank.)

Financial Advisory Services
Provided By:

