

OFFICIAL STATEMENT
August 12, 2024

Ratings:
S&P: "AA-"
See "Other Information – Ratings"
herein

NEW ISSUE - Book-Entry-Only

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

THE CITY HAS DESIGNATED THE TAX-EXEMPT CERTIFICATES AS
"QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$1,035,000
CITY OF MÜNSTER, TEXAS
(Cooke County)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2024

Dated Date: Date of Delivery

Due: February 15, as shown on page 2

Interest to accrue from Date of Delivery

PAYMENT TERMS . . . Interest on the \$1,035,000 City of Muenster, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2024 (the "Certificates") will accrue from the Date of Delivery (defined below), and will be payable February 15, 2025, and each August 15 and February 15 thereafter until maturity or prior redemption. Interest on the Certificates will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 of principal amount or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System" herein). The initial Paying Agent/Registrar for the Certificates is UMB Bank, N.A., Dallas, Texas (see "The Certificates - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State" or "Texas"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and Subchapter B of Chapter 1502, Texas Government Code, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City of Muenster (the "City" or the "Issuer") and constitute direct obligations of the City, payable from a combination of (i) the levy and collection of an annual ad valorem tax, within the limits prescribed by law, and (ii) certain revenues of the City's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system (see "THE CERTIFICATES - Security and Source for Payment" herein).

PURPOSE . . . Proceeds from the sale of the Certificates will be used for: (i) constructing, reconstructing and widening Mesquite Street, including sidewalks, medians, culverts and related storm drainage, utility line relocation and replacement; and (ii) legal, fiscal, design and engineering fees in connection with such projects and the Certificates.

CUSIP PREFIX: 624760
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriter named below and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by Winstead PC, San Antonio, Texas, Counsel for the Underwriter.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on or about September 11, 2024 (the "Date of Delivery").

SAMCO CAPITAL

MATURITY SCHEDULE

| Maturity 15-Feb | Principal Amount | Interest Rate | Yield | CUSIP Suffix ⁽¹⁾ |
|--------------------|---------------------|------------------|--------|--------------------------------|
| 2025 | \$ 35,000 | 5.000% | 3.380% | AS3 |
| 2026 | 35,000 | 5.000% | 3.350% | AT1 |
| 2027 | 35,000 | 5.000% | 3.350% | AU8 |
| 2028 | 35,000 | 5.000% | 3.350% | AV6 |
| 2029 | 40,000 | 5.000% | 3.350% | AW4 |
| 2030 | 40,000 | 5.000% | 3.350% | AX2 |
| 2031 | 45,000 | 5.000% | 3.390% | AY0 |
| 2032 | 45,000 | 5.000% | 3.420% | AZ7 |

\$255,000 5.000% Term Certificates due February 15, 2037, priced to yield 3.570%⁽²⁾, CUSIP Suffix: BE3
\$470,000 4.000% Term Certificates due February 15, 2044, priced to yield 4.200%, CUSIP Suffix: BM5

(Interest to accrue from the Date of Delivery)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated on behalf of the American Bankers Association by Fact Set Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Underwriter or the Financial Advisor take any responsibility for the selection or accuracy of the CUSIP numbers set forth above.
- (2) Yield shown is yield to first call date of February 15, 2033.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2034, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES - Optional Redemption”).

MANDATORY REDEMPTION . . . The Certificates maturing on February 15 in the years 2037 and 2044 (the “Term Certificates”) are subject to mandatory sinking fund redemption as described herein (see “THE CERTIFICATES – Mandatory Sinking Fund Redemption”).

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. CUSIP Numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Certificates.

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

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on an ongoing basis.

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE 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 JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

This Official Statement contains "Forward-Looking" statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of this Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary 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 summary from this Official Statement or to otherwise use it without this entire Official Statement.

- THE CITY**..... The City of Muenster, Texas (the “City”) is a type A general-law municipality of the State of Texas (the “State”), located in Cooke County, Texas. The City covers approximately 2.5 square miles (see “INTRODUCTION - Description of the City”).
- THE CERTIFICATES** The \$1,035,000 City of Muenster, Texas Combination Tax and Revenue Certificates of Obligation, Series 2024 (the “Certificates”), are issued as serial certificates maturing February 15, 2025 through February 15, 2032 and as term certificates maturing on February 15 in the years 2037 and 2044 (the “Term Certificates”) (see “THE CERTIFICATES – Description of the Certificates”).
- PAYMENT OF INTEREST** Interest on the Certificates accrues from the Date of Delivery, and is payable February 15, 2025, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE CERTIFICATES - Description of the Certificates” and “THE CERTIFICATES - Optional Redemption”).
- AUTHORITY FOR ISSUANCE** The Certificates are issued pursuant to the general laws of the State, particularly, subchapter C of Chapter 271, Texas Local Government Code, as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended, and the Ordinance adopted by the City Council of the City (see “THE CERTIFICATES - Authority for Issuance”).
- SECURITY FOR THE CERTIFICATES**..... The Certificates constitute direct obligations of the City, payable from the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the Ordinance authorizing the Certificates. The Certificates are additionally secured by a limited pledge of certain revenues of the City's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system. (See "TAX INFORMATION - Public Hearing and Maintenance and Operations Tax Rate Limitations," "THE CERTIFICATES - Security and Source of Payment," and "THE CERTIFICATES - Tax Rate Limitation" herein.).
- QUALIFIED TAX-EXEMPT OBLIGATIONS** The City has designated the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS”).
- REDEMPTION** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2034 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption”). Additionally, the Term Certificates are subject to mandatory sinking fund redemption as more particularly described herein (see “THE CERTIFICATES – Mandatory Sinking Fund Redemption”).
- TAX EXEMPTION**..... In the opinion of Bond Counsel to the City, the interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption “TAX MATTERS” herein, including the alternative minimum tax on certain corporations.
- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used for: (i) constructing, reconstructing and widening Mesquite Street, including sidewalks, medians, culverts and related storm drainage, utility line relocation and replacement; and (ii) legal, fiscal, design and engineering fees in connection with such projects and the Certificates.
- RATINGS** The Certificates are rated “AA-” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) without regard to credit enhancement (see “OTHER INFORMATION - Ratings”).

BOOK-ENTRY-ONLY

SYSTEM The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 of principal amount or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES - Book-Entry-Only System”).

PAYMENT RECORD The City has never defaulted in payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

| Fiscal year Ended 9/30 | Estimated City Population ⁽¹⁾ | Taxable Assessed Valuation ⁽²⁾ | Per Capita Taxable Assessed Valuation | General Obligation (G.O.) Tax Debt | Per Capita G.O. Tax Debt | Ratio Tax Debt to Taxable G.O. Assessed Valuation | % of Total Tax Collections |
|------------------------|--|---|---------------------------------------|------------------------------------|--------------------------|---|----------------------------|
| 2020 | 1,536 | \$ 153,151,611 | \$ 99,708 | \$ 184,479 | \$ 120 | 0.12% | 101.88% |
| 2021 | 1,582 | 173,570,967 | 109,716 | 69,353 | 44 | 0.04% | 99.04% |
| 2022 | 1,627 | 183,953,345 | 113,063 | - | - | 0.00% | 100.16% |
| 2023 | 1,731 | 221,351,378 | 127,875 | - | - | 0.00% | 99.40% |
| 2024 | 1,731 | 251,381,373 | 145,223 | 1,035,000 | 598 | 0.41% | 102.02% ⁽³⁾ |

(1) Source: City officials.

(2) As reported by the Cooke County Appraisal District on the City’s annual State Property Tax Reports; subject to change during the ensuing year.

(3) Collections as of May 31, 2024.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

| | Fiscal Year Ended September 30, | | | | |
|----------------------------|---------------------------------|--------------|--------------|--------------|--------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Beginning Balance | \$ 1,332,771 | \$ 1,078,834 | \$ 901,041 | \$ 1,055,875 | \$ 761,347 |
| Total Revenue | 2,133,062 | 1,708,254 | 1,545,064 | 1,560,061 | 1,400,926 |
| Total Expenditures | 1,786,467 | 1,497,977 | 1,367,271 | 1,764,895 | 1,107,923 |
| Total Other Sources (Uses) | 9,300 | 43,660 | - | 50,000 | 1,525 |
| Net Funds Available | 355,895 | 253,937 | 177,793 | (154,834) | 294,528 |
| Ending Balance | \$ 1,688,666 | \$ 1,332,771 | \$ 1,078,834 | \$ 901,041 | \$ 1,055,875 |

For additional information regarding the City, please contact:

| | | |
|---|----|--|
| Adam Deweber City Manager City of Muenster, Texas 400 North Main Street Muenster, Texas 76252 (940) 759-2236 | or | Marti Shew Managing Director Hilltop Securities Inc. 717 North Harwood, Suite 3400 Dallas, Texas 75201 (214) 953-4000 |
|---|----|--|

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

| <u>City Council</u> | <u>Length of Service</u> | <u>Term Expires</u> | <u>Occupation</u> |
|-------------------------------------|--------------------------|---------------------|-------------------|
| Tim Felderhoff Mayor | 9 Years | May-25 | Business Owner |
| Jeff Maas Councilmember | 3 Years | May-25 | Supervisor |
| Clifford Sicking Councilmember | 9 Years | May-25 | Retired |
| John D. Bartush Councilmember | 3 Years | May-26 | Banker |
| Patrick Lutkenhaus Councilmember | 2 Years | May-26 | Self-Employed |
| David Phillips Councilmember | 1 month | May-26 | Business Owner |

SELECTED ADMINISTRATIVE STAFF

| <u>Name</u> | <u>Position</u> | <u>Length of Service to City</u> |
|--------------------|-----------------|----------------------------------|
| Adam Deweber | City Manager | 3.5 Years |
| Ammie Hennigan | City Secretary | 9 Years |
| Chuck Bartush, Jr. | City Attorney | 44 Years |

CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

| | |
|----------------------------|--|
| Independent Auditors | Rod L. Abbott, CPA PLLC Tom Bean, Texas |
| Bond Counsel | McCall, Parkhurst & Horton L.L.P. Dallas, Texas |
| Financial Advisor..... | Hilltop Securities Inc. Dallas, Texas |

OFFICIAL STATEMENT

RELATING TO

CITY OF MUENSTER, TEXAS (Cooke County)

\$1,035,000 COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance by the City of Muenster, Texas, (the "City") of its \$1,035,000 Combination Tax and Revenue Certificates of Obligation, Series 2024 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the "Ordinance") adopted on the date of sale of the Certificates by the City Council of the City (the "City Council") and which will authorize the issuance of the Certificates, except as otherwise indicated herein.

There follow in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision Type A, General Law City of the State of Texas (the "State"), duly organized and existing under the laws of the State. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two year staggered terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2020 Census population for the City was 1,536, while the estimated 2024 population is 1,731. The City covers approximately 2.5 square miles. For more information about the City, see "APPENDIX A - General Information Regarding the City".

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated as of the Date of Delivery (as defined on the cover hereof) and mature on February 15 in each of the years and in the amounts shown on page 2. Interest on the Certificates will accrue from the Date of Delivery and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15, 2025, and on each August 15 and February 15 thereafter until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State, particularly, Subchapter C of Chapter 271, Texas Local Government Code, as amended, and Subchapter B of Chapter 1502, Texas Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City payable from an annual direct and continuing ad valorem tax levied against all taxable property within the City, within the limits prescribed by law (see "The Certificates - Tax Rate Limitation" below). The Certificates are additionally secured by a pledge of certain revenues of the City's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system.

TAX RATE LIMITATION . . . 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 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 \$1.50 per \$100 Taxable Assessed Valuation for all City purposes.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2034, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by the respective Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Certificates have not been redeemed.

MANDATORY SINKING FUND REDEMPTION . . . The Certificates maturing on February 15 in the years 2037 and 2044 (the “Term Certificates”) are subject to mandatory sinking fund redemption in the amounts and at the price of par plus accrued interest to the redemption date on February 15 in the following years:

| Term Certificates February 15, 2037 | | Term Certificates February 15, 2044 | |
|--|-----------|--|-----------|
| Year | Amount | Year | Amount |
| 2033 | \$ 45,000 | 2038 | \$ 60,000 |
| 2034 | 50,000 | 2039 | 60,000 |
| 2035 | 50,000 | 2040 | 65,000 |
| 2036 | 55,000 | 2041 | 65,000 |
| 2037 * | 55,000 | 2042 | 70,000 |
| | | 2043 | 75,000 |
| | | 2044 * | 75,000 |

* Maturity.

The particular Term Certificates to be redeemed shall be chosen by the Paying Agent/Registrar at random by lot or other customary method of random selection; provided, however the principal amount of the Term Certificates required to be redeemed on a mandatory redemption date shall be reduced, at the option of the City, by the principal amount of any Term Certificates which at least forty-five (45) days prior to the mandatory redemption date, (1) shall have been acquired by the Issuer 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 Issuer 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 a redemption date for the Certificates, the City shall cause a written notice of such redemption to be deposited in the United States mail, first-class postage prepaid, addressed to each such registered owner at his address shown on the Registration Books (hereinafter defined) of the Paying Agent/Registrar provided however, that the failure to send, mail, or receive such notice described above, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Certificate. NOTICE HAVING BEEN SO GIVEN AND ALL OTHER CONDITIONS TO REDEMPTION HAVING BEEN SATISFIED, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC Participant, or of any DTC Participant to notify any 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 City will reduce the outstanding principal amount of such Certificates held by DTC. In such

event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants. Such DTC Participants may then 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 City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to any DTC 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 or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "THE CERTIFICATES -- Book-Entry-Only System" herein.)

DEFEASANCE . . . The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation 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 being defeased, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge securities 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 are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. The City has reserved the option, however, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date, which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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 believes the source of such information to be reliable, but takes 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 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 security certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

Redemption notices for the Certificates shall be sent to DTC. If less than all of the Certificates of 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 and 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 of each series, on the 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 of each series, 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 Paying Agent/Registrar of each series, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

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

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, or the Underwriter.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System of the Certificates is discontinued, printed Certificates will be issued to the DTC Participants or the holder, as the case may be, and such Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under “THE CERTIFICATES - Transfer, Exchange and Registration” below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar for the Certificates is UMB Bank, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar of the printed Certificate and such transfer or exchange 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, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, 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 any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See “Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment; and, with respect to an Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Certificate.

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

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“Record Date”) for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“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 Holder of an 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.

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

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

REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Certificates, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, 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 holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then 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 a clear and unambiguous language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

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

See “Book-Entry-Only System” herein for a description of the duties of DTC with regard to ownership of the Certificates. Initially, the only registered owner of the Certificates will be DTC.

SOURCES AND USES OF CERTIFICATE PROCEEDS . . . Proceeds from the sale of the Certificates are expected to be expended as follows:

SOURCES OF FUNDS

| | |
|----------------------------|------------------------|
| Par Amount | \$ 1,035,000.00 |
| Net Original Issue Premium | 32,865.50 |
| TOTAL SOURCES | \$ 1,067,865.50 |

USES OF FUNDS

| | |
|------------------------------|------------------------|
| Deposit to Construction Fund | \$ 1,000,000.00 |
| Underwriters' Discount | 14,811.99 |
| Costs of Issuance | 53,053.51 |
| TOTAL USES | \$ 1,067,865.50 |

TAX INFORMATION

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

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

State law requires the appraised value of an owner’s principal residence (“homestead” or “homesteads”) to be based solely on the property’s value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property.

State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

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

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

STATE MANDATED HOMESTEAD EXEMPTIONS . . . State law grants, with respect to each city 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 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. Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

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.

FREPORT 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.

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . . . The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. The governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. The Legislature amended Section 11.35 of the Property Tax Code to clarify that “damage” for purposes of such statute is limited to “physical damage.” For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code.

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 “TAX INFORMATION– City Application of 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 is set at \$59,562,331 for the 2024 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

LEVY AND COLLECTION OF TAXES . . . The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See “TAX INFORMATION – Temporary Exemption for Qualified Property Damaged by a Disaster” for a discussion of the applicability of this section of the Property Tax Code.

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” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that

exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

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

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

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

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

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

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

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

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

DEBT TAX RATE LIMITATIONS . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax 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 \$1.50 per \$100 Taxable Assessed Valuation.

THE 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.

CITY APPLICATION OF TAX CODE . . . The City does not grant an exemption to the market value of the residence homestead of persons 65 years of age or older.

The City has granted an additional exemption of state only 1% of the market value of residence homesteads; minimum exemption of \$10,000.

The City has not adopted a property tax ceiling 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 tax nonbusiness personal property and Cooke County collects taxes for the City.

The City does not permit split payments of taxes, and discounts for the early payment of taxes are not allowed.

The City does not tax freepport property.

The City does not tax goods-in-transit.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City does not currently have a tax abatement policy.

STATE LEGISLATION . . . The 88th Texas Legislature began on January 10, 2023, and ended on May 29, 2023 (the “88th Regular Legislative Session”). The Texas Legislature meets in regular session in odd numbered years for 140 days. When the Texas Legislature is not in session, the Governor of Texas (the “Governor”) may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the City.

Immediately after the conclusion of the 88th Texas Legislature on May 29, 2023, the Governor called the First Special Session on May 29, 2023 to request the Texas Legislature to consider legislation regarding property tax relief and border security; shortly after the conclusion of the First Special Session, the Governor called the Second Special Session on June 27, 2023 to consider additional legislation regarding property tax relief. The Second Special Session adjourned on July 13, 2023.

On July 13, 2023, during the Second Special Session, the Texas Legislature passed Senate Bill 2, which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the “subjected property”) whose appraised values are not more than \$5 million dollars (the “maximum property value”) to an amount not to exceed the lesser of: (1) the market value of the subjected property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the subjected property for the preceding tax year; (b) the appraised value of the subjected property for the preceding tax year; and (c) the market value of all new improvements to the subjected property (collectively, the “appraisal cap”).

After the 2024 tax year, through December 31, 2026, the maximum property value may be increased or decreased by the product of the preceding state fiscal year’s increase or decrease in the consumer price index, as applicable, to the maximum property value. The constitutional amendment proposed by House Joint Resolution 2 during the Second Special Session was approved by the voters on November 7, 2023, therefore the appraisal cap takes effect on January 1, 2024.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

| | | |
|--|---------------|-----------------------|
| 2024/25 Market Valuation Established by Cooke County Appraisal District (excluding totally exempt property) | | \$ 312,504,183 |
| Less Exemptions/Reductions at 100% Market Value: | | |
| Cap Loss | \$ 21,593,348 | |
| Disabled Veterans | 2,257,289 | |
| Agricultural Use Reductions | 4,519,495 | |
| Leased Vehicles | 26,199 | |
| Personal Property Vehicle | 14,502 | |
| Solar | 51,847 | 28,462,680 |
| 2024/25 Taxable Assessed Valuation | | <u>\$ 284,041,503</u> |
| General Obligation Debt Payable from Ad Valorem Taxes The Certificates | | \$ 1,035,000 |
| Ratio General Obligation Debt to Taxable Assessed Valuation | | 0.36% |

2024 Estimated Population - 1,731
Per Capita Taxable Assessed Valuation - \$164,091
Per Capita Debt Payable from Ad Valorem Taxes - \$164,091
Per Capita Net Debt Payable from Ad Valorem Taxes - \$598

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

| Category | Taxable Appraised Value for Fiscal Year Ended September 30, | | | | | |
|---|---|------------|-----------------------|------------|-----------------------|------------|
| | 2025 | | 2024 | | 2023 | |
| | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | \$ 211,061,961 | 67.54% | \$ 188,270,622 | 66.83% | \$ 156,386,261 | 64.43% |
| Real, Residential, Multi-Family | 1,350,613 | 0.43% | 1,145,967 | 0.41% | 1,046,092 | 0.43% |
| Real, Vacant Lots/Tracts | 6,704,638 | 2.15% | 7,012,375 | 2.49% | 4,540,216 | 1.87% |
| Real, Acreage (Land Only) | 4,561,207 | 1.46% | 4,197,163 | 1.49% | 4,262,231 | 1.76% |
| Real, Farm and Ranch Improvements | 5,624,797 | 1.80% | 4,540,506 | 1.61% | 4,645,962 | 1.91% |
| Real, Commercial | 29,402,833 | 9.41% | 27,301,907 | 9.69% | 26,522,331 | 10.93% |
| Real, Industrial | 10,591,576 | 3.39% | 10,483,123 | 3.72% | 10,030,936 | 4.13% |
| Real, Oil, Gas, Mineral Reserve | 10,100 | 0.00% | 10,830 | 0.00% | 10,576 | 0.00% |
| Real and Tangible Personal, Utilities | 6,506,634 | 2.08% | 5,859,779 | 2.08% | 5,919,306 | 2.44% |
| Tangible Personal, Commercial | 8,061,539 | 2.58% | 6,945,186 | 2.47% | 6,900,448 | 2.84% |
| Tangible Personal, Industrial | 26,800,254 | 8.58% | 24,111,341 | 8.56% | 21,583,592 | 8.89% |
| Tangible Personal, Mobile Homes | 675,130 | 0.22% | 404,870 | 0.14% | 205,271 | 0.08% |
| Real Property, Inventory | 559,225 | 0.18% | 920,674 | 0.33% | 667,044 | 0.27% |
| Special Inventory | 593,676 | 0.19% | 529,878 | 0.19% | | 0.00% |
| Total Appraised Value Before Exemptions | \$ 312,504,183 | 100.00% | \$ 281,734,221 | 100.00% | \$ 242,720,266 | 100.00% |
| Less: Total Exemptions/Reductions | (28,462,680) | | (30,352,848) | | (21,368,888) | |
| Taxable Assessed Value | <u>\$ 284,041,503</u> | | <u>\$ 251,381,373</u> | | <u>\$ 221,351,378</u> | |

| Category | Taxable Appraised Value for Fiscal Year Ended September 30, | | | |
|---|---|------------|-----------------------|------------|
| | 2022 | | 2021 | |
| | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | \$ 121,359,944 | 64.26% | \$ 111,580,081 | 61.87% |
| Real, Residential, Multi-Family | 904,879 | 0.48% | 827,709 | 0.46% |
| Real, Vacant Lots/Tracts | 2,872,477 | 1.52% | 3,065,862 | 1.70% |
| Real, Acreage (Land Only) | 2,465,982 | 1.31% | 2,139,548 | 1.19% |
| Real, Farm and Ranch Improvements | 2,193,628 | 1.16% | 2,026,200 | 1.12% |
| Real, Commercial | 19,265,051 | 10.20% | 18,940,962 | 10.50% |
| Real, Industrial & Billboard | 6,898,012 | 3.65% | 6,668,664 | 3.70% |
| Real, Oil, Gas, Mineral Reserve | 9,166 | 0.00% | 10,409 | 0.01% |
| Real and Tangible Personal, Utilities | 5,533,460 | 2.93% | 4,695,216 | 2.60% |
| Tangible Personal, Commercial | 6,812,873 | 3.61% | 6,351,700 | 3.52% |
| Tangible Personal, Industrial | 19,478,524 | 10.31% | 22,722,645 | 12.60% |
| Tangible Personal, Mobile Homes | 196,813 | 0.10% | 185,175 | 0.10% |
| Real Property Inventory | 460,174 | 0.24% | 519,331 | 0.29% |
| Special Inventory | 398,847 | 0.21% | 617,998 | 0.34% |
| Total Appraised Value Before Exemptions | \$ 188,849,830 | 100.00% | \$ 180,351,500 | 100.00% |
| Less: Total Exemptions/Reductions | (4,896,485) | | (6,780,533) | |
| Taxable Assessed Value | <u>\$ 183,953,345</u> | | <u>\$ 173,570,967</u> | |

NOTE: Valuations shown are certified taxable assessed values reported by the Cooke County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

| Fiscal Year Ended 9/30 | Estimated Population ⁽¹⁾ | Taxable Assessed Valuation ⁽²⁾ | Taxable Assessed Valuation Per Capita | G.O. Tax Debt Outstanding at End of Year | Ratio G.O. Tax Debt to Taxable Assessed Valuation | Funded Debt Per Capita |
|------------------------|-------------------------------------|---|---------------------------------------|--|---|------------------------|
| 2020 | 1,536 | \$ 153,151,611 | \$ 99,708 | \$ 184,479 | 0.12% | \$ 120 |
| 2021 | 1,582 | 173,570,967 | 109,716 | 69,353 | 0.04% | 44 |
| 2022 | 1,627 | 183,953,345 | 113,063 | - | 0.00% | - |
| 2023 | 1,731 | 221,351,378 | 127,875 | - | 0.00% | - |
| 2024 | 1,731 | 251,381,373 | 145,223 | 1,035,000 ⁽³⁾ | 0.41% ⁽³⁾ | 598 ⁽³⁾ |

(1) Source: City Officials.

(2) As reported by the Cooke County Appraisal District on City's annual State Property Tax Reports; subject to change during the ensuing year.

(3) Includes the Certificates.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

| Fiscal Year Ended 9/30 | Tax Rate | General Fund | Interest and Sinking Fund | Tax Levy | % Current Collections | % Total Collections |
|------------------------|------------|--------------|---------------------------|------------|-----------------------|------------------------|
| 2020 | \$ 0.33900 | \$ 0.33900 | \$ - | \$ 519,184 | 99.70% | 101.88% |
| 2021 | 0.31780 | 0.31780 | 0.00000 | 551,609 | 99.04% | 99.04% |
| 2022 | 0.31780 | 0.31780 | 0.00000 | 584,604 | 99.73% | 100.16% |
| 2023 | 0.28233 | 0.28233 | 0.00000 | 624,950 | 99.06% | 99.40% |
| 2024 | 0.26270 | 0.26270 | 0.00000 | 660,374 | 98.87% ⁽¹⁾ | 102.02% ⁽¹⁾ |

(1) Collections as of May 31, 2024.

TABLE 5 - TEN LARGEST TAXPAYERS

| Name of Taxpayer | Nature of Property | 2023/24 Taxable Assessed Valuation | Percent of Taxable Assessed Valuation |
|--------------------------------|--------------------|------------------------------------|---------------------------------------|
| V&T Enterprises LP | Manufacturing | \$ 7,595,484 | 3.02% |
| Muenster Milling of Texas | Pet Store | 7,221,795 | 2.87% |
| MGW Capital Ltd | Financial Services | 5,814,969 | 2.31% |
| V&T Enterprises LP | Manufacturing | 3,782,073 | 1.50% |
| Walterscheid Giles & Marlene | Residence | 2,967,640 | 1.18% |
| Fischers Market Realty Ltd | Real Estate | 2,443,457 | 0.97% |
| JBM Specialties LLC | Distillery | 2,440,888 | 0.97% |
| Oncor Electric Delivery Co LLC | Utility | 1,906,875 | 0.76% |
| Nortex Communications | Communications | 1,705,980 | 0.68% |
| Muenster Milling Co Inc. | Pet Store | 1,643,181 | 0.65% |
| | | <u>\$ 37,522,342</u> | <u>14.93%</u> |

TAX VALUE CONCENTRATION . . . As shown in the table above, the total combined top ten taxpayers in the City currently account for approximately 15% of the City's tax base. Any adverse development related to the top ten taxpayers and their ability to continue to conduct business at its location within the City's boundaries may result in significantly less local tax revenue, thereby severely affecting the City's finances and its ability to repay its outstanding indebtedness.

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Type A Charter (see "THE CERTIFICATES - Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY ⁽¹⁾

| | | |
|---|----|--------|
| Principal and Interest Requirements, 2025..... | \$ | 77,777 |
| \$0.0280 Tax Rate at 98% Collection Produces..... | \$ | 77,941 |
| Maximum Principal and Interest Requirements, 2031..... | \$ | 79,925 |
| \$0.0288 Tax Rate at 98% Collection Produces..... | \$ | 80,168 |
| Average Principal and Interest Requirements, 2024-2044..... | \$ | 77,281 |
| \$0.0278 Tax Rate at 98% Collection Produces..... | \$ | 77,384 |

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt (“Tax Debt”) was developed from information contained in “Texas Municipal Reports” (the “Reports”) published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City 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 may have issued additional Tax Debt since the date of the Reports, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

| <u>Taxing Jurisdiction</u> | <u>2023/24 Taxable Assessed Value</u> | <u>2023/24 Tax Rate</u> | <u>Total G.O. Tax Debt</u> | <u>Estimated % Applicable</u> | <u>City's Overlapping G.O. Tax Debt 5/15/2024</u> | <u>Authorized But Unissued Debt 5/15/2024</u> |
|--|---|---------------------------------|------------------------------------|---------------------------------------|---|---|
| City of Muenster | \$ 251,381,373 | \$ 0.2627 | \$ 1,035,000 ⁽¹⁾ | 100.00% | \$ 1,035,000 ⁽¹⁾ | \$ - |
| Cooke County | 6,855,460,662 | 0.3240 | - | 3.10% | - | - |
| Muenster ISD | 599,203,689 | 0.9930 | 12,145,000 | 23.06% | 2,800,637 | - |
| Muenster Water District | 251,386,057 | 0.0580 | 403,077 | 100.00% | 403,077 | - |
| North Central Texas CCD | 8,200,660,126 | 0.0890 | 11,485,000 | 3.61% | <u>414,609</u> | - |
| Total Direct and Overlapping G. O. Tax Debt | | | | | \$ 4,653,323 | |
| Ratio of Direct and Overlapping G. O. Tax Debt to Taxable Assessed Valuation | | | | | 1.85% | |
| Per Capita Overlapping G. O. Tax Debt | | | | | \$ 2,688.23 | |

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DEBT INFORMATION

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

| Fiscal Year Ended 9/30 | The Certificates ⁽¹⁾ | | | % of Principal Retired |
|---------------------------------|---------------------------------|-------------------|---------------------|------------------------------|
| | Principal | Interest | Total | |
| 2024 | \$ - | \$ - | \$ - | |
| 2025 | 35,000 | 42,777 | 77,777 | |
| 2026 | 35,000 | 44,425 | 79,425 | |
| 2027 | 35,000 | 42,675 | 77,675 | |
| 2028 | 35,000 | 40,925 | 75,925 | 13.53% |
| 2029 | 40,000 | 39,050 | 79,050 | |
| 2030 | 40,000 | 37,050 | 77,050 | |
| 2031 | 45,000 | 34,925 | 79,925 | |
| 2032 | 45,000 | 32,675 | 77,675 | |
| 2033 | 45,000 | 30,425 | 75,425 | 34.30% |
| 2034 | 50,000 | 28,050 | 78,050 | |
| 2035 | 50,000 | 25,550 | 75,550 | |
| 2036 | 55,000 | 22,925 | 77,925 | |
| 2037 | 55,000 | 20,175 | 75,175 | |
| 2038 | 60,000 | 17,600 | 77,600 | 60.39% |
| 2039 | 60,000 | 15,200 | 75,200 | |
| 2040 | 65,000 | 12,700 | 77,700 | |
| 2041 | 65,000 | 10,100 | 75,100 | |
| 2042 | 70,000 | 7,400 | 77,400 | |
| 2043 | 75,000 | 4,500 | 79,500 | 92.75% |
| 2044 | 75,000 | 1,500 | 76,500 | 100.00% |
| | <u>\$ 1,035,000</u> | <u>\$ 510,627</u> | <u>\$ 1,545,627</u> | |

(1) Average life of the Certificates – 11.375 years.

TABLE 9 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City has no authorized but unissued ad valorem tax bonds.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . After the issuance of the Certificates, the City does not anticipate the issuance of additional tax debt in the next 12 months.

TABLE 10 – OTHER OBLIGATIONS

PENSION FUND

Plan Description – The City 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 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.tmrs.com.

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

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

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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:

| | |
|--|--------------------------|
| Employee deposit rate | 5% |
| Matching ration (City to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/25 |
| Updated service credit | 100% Repeating Transfers |
| Annuity increase (to retirees) | 0% of CPI repeating |

Employees covered by benefit terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 12 |
| Inactive employees entitled to but not yet receiving benefits | 8 |
| Active employees | <u>14</u> |
| Total | 34 |

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 were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 1.85% and 1.90% in calendar years 2022 and 2023, respectively. The City’s contributions to TMRS for the year ended September 30, 2023, were \$14,185, and were equal to the required contributions.

Net Pension Liability – The City’s Net Pension Liability (NPL) was measured as of December 31, 2022 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.5% per year |
| Overall payroll growth | 3.5% to 11.5% including inflation |
| Investment rate of return | 6.75% (net of investment expense, including inflation) |

Salary increases were based on a service-related table. Mortality rates for active members, retirees and beneficiaries were based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2014 through December 31, 2018, first used in the December 31, 2019 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|-----------------------|--------------------------|---|
| Global Equity | 35.00% | 7.55% |
| Core Fixed Income | 6.00% | 2.00% |
| Non-Core Fixed Income | 20.00% | 5.68% |
| Real Return | 12.00% | 7.22% |
| Real Estate | 12.00% | 6.85% |
| Absolute Return | 5.00% | 5.35% |
| Private Equity | 10.00% | 10.00% |
| Total | <u>100.00%</u> | |

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

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

| | <u>1% Decrease</u> | <u>Current Single Rate</u> | <u>1% Increase</u> |
|-------------------------------|--------------------|----------------------------|--------------------|
| | <u>5.75%</u> | <u>Assumption 6.75%</u> | <u>7.75%</u> |
| Net pension liability (asset) | \$ (146,239) | \$ (330,219) | \$ (486,442) |

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s Fiduciary Net Position is available in the separately-issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

Changes in the Net Pension Liability (Asset)

| | Total Pension Liability | Plan Fiduciary Net | Total Net Pension Liability |
|--|----------------------------|-----------------------|-----------------------------------|
| Balance at December 31, 2021 | \$ 1,684,076 | \$ 2,260,528 | \$ (576,452) |
| Changes for the year: | | | |
| Service Cost | 63,317 | - | 63,317 |
| Interest | 112,386 | - | 112,386 |
| Effect of plan changes | - | - | - |
| Effect of economic/demographic gains or losses | (47,403) | - | (47,403) |
| Effect of assumptions changes or inputs | - | - | - |
| Refund of contributions | - | - | - |
| Benefit payments | (101,513) | (101,513) | - |
| Administrative expense | - | (1,428) | 1,428 |
| Member contributions | - | 33,572 | (33,572) |
| Net investment income | - | (164,203) | 164,203 |
| Employer contributions | - | 12,422 | (12,422) |
| Other charges | - | 1,704 | (1,704) |
| Net changes | <u>26,787</u> | <u>(219,446)</u> | <u>246,233</u> |
| Balance at December 31, 2022 | <u>\$ 1,710,863</u> | <u>\$ 2,041,082</u> | <u>\$ (330,219)</u> |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended September 30, 2023, the city recognized pension expense/(income) of \$10,253.

At September 30, 2023, 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 experience | \$ 28,780 | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings | - | 139,596 |
| Contributions subsequent to the measurement date | N/A | <u>10,862</u> |
| Total | <u>\$ 28,780</u> | <u>\$ 150,458</u> |

The City reported \$10,862 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, 2024. 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: | |
|-------------------------|-------------------|
| 2023 | \$ (4,951) |
| 2024 | 25,334 |
| 2025 | 27,077 |
| 2026 | 63,356 |
| 2027 | - |
| Thereafter | - |
| | <u>\$ 110,816</u> |

FINANCIAL INFORMATION

TABLE 11 - SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY

| | Fiscal Years Ended September 30, | | | | |
|--|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| <u>Revenues:</u> | | | | | |
| <u>Taxes:</u> | | | | | |
| Property | \$ 623,039 | \$ 589,071 | \$ 548,822 | \$ 528,586 | \$ 475,504 |
| Sales | 487,820 | 440,068 | 416,188 | 379,356 | 331,132 |
| Franchise Fees | 159,979 | 144,703 | 131,252 | 126,839 | 135,643 |
| Beverage Sales | 5,252 | 5,739 | 5,615 | 3,566 | 3,807 |
| Sanitation | 430,104 | 380,587 | 344,269 | 347,200 | 349,644 |
| Water Fund Administration Fees | 155,000 | - | - | - | - |
| M.W.D. Landscaping Contract | 65,152 | - | - | - | - |
| Building Permits | 66,153 | 21,818 | 9,291 | 11,585 | 11,190 |
| Court Fees | 25,998 | 19,953 | 18,130 | 10,016 | 22,964 |
| Fire Protection | 16,250 | 15,500 | 12,500 | 12,250 | 11,750 |
| Swimming Pool Fees | 24,057 | 24,434 | 12,262 | 13,670 | 12,031 |
| Other Permits, Rentals, and Germanfest | 24,848 | 23,600 | 20,517 | 10,428 | 15,182 |
| Other Revenues | 38,577 | 40,742 | 22,486 | 111,857 | 28,272 |
| Investment Earnings | 10,833 | 2,039 | 3,732 | 4,708 | 3,807 |
| Total Revenues | <u>\$ 2,133,062</u> | <u>\$ 1,708,254</u> | <u>\$ 1,545,064</u> | <u>\$ 1,560,061</u> | <u>\$ 1,400,926</u> |
| <u>Expenditures:</u> | | | | | |
| General Government | \$ 408,192 | \$ 261,351 | \$ 257,967 | \$ 242,137 | \$ 238,331 |
| Police and Court | 338,946 | 311,949 | 258,392 | 271,429 | 276,499 |
| Streets | 141,951 | 169,736 | 85,869 | 158,969 | 100,824 |
| Sanitation and Other | 334,853 | 291,965 | 265,135 | 258,952 | 265,653 |
| Fire | 56,528 | 76,584 | 55,802 | 84,467 | 78,326 |
| Parks | 142,783 | 115,181 | 134,940 | 125,685 | 100,011 |
| Swimming Pool | 59,855 | 44,067 | 28,316 | 32,359 | 30,103 |
| Library | 18,189 | 20,495 | 18,154 | 20,949 | 18,176 |
| Reservoir | - | - | - | - | - |
| Capitla Outlays | 285,170 | 206,649 | 262,696 | 569,948 | - |
| Debt Service | - | - | - | - | - |
| Total Expenditures | <u>\$ 1,786,467</u> | <u>\$ 1,497,977</u> | <u>\$ 1,367,271</u> | <u>\$ 1,764,895</u> | <u>\$ 1,107,923</u> |
| Revenues Over (Under) Expenditures | \$ 346,595 | \$ 210,277 | \$ 177,793 | \$ (204,834) | \$ 293,003 |
| Other Financing Sources (Uses) | <u>9,300</u> | <u>43,660</u> | <u>-</u> | <u>50,000</u> | <u>1,525</u> |
| Revenues and Other Sources Over (Under) Expenditures | \$ 355,895 | \$ 253,937 | \$ 177,793 | \$ (154,834) | \$ 294,528 |
| Beginning Fund Balance | <u>1,332,771</u> | <u>1,078,834</u> | <u>901,041</u> | <u>1,055,875</u> | <u>761,347</u> |
| Ending Fund Balance | <u>\$ 1,688,666</u> | <u>\$ 1,332,771</u> | <u>\$ 1,078,834</u> | <u>\$ 901,041</u> | <u>\$ 1,055,875</u> |

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TABLE 11A – SCHEDULE OF CHANGES IN NET ASSETS

| | Fiscal Years Ended September 30, | | | | |
|-------------------------------------|----------------------------------|---------------|---------------|---------------------------|---------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Revenues: | | | | | |
| Program Revenues | | | | | |
| Charges for Services | \$ 560,447 | \$ 471,633 | \$ 407,508 | \$ 405,149 | \$ 454,681 |
| Operating Grants and Contributions | 236,402 | 70,500 | 42,500 | 149,870 | - |
| Capital Grants and Contributions | 839,374 | - | - | - | - |
| General Revenues: | | | | | |
| Property Taxes | 775,081 | 975,473 | 899,281 | 862,834 | 818,970 |
| Sales Taxes and Franchise Fees | 896,961 | 810,554 | 761,150 | 699,454 | 636,147 |
| Investment Income | 12,406 | 2,545 | 4,320 | 6,179 | 7,171 |
| Gain on Sold Assets | 9,300 | 20,975 | - | - | (70,654) |
| Other | 40,078 | 64,928 | 24,552 | 23,495 | - |
| Total Revenues | \$ 3,370,049 | \$ 2,416,608 | \$ 2,139,311 | \$ 2,146,981 | \$ 1,846,315 |
| Expenses: | | | | | |
| General Government | \$ 444,877 | \$ 276,023 | \$ 263,788 | \$ 262,800 | \$ 264,159 |
| Public Safety and Other | 561,262 | 500,091 | 411,471 | 451,631 | 504,668 |
| Streets, Parks and Reservoir | 751,083 | 654,404 | 604,621 | 680,070 | 556,038 |
| Debt Service-Interest | - | 21,131 | 40,316 | 84,617 | 115,846 |
| Water/Sewer/Sanitation | 334,853 | 291,965 | 265,135 | 258,952 | 265,653 |
| Total Expenses | \$ 2,092,075 | \$ 1,743,614 | \$ 1,585,331 | \$ 1,738,070 | \$ 1,706,364 |
| Excess (Deficiency) of Revenues | | | | | |
| Over Expenditures before Transfers | \$ 1,277,974 | \$ 672,994 | \$ 553,980 | \$ 408,911 | \$ 139,951 |
| Transfers In (Out) | - | - | - | 50,000 | - |
| Increase (Decrease) in Net Position | \$ 1,277,974 | \$ 672,994 | \$ 553,980 | \$ 458,911 | \$ 139,951 |
| Net Position - Beginning October 1 | 15,527,060 | 14,854,066 | 14,300,086 | 13,841,175 ⁽¹⁾ | 13,703,224 |
| Net Position - Ending September 30 | \$ 16,805,034 | \$ 15,527,060 | \$ 14,854,066 | \$ 14,300,086 | \$ 13,843,175 |

(1) Restated.

TABLE 12 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act Texas, Tax Code, Chapter 321, as amended, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In 1997, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½% of 1%) for economic development and an additional one-half of one percent (½ of 1%) for property tax reduction.

| Fiscal Year Ended 9/30 | 1% City Collections ⁽¹⁾ | % of Ad Valorem Tax Levy | Equivalent of Ad Valorem Tax Rate | Per Capita ⁽²⁾ |
|------------------------|------------------------------------|--------------------------|-----------------------------------|---------------------------|
| 2020 | \$ 569,050 | 109.60% | \$ 0.3716 | \$370.48 |
| 2021 | 588,172 | 106.63% | 0.3389 | 371.79 |
| 2022 | 662,355 | 113.30% | 0.3601 | 407.10 |
| 2023 | 723,328 | 115.74% | 0.3268 | 417.87 |
| 2024 | 499,092 ⁽³⁾ | 75.58% | 0.1985 | 288.33 |

(1) Based on a 1 1/2% Local Sales and Use Tax within the City.

(2) Based on population estimates provided by City officials.

(3) Collections as of May 2024.

FINANCIAL POLICIES

Basis of Accounting . . . The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt.

The accrual basis of accounting is utilized by proprietary funds. Under the accrual basis of accounting revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

General Fund Balance . . . The City policy is to maintain surplus and unencumbered funds equal to a minimum of 60 days of budgeted expenditures in the General Fund. This allows the City to avoid interim borrowing pending tax receipts.

Use of Bond Proceeds, Grants, etc. . . . The City's policy is to use bond proceeds, grants, revenue sharing or other non-recurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year by the first of June. The City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 1. The City Council holds two public hearings on the budget after giving at least 7 days' notice of the hearings in the official newspaper of the City. The Council then makes any changes in the budget as it deems advisable and adopts a budget prior to September 30.

During the fiscal year, budgetary control is maintained by the review of departmental appropriation balances as well as purchase order capabilities and purchasing policies.

Departmental appropriations that have not been expended lapse at the end of the fiscal year. Therefore, funds that were budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law, including particularly V.T.C.A., Texas Government Code, Chapter 2256, as amended (the "PFIA"), in accordance with investment policies approved by the City Council. Both state law and the City's investment policies are subject to change.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . . Under Texas law, the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if: (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAA or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

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

TABLE 13 - CURRENT INVESTMENTS

As of June 15, 2024, the City's investable funds were invested in the following categories:

| <u>Type of Investment</u> | <u>Book Amount</u> | <u>% of Investments</u> | <u>Market Value</u> | <u>% of Investments</u> |
|---------------------------|--------------------|-------------------------|---------------------|-------------------------|
| Certificates of Deposit | \$ 1,218,561 | 100.00% | \$ 1,218,561 | 100.00% |
| | \$ 1,218,561 | 100.00% | \$ 1,218,561 | 100.00% |

TAX MATTERS

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Certificates or the facilities financed or refinanced with the proceeds of the Certificates. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

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

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

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

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

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

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Certificates, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such Certificates; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are

designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a “bank,” as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the registered 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 publicly available on the MSRB’s Electronic Municipal Market Access System (“EMMA”) at <http://emma.msrb.org/>.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB on an annual basis. Such information to be provided consists only of the City's financial statements. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2024. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such Financial Statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The City may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the “SEC”).

The City’s current fiscal year end is September 30. Accordingly, the Annual Operating Report must be provided by March 31 in each year, and the Financial Statements must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES . . . The City will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The City will provide notice of any of the following events with respect to the Certificates: (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; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into 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 trustee or the change of name of any trustee, if material; and (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. (Neither the Certificates nor the Ordinance make any provision for a bond trustee, debt service reserves or credit enhancement.) As used above in item (12), the phrase “bankruptcy, insolvency, receivership or similar event” means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the existing City Council and officials or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over

substantially all of the assets or business of the City. For the purposes of the above describe event notices (15) and (16), the term “financial obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a “financial obligation” shall not include municipal securities as to which a final official statement (as defined in Rule 15c2-12 (the “Rule”) of the SEC) has been provided to the MSRB consistent with the Rule.

In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of material 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 continuing disclosure agreement or from any statement made pursuant to its agreement, although holders 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 from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the registered holders of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Certificates. The City may also amend or repeal the provisions of the continuing disclosure agreements if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Certificates in the primary offering of such Certificates. If the City so amends the agreement, it has agreed to 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 financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The City has not previously had any disclosure obligations.

OTHER INFORMATION

RATINGS

The Certificates are rated “AA-” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either of such rating companies, if in the judgment of either company circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

LITIGATION

It is the opinion of the City Attorney and City officials that there is no pending or threatened litigation against the City that would have a material adverse impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

The sale of the Certificates has not been registered under the United States Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates 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 provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the PFIA requires that the Certificates be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "Other Information _ Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and binding obligation of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of 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 City and the interest on the Certificates is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein. A form of such opinion is attached hereto as Appendix C. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by the City and only represents the City in connection with the issuance of the Certificates. Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates and the Ordinance in the Official Statement under the captions "THE CERTIFICATES" (except for the last sentence of the subcaption "Tax Rate Limitation" and the subcaptions "Book-Entry-Only System," "Remedies" and "Sources and Uses of Certificate Proceeds"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Certificates for Sale", "Legal Investments and Eligibility to Secure Public Funds in Texas", and "Legal Matters" (except for the last two sentences of the first paragraph) under the caption "OTHER INFORMATION", and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained therein fairly and accurately describe the provisions thereof. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Winstead PC, San Antonio, Texas, Counsel to the Underwriter. The legal fees to be paid to Underwriter' Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates.

The 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 that 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.

FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City 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, and as part of, 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.

UNDERWRITING

The Underwriter have agreed, subject to certain conditions, to purchase the Certificates from the City, at a price equal to the initial offering prices to the public shown on page 2 of this Official Statement, less an underwriting discount of \$14,811.99. The Underwriter will be obligated to purchase all of the Certificates if any Certificates are purchased.

The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriter.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included 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.

MISCELLANEOUS

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

The Ordinance also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Certificates by the Underwriter.

/s/ TIM FELDERHOFF
Mayor
City of Muenster, Texas

ATTEST:

/s/ AMMIE HENNIGAN
City Secretary
City of Muenster, Texas

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION. . . The City of Muenster (the “City”) is in western Cooke County, Texas approximately 3 miles west of the City of Gainesville, Texas and encompasses approximately 1.29 square miles.

EDUCATION . . . The City is serviced by the Muenster Independent School District (“MISD”). The MISD currently has one High School, one Junior High School and one Elementary School. School enrollment for the 2023-2024 school year is estimated to be approximately 540 students.

RECREATION . . . Located within the City is Muenster City Park which has a variety of play sets, basketball court, volleyball court, tennis court, walking paths and a swimming pool.

COOKE COUNTY INDUSTRY AND BUSINESS . . . The largest industries in Cooke County are manufacturing, health care, social assistance and retail trade.

EMPLOYMENT STATISTICS

| | Average Annual | | | | |
|----------------------|---------------------|--------|--------|--------|--------|
| | 2024 ⁽¹⁾ | 2023 | 2022 | 2021 | 2020 |
| Cooke County | | | | | |
| Civilian Labor Force | 20,950 | 20,583 | 20,068 | 19,486 | 19,209 |
| Total Employment | 20,246 | 19,898 | 19,386 | 18,499 | 17,844 |
| Total Unemployed | 703 | 685 | 682 | 987 | 1,365 |
| Percent Unemployed | 3.4% | 3.3% | 3.4% | 5.1% | 7.1% |

Source: Texas Workforce Commission, Austin, Texas.

(1) Averages as of April 2024.

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APPENDIX B

EXCERPTS FROM THE
CITY OF MUENSTER, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2023

The information contained in this Appendix consists of excerpts from the City of Muenster, Texas Annual Financial Report for the Year Ended September 30, 2023, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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Rod L. Abbott, CPA PLLC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Mayor, City Council, and Management
of the City of Muenster, Texas

Opinions

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Muenster, Texas (the "City"), as of and for the year ended September 30, 2023, 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 my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Muenster, Texas as of September 30, 2023, 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

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am required to be independent of the City, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- 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 my 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.

I am 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 I identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, General Fund and MIDC Fund budgetary comparison schedules, and pension schedules be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Abbott", with a long horizontal flourish extending to the right.

Rod L. Abbott, CPA PLLC
Tom Bean, Texas
January 8, 2024

**City of Muenster, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023**

This section represents the City of Muenster's (the "City") discussion and analysis of the City's financial results for the fiscal year ended September 30, 2023. Please read it in conjunction with the independent auditor's report on page 1, and the City's Basic Financial Statements, which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (pages 10 and 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The section labeled REQUIRED SUPPLEMENTARY INFORMATION contains data concerning the City's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison information for the General Fund and the Muenster I.D.C. Fund.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets, liabilities, and deferred inflows and outflows of resources at the end of the year, while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These statements apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as grantor agencies (program revenues) and revenues provided by the taxpayers (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

**City of Muenster, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023**

These two statements report the City's net position and changes in it. The City's net position provides one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, we report the City's activities:

Governmental activities - The City's basic services are reported here, including administration, police, fire, streets, parks, sanitation, library and; debt servicing and retirement. Property, sales and franchise taxes, and charges for services finance most of these activities.

Business-type activities - The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer systems are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements, starting on page 12, provide detailed information about the most significant funds - not the City as a whole. The City's administration establishes funds to help it control and manage money for particular purposes. The City uses two types of funds, described as follows:

Governmental funds - All City basic services excluding water and sewer service are reported in governmental funds. These use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The City's proprietary fund is the same as its business-type activities, but provides more detailed information, such as cash flows.

**City of Muenster, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023**

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Table I – Statements of Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 |
| Current and other assets | \$ 2,749,223 | \$ 2,233,589 | \$ 2,092,300 | \$ 1,869,811 | \$ 4,841,523 | \$ 4,103,400 |
| Capital assets | 14,072,087 | 13,448,954 | 3,702,637 | 3,774,887 | 17,774,724 | 17,223,841 |
| Total assets | <u>16,821,310</u> | <u>15,682,543</u> | <u>5,794,937</u> | <u>5,644,698</u> | <u>22,616,247</u> | <u>21,327,241</u> |
| Deferred outflows of resources | <u>109,707</u> | <u>6,702</u> | <u>40,752</u> | <u>2,490</u> | <u>150,459</u> | <u>9,192</u> |
| Long-term liabilities | - | - | - | - | - | - |
| Other liabilities | 104,998 | 61,865 | 55,853 | 32,350 | 160,851 | 94,215 |
| Total liabilities | <u>104,998</u> | <u>61,865</u> | <u>55,853</u> | <u>32,350</u> | <u>160,851</u> | <u>94,215</u> |
| Deferred inflows of resources | <u>20,985</u> | <u>100,320</u> | <u>7,795</u> | <u>37,266</u> | <u>28,780</u> | <u>137,586</u> |
| Net position: | | | | | | |
| Net investment in cap. assets | 14,072,087 | 13,448,954 | 3,702,637 | 3,774,887 | 17,774,724 | 17,223,841 |
| Restricted | 328,959 | 79,125 | 423,202 | 418,013 | 752,161 | 497,138 |
| Unrestricted | <u>2,403,988</u> | <u>1,998,981</u> | <u>1,646,202</u> | <u>1,384,672</u> | <u>4,050,190</u> | <u>3,383,653</u> |
| Total net position | <u>\$ 16,805,034</u> | <u>\$ 15,527,060</u> | <u>\$ 5,772,041</u> | <u>\$ 5,577,572</u> | <u>\$ 22,577,075</u> | <u>\$ 21,104,632</u> |

Net position of the City's governmental activities increased from \$15,527,060 to \$16,805,034 (8.2%). The City has governmental-type unrestricted net position totaling \$2,403,988. This is the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Restricted net position totaled \$328,959 at September 30, 2023. Of this amount, \$313,443 was restricted for community development.

Net position of the City's business-type activities increased from \$5,577,572 to \$5,772,041 (3.5%). The City has business-type unrestricted net position totaling \$1,646,202. Restricted net position totaled \$423,202 at September 30, 2023. Of this amount, \$413,602 was restricted for grant projects.

**City of Muenster, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023**

Table II – Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 560,447 | \$ 471,633 | \$ 1,083,928 | \$ 892,964 | \$ 1,644,375 | \$ 1,364,597 |
| Operating grants and contributions | 236,402 | 70,500 | - | - | 236,402 | 70,500 |
| Capital grants and contributions | 839,374 | - | - | 456,057 | 839,374 | 456,057 |
| General Revenues: | | | | | | |
| Property taxes | 775,081 | 975,473 | - | - | 775,081 | 975,473 |
| Sales taxes and franchise fees | 896,961 | 810,554 | - | - | 896,961 | 810,554 |
| Investment income | 12,406 | 2,545 | 9,182 | 1,283 | 21,588 | 3,828 |
| Gain on sold assets | 9,300 | 20,975 | 2,778 | - | 12,078 | 20,975 |
| Other | 40,078 | 64,928 | - | - | 40,078 | 64,928 |
| | <u>3,370,049</u> | <u>2,416,608</u> | <u>1,095,888</u> | <u>1,350,304</u> | <u>4,465,937</u> | <u>3,766,912</u> |
| Expenses: | | | | | | |
| General government | 444,877 | 276,023 | - | - | 444,877 | 276,023 |
| Public safety and other | 561,262 | 500,091 | - | - | 561,262 | 500,091 |
| Streets, parks, and reservoir | 751,083 | 654,404 | - | - | 751,083 | 654,404 |
| Debt service - interest | - | 21,131 | - | - | - | 21,131 |
| Water/Sewer/Sanitation | 334,853 | 291,965 | 901,419 | 641,316 | 1,236,272 | 933,281 |
| | <u>2,092,075</u> | <u>1,743,614</u> | <u>901,419</u> | <u>641,316</u> | <u>2,993,494</u> | <u>2,384,930</u> |
| Excess (deficiency) of revenues over expenditures before transfers | 1,277,974 | 672,994 | 194,469 | 708,988 | 1,472,443 | 1,381,982 |
| Transfers In (Out) | - | - | - | - | - | - |
| Increase in net position | 1,277,974 | 672,994 | 194,469 | 708,988 | 1,472,443 | 1,381,982 |
| Net position - October 1 | 15,527,060 | 14,854,066 | 5,577,572 | 4,868,584 | 21,104,632 | 19,722,650 |
| Net position - September 30 | <u>\$ 16,805,034</u> | <u>\$ 15,527,060</u> | <u>\$ 5,772,041</u> | <u>\$ 5,577,572</u> | <u>\$ 22,577,075</u> | <u>\$ 21,104,632</u> |

The City's total governmental revenues increased by \$953,441 (39%) from the prior year. This is a very high increase and attributable to the recognition of the \$839,374 fair value of four new streets contributed to the City after constructed by local developers in fiscal year 2023.

The cost of all governmental activities this year was \$2,092,075. As shown in the Statement of Activities on page 11, the amount that taxpayers ultimately financed for these activities through City property taxes was \$775,081, which was supplemented with sales tax revenue of \$731,730 and franchise revenue of \$159,979.

The net position of the business-type activities increased by \$194,469 (2.9%) from the prior year. A year over year increase of \$190,964 in water and sewer charges for services revenue was a main contributor to this increase.

**City of Muenster, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023**

THE CITY'S FUNDS

The City's governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$2,371,390, which is \$658,439 more than last year's total of \$1,712,951.

The City's governmental funds made expended \$285,170 on capital outlays. Although these and other expenditures reduce available fund balances, they create new fixed assets for the City as reported in the Statement of Net Position and as discussed in the notes to the financial statements.

The City's General Fund reported a \$355,895 increase in fund balance as reported on page 14. This result is a positive \$315,641 variance when compared to the General Fund's budgeted \$40,254 increase in fund balance (see page 34). The largest positive variance is from the City overbudgeting by \$96,149 for street department expenditures.

The City's General Fund unassigned fund balance at September 30, 2023 is \$1,642,036 and is equal to 11.0 months of 2023 General Fund expenditures. This is considered a healthy unassigned fund balance based on guidance provided by the *Government Finance Officers Association*.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2023, the City had a net total of \$17,774,724 invested in a broad range of capital assets, including buildings, streets, park facilities, a reservoir, police and fire equipment, and water and sewer lines. This represents a net increase in capital assets of \$550,883.

This year's most notable capital asset additions consisted of four new streets contributed to the City from local developers with a fair value of \$839,734.

More information about the City's capital assets is presented in Note 5 to the financial statements.

Debt

The City had no long-term liabilities during fiscal year 2023.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

City management and the City Council considered many factors and available resources from property tax revenues, water/sewer revenues, and other income sources when setting the 2024 fiscal year budgets and the property tax rate. The City's adopted a 2023-2024 tax rate of \$.262698 per \$100 of valuation, which is a decrease from the prior tax year rate of \$.282334 per \$100 of valuation.

**City of Muenster, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show financial accountability. If you have questions about this report or need additional financial information, contact the City's business office, at City of Muenster, P.O. Box 208, Muenster, Texas 76252.

Muenster Water District is a component unit of the City of Muenster that also has separately issued financial statements. The District's component unit audit report is available for inspection at City Hall.

City of Muenster, Texas
Statement of Net Position
September 30, 2023

| | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 1,160,034 | \$ 898,459 | \$ 2,058,493 |
| Certificates of deposit | 1,072,996 | 472,425 | 1,545,421 |
| Restricted cash | 12,547 | 423,202 | 435,749 |
| Accounts receivables - net | 262,867 | 141,913 | 404,780 |
| Inventory | - | 66,861 | 66,861 |
| Net pension asset | 240,779 | 89,440 | 330,219 |
| Capital assets: | | | |
| Non-depreciable capital assets - Land | 1,691,405 | 127,117 | 1,818,522 |
| Depreciable capital assets (net) | 12,380,682 | 3,575,520 | 15,956,202 |
| Total assets | <u>16,821,310</u> | <u>5,794,937</u> | <u>22,616,247</u> |
| Deferred outflows of resources | | | |
| Deferred outflows of resources - Pension | 109,707 | 40,752 | 150,459 |
| Total deferred outflows of resources | <u>109,707</u> | <u>40,752</u> | <u>150,459</u> |
| Liabilities | | | |
| Accounts payable | 64,013 | 45,641 | 109,654 |
| Accrued liabilities | 24,022 | 2,807 | 26,829 |
| Accrued compensated absences | 16,963 | 2,105 | 19,068 |
| Customer meter deposits | - | 5,300 | 5,300 |
| Non-current liabilities: | | | |
| Due within one year | - | - | - |
| Due in more than one year | - | - | - |
| Total liabilities | <u>104,998</u> | <u>55,853</u> | <u>160,851</u> |
| Deferred inflows of resources | | | |
| Deferred inflows of resources - Pension | 20,985 | 7,795 | 28,780 |
| Total deferred inflows of resources | <u>20,985</u> | <u>7,795</u> | <u>28,780</u> |
| Net Position | | | |
| Net investment in capital assets | 14,072,087 | 3,702,637 | 17,774,724 |
| Restricted for: | | | |
| Hotel/Tourism | 12,547 | - | 12,547 |
| Grant projects | - | 413,602 | 413,602 |
| Customer deposits | - | 9,600 | 9,600 |
| Court security and technology | 2,969 | - | 2,969 |
| Community development | 313,443 | - | 313,443 |
| Unrestricted | 2,403,988 | 1,646,202 | 4,050,190 |
| Total net position | <u>\$ 16,805,034</u> | <u>\$ 5,772,041</u> | <u>\$ 22,577,075</u> |

The accompanying notes are an integral part of these financial statements.

City of Muenster, Texas
Statement of Activities
For the Year Ended September 30, 2023

| Functions/Programs | Program Revenues | | | | | Net (Expense) Revenue and Changes in Net Position | | | |
|------------------------------------|------------------|-------------------------|-----------------------------|-----------------------------|--|--|-----------------------------|-------|---------------|
| | Expenses | Charges for Services | Operating | | Capital Grants and Contributions | Primary Government | | | |
| | | | Grants and Contributions | Grants and Contributions | | Governmental Activities | Business-type Activities | Total | |
| Primary government: | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| Police and court | \$ 377,003 | \$ 15,285 | \$ - | \$ - | - | \$ (361,718) | \$ - | \$ - | \$ (361,718) |
| General government | 444,877 | 91,001 | 155,000 | - | - | (198,876) | - | - | (198,876) |
| Streets | 304,589 | - | - | 839,374 | - | 534,785 | - | - | 534,785 |
| Sanitation | 334,853 | 430,104 | - | - | - | 95,251 | - | - | 95,251 |
| Fire | 94,999 | - | 16,250 | - | - | (78,749) | - | - | (78,749) |
| Swimming pool | 63,979 | 24,057 | - | - | - | (39,922) | - | - | (39,922) |
| Parks | 170,197 | - | 65,152 | - | - | (105,045) | - | - | (105,045) |
| Library | 25,281 | - | - | - | - | (25,281) | - | - | (25,281) |
| Reservoir | 276,297 | - | - | - | - | (276,297) | - | - | (276,297) |
| Interest on long-term debt | - | - | - | - | - | - | - | - | - |
| Total governmental activities | 2,092,075 | 560,447 | 236,402 | 839,374 | - | (455,852) | - | - | (455,852) |
| Business-type activities: | | | | | | | | | |
| Water & Sewer Fund operations | 901,419 | 1,083,928 | - | - | - | - | 182,509 | - | 182,509 |
| Total business-type activities | 901,419 | 1,083,928 | - | - | - | - | 182,509 | - | 182,509 |
| Total primary government | 2,993,494 | 1,644,375 | 236,402 | 839,374 | - | (455,852) | 182,509 | - | (273,343) |
| General revenues: | | | | | | | | | |
| Property taxes | | | | | | 775,081 | - | - | 775,081 |
| Sales taxes | | | | | | 731,730 | - | - | 731,730 |
| Franchise and other taxes | | | | | | 165,231 | - | - | 165,231 |
| Investment earnings | | | | | | 12,406 | 9,182 | - | 21,588 |
| Miscellaneous | | | | | | 40,078 | - | - | 40,078 |
| Gain on sale of assets | | | | | | 9,300 | 2,778 | - | 12,078 |
| Transfers in (out) | | | | | | - | - | - | - |
| Total general revenues & transfers | | | | | | 1,733,826 | 11,960 | - | 1,745,786 |
| Change in net position | | | | | | 1,277,974 | 194,469 | - | 1,472,443 |
| Net position - beginning | | | | | | 15,527,060 | 5,577,572 | - | 21,104,632 |
| Net position - ending | | | | | | \$ 16,805,034 | \$ 5,772,041 | - | \$ 22,577,075 |

The accompanying notes are an integral part of these financial statements.

City of Muenster, Texas
Balance Sheet - Governmental Type Funds
September 30, 2023

| | General Fund | Muenster Water District Maintenance & Operations Fund (non-major) | Muenster Industrial Development Corporation | Total Governmental Funds |
|---|---------------------|---|--|--------------------------------|
| Assets | | | | |
| Cash | \$ 752,947 | \$ 369,330 | \$ 37,757 | \$ 1,160,034 |
| Certificates of deposit | 841,758 | - | 231,238 | 1,072,996 |
| Accounts receivable - net | 120,313 | 9,212 | - | 129,525 |
| Due from the State | 88,894 | - | 44,448 | 133,342 |
| Restricted cash | 12,547 | - | - | 12,547 |
| Total assets | <u>\$ 1,816,459</u> | <u>\$ 378,542</u> | <u>\$ 313,443</u> | <u>\$ 2,508,444</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 63,964 | \$ 49 | \$ - | \$ 64,013 |
| Other accrued liabilities | 24,022 | - | - | 24,022 |
| Total current liabilities | <u>87,986</u> | <u>49</u> | <u>-</u> | <u>88,035</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue - Property taxes | 21,670 | 9,212 | - | 30,882 |
| Unavailable revenue - Court | 18,137 | - | - | 18,137 |
| Total deferred inflows of resources | <u>39,807</u> | <u>9,212</u> | <u>-</u> | <u>49,019</u> |
| Fund Balances | | | | |
| Restricted for: | | | | |
| Community development | - | - | 313,443 | 313,443 |
| Court security and technology | 2,969 | - | - | 2,969 |
| Hotel/Tourism | 12,547 | - | - | 12,547 |
| Assigned - Street improvements | 31,114 | - | - | 31,114 |
| Unassigned | 1,642,036 | 369,281 | - | 2,011,317 |
| Total fund balances | <u>1,688,666</u> | <u>369,281</u> | <u>313,443</u> | <u>2,371,390</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 1,816,459</u> | <u>\$ 378,542</u> | <u>\$ 313,443</u> | <u>\$ 2,508,444</u> |

The accompanying notes are an integral part of these financial statements.

City of Muenster, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
at September 30, 2023

| | | |
|---|-----------|-------------------|
| Fund balances of governmental funds | \$ | 2,371,390 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 14,072,087 |
| Deferred outflows of resources related to pension balances do not provide current financial resources and, therefore, are not reported in the governmental funds. | | 109,707 |
| Deferred inflows of resources related to pension balances do not require the use of current financial resources and, therefore, are not reported in the governmental funds. | | (20,985) |
| Accrued compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. | | (16,963) |
| The City's net pension asset balance does not provide current financial resources and, therefore, is not reported in the governmental funds. | | 240,779 |
| Property taxes and court receivables not received within sixty days after fiscal year-end are deferred income on the fund financial statements, but these amounts are realized as income on the government-wide financials. | | 49,019 |
| Net position of governmental activities | <u>\$</u> | <u>16,805,034</u> |

The accompanying notes are an integral part of these financial statements.

City of Muenster, Texas
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2023

| | General Fund | Muenster Water District Maintenance & Operations Fund (non-major) | Muenster Industrial Development Corporation | Total Governmental Funds |
|--|---------------------|---|--|--------------------------------|
| Revenues | | | | |
| Taxes: | | | | |
| Property | \$ 623,039 | \$ 138,392 | \$ - | \$ 761,431 |
| Sales | 487,820 | - | 243,910 | 731,730 |
| Franchise | 159,979 | - | - | 159,979 |
| Beverage sales | 5,252 | - | - | 5,252 |
| Sanitation | 430,104 | - | - | 430,104 |
| Water Fund administration fees | 155,000 | - | - | 155,000 |
| M.W.D. landscaping contract | 65,152 | - | - | 65,152 |
| Building permits | 66,153 | - | - | 66,153 |
| Court fines | 25,998 | - | - | 25,998 |
| Fire protection | 16,250 | - | - | 16,250 |
| Swimming pool fees | 24,057 | - | - | 24,057 |
| Other permits, rentals, and Germanfest | 24,848 | - | - | 24,848 |
| Other revenue | 38,577 | 1,501 | - | 40,078 |
| Investment earnings | 10,833 | 170 | 1,403 | 12,406 |
| Total revenues | 2,133,062 | 140,063 | 245,313 | 2,518,438 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 408,192 | 10,275 | - | 418,467 |
| Police and court | 338,946 | - | - | 338,946 |
| Streets | 141,951 | - | - | 141,951 |
| Sanitation and other | 334,853 | - | - | 334,853 |
| Fire | 56,528 | - | - | 56,528 |
| Parks | 142,783 | - | - | 142,783 |
| Swimming pool | 59,855 | - | - | 59,855 |
| Library | 18,189 | - | - | 18,189 |
| Reservoir | - | 72,557 | - | 72,557 |
| Capital outlays | 285,170 | - | - | 285,170 |
| Debt service: | | | | |
| Principal retirement | - | - | - | - |
| Interest and fees | - | - | - | - |
| Total expenditures | 1,786,467 | 82,832 | - | 1,869,299 |
| Excess of revenues over (under) expenditures | 346,595 | 57,231 | 245,313 | 649,139 |
| Other financing sources (uses) | | | | |
| Proceeds from sold assets | 9,300 | - | - | 9,300 |
| Total other financing sources(uses) | 9,300 | - | - | 9,300 |
| Net changes in fund balances | 355,895 | 57,231 | 245,313 | 658,439 |
| Fund balances - beginning | 1,332,771 | 312,050 | 68,130 | 1,712,951 |
| Fund balances - ending | \$ 1,688,666 | \$ 369,281 | \$ 313,443 | \$ 2,371,390 |

The accompanying notes are an integral part of these financial statements.

City of Muenster, 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, 2023

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

| | |
|--|---------------------|
| Net change in fund balances - total governmental funds | \$ 658,439 |
| 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. This is the amount by which depreciation expense exceeded capital outlays in the fiscal year. | (216,241) |
| Non-cash capital contributions of streets, and other infrastructure, are not reported in the governmental funds. | 839,373 |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing a \$2,934 increase in deferred revenue and various other smaller items. The net effect of these reclassifications is to decrease net position. | (6,396) |
| Other modifications are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting for pension expense. The net effect of these adjustments is to increase net position. | 2,799 |
| Change in net position of governmental activities: | <u>\$ 1,277,974</u> |

The accompanying notes are an integral part of these financial statements.

City of Muenster, Texas
Statement of Net Position - Proprietary Fund
September 30, 2023

| Assets | <u>Water and Sewer Fund</u> |
|--|--|
| Current assets: | |
| Cash and cash equivalents | \$ 898,459 |
| Certificates of deposit | 472,425 |
| Accounts receivable - net | 141,913 |
| Inventory | 66,861 |
| Total current assets | <u>1,579,658</u> |
| Noncurrent assets: | |
| Restricted assets: | |
| Restricted cash - Water deposits & grant funds | 423,202 |
| Net pension asset | 89,440 |
| Capital assets (non-depreciable): | |
| Land | 127,117 |
| Capital assets (net of depreciation): | |
| Plants, machinery, and equipment | 3,575,520 |
| Total capital assets | <u>3,702,637</u> |
| Total noncurrent assets | <u>4,215,279</u> |
| Total assets | <u>5,794,937</u> |
| Deferred outflows of resources | |
| Deferred outflows of resources - Pension | <u>40,752</u> |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 45,641 |
| Other accrued liabilities | 2,807 |
| Accrued compensated absences | 2,105 |
| Customer deposits | 5,300 |
| Total current liabilities | <u>55,853</u> |
| Noncurrent liabilities: | |
| Total noncurrent liabilities | <u>-</u> |
| Total liabilities | <u>55,853</u> |
| Deferred inflows of resources | |
| Deferred inflows of resources - Pension | <u>7,795</u> |
| Net position | |
| Net investment in capital assets | 3,702,637 |
| Restricted - Water deposits & grant funds | 423,202 |
| Unrestricted | 1,646,202 |
| Total net position | <u><u>\$ 5,772,041</u></u> |

The accompanying notes are an integral part of these financial statements.

City of Muenster, Texas
Statement of Revenues, Expenses, and Changes in
Net Position - Proprietary Fund
For the Year Ended September 30, 2023

| | Water and Sewer Fund |
|--|---------------------------------|
| Operating revenues: | |
| Water and sewer income | \$ 1,009,742 |
| Other operating income | 61,186 |
| Permits and connection fees | 13,000 |
| Total operating revenues | 1,083,928 |
| Operating expenses: | |
| Personnel and benefits costs | 260,004 |
| General Fund administration fee | 155,000 |
| Depreciation | 134,266 |
| Utilities | 103,475 |
| Vehicle fuel and maintenance | 11,723 |
| Supplies, repairs, and maintenance | 177,431 |
| Other operating expenses | 1,039 |
| Permits and lab charges | 23,460 |
| Groundwater conservation fees | 12,515 |
| Insurance | 22,506 |
| Total operating expenses | 901,419 |
| Operating income | 182,509 |
| Non-operating revenues (expenses): | |
| Interest income | 9,182 |
| Gain (loss) from disposal of assets | 2,778 |
| Total non-operating revenues (expenses) | 11,960 |
| Income (loss) before contributions and transfers | 194,469 |
| Transfers (out) | - |
| Transfers in | - |
| Capital contributions | - |
| Change in net position | 194,469 |
| Total net position - beginning | 5,577,572 |
| Total net position - ending | \$ 5,772,041 |

The accompanying notes are an integral part of these financial statements.

City of Muenster, Texas
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2023

| | Water and Sewer Fund |
|---|---------------------------------|
| Operating Activities: | |
| Receipts from customers and users | \$ 1,019,345 |
| Payments to suppliers | (389,897) |
| Payments for services provided by other funds | (155,000) |
| Payments to employees | (196,800) |
| Net cash provided (used) by operating activities | 277,648 |
| Capital and Related Financing Activities: | |
| Cash paid for acquisition and construction of capital assets | (62,017) |
| Net cash provided (used) by capital and related financing activities | (62,017) |
| Non-capital and Related Financing Activities | |
| Transfers (to) from other funds | - |
| Net cash provided (used) by non-capital and related financing activities | - |
| Investing Activities: | |
| Purchase of investments | (250,000) |
| Interest received | 9,182 |
| Net cash provided (used) by investing activities | (240,818) |
| Net increase (decrease) in cash and cash equivalents | (25,187) |
| Unrestricted cash and cash equivalents, October 1 | 923,646 |
| Unrestricted cash and cash equivalents, September 30 | \$ 898,459 |
| Reconciliation of Operating Income to Net Cash Provided | |
| (Used) by Operating Activities: | |
| Operating income (loss) | \$ 182,509 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 134,266 |
| Decrease (increase) in accounts receivable | (39,295) |
| Decrease (increase) in inventories | 1,993 |
| Decrease (increase) in restricted cash | (5,189) |
| Increase (decrease) in accounts payable | 24,655 |
| Increase (decrease) in other liabilities | 1,841 |
| Increase (decrease) in deferred inflows of resources | (22,132) |
| Increase (decrease) in customer deposits | (1,000) |
| Net cash provided by operating activities | \$ 277,648 |

The accompanying notes are an integral part of these financial statements.

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Muenster, Texas (City), have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships regardless of whether the government is able to exercise oversight responsibilities.

Based upon the application of these criteria, the following are considered component units of the City:

City of Muenster Industrial Development Corporation

The City of Muenster Industrial Development Corporation (MIDC) financial statements are shown in a blended presentation and are included in the financial statements of the government as a Special Revenue Fund type. The government exercises oversight responsibility for the corporation in the areas of finance, governance, management, and operations. The City Council appoints the corporation's directors and may remove them for cause. A separate report is not prepared for the MIDC.

Muenster Water District

The Muenster Water District (District) was created January 1, 1973 pursuant to Article 16, Section 59 of the Texas Constitution. The District's board members are appointed by the City Council and have been delegated with governance responsibilities of the public water supply within its jurisdiction. The City exercises oversight and has fiscal accountability over District operations.

The District has the following fund presented in the financial statements: Maintenance and Operations Fund (M&O Fund) - is a Special Revenue Fund for the City and is the District's operating fund and accounts for all transactions.

Financial statements of the District are shown in a blended presentation. A separate report is prepared for the District and is available for inspection at City Hall.

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds and proprietary funds. Major and non-major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

Property 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City reports the following major governmental funds: (continued)

The MIDC Special Revenue Fund is used to fund local industrial development projects such as business infrastructure and manufacturing to benefit City residents.

The City reports the following major proprietary fund:

The Water and Sewer Fund is used to account for water and sewer services provided to the citizens of the City. The fund operates the water distribution system, the sewage treatment plant, sewage pumping stations, and collection systems for which commercial and residential users are charged fees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

The government has elected not to follow subsequent private-sector guidance. 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 and other charges between the government's water and sewer function 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.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise 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 include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

1. Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the City. Other short-term investments are included in investments.

2. Short-term Interfund Receivables/Payables

During the course of operations, transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables, payables."

3. Restricted Assets

Certain resources are classified as restricted assets on the balance sheet because their use is limited by a third party due to laws and/or contracts.

4. 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 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

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

| Asset Category | Depreciable Life in Years |
|-------------------------------------|------------------------------|
| Buildings and improvements | 30-60 |
| Water & Sewer System infrastructure | 20 |
| Equipment and vehicles | 5-25 |
| Other improvements | 20-60 |

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Inventory

City inventory is maintained for water meters and other supplies in the Water and Sewer Fund. Inventory is recorded at cost with value adjusted on the first in, first out methodology.

6. Compensated Absences

Vested accumulated vacation leave for governmental activities that are not expected to be liquidated with expendable available financial resources are reported in the Statement of Net Position. No expenditure is reported for these amounts in the governmental fund financial statements. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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

8. Deferred Inflows and Outflows of Resources

In addition to assets and liabilities, the Statement of Financial Position and/or Balance Sheet will sometimes report a separate section for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The City has an item that qualifies for reporting as a deferred outflow of resources. This deferred outflow results from pension contributions after the measurement date that are deferred and recognized in the following year.

The City has several items that qualify for reporting as deferred inflows of resources. Deferred inflows of resources described as unavailable revenues only arise under modified accrual basis of accounting and are reported in the governmental funds Balance Sheet. The governmental funds report unavailable revenue from court fines and property taxes.

These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Also, the City reports deferred inflows of resources for pension amounts that relate to the differences in expected and actual economic experience, actuarial assumption changes, and the difference in projected and actual earnings.

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Long-term Obligations

In the government-wide financial statements and proprietary fund types, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statements of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period that the debt is issued.

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

10. Fund Balances and Net Position

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) defines the different types of fund balances that a governmental entity must use for financial reporting purposes in the fund financial statements for governmental type funds. It does not apply for the government-wide financial statements or proprietary type statements. Those statements report net position.

In accordance with GASB 54, fund balances of the governmental funds are classified as follows:

Nonspendable - such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

Restricted - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed - fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council (the City's highest level of decision-making authority),

Assigned - fund balance classification that is intended to be used by the government for specific purposes as determined by the City Administrator, but do not meet the criteria to be classified as restricted or committed, and'

Unassigned - fund balance is the residual classification for the government's General Fund and includes all spendable amounts not contained in the other classifications, and other funds that have total negative fund balances.

11. Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. 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 and 2) grants and contributions. All taxes, including those dedicated for a specific purpose, are reported as general revenues.

2. Property Taxes

Property taxes attach as an enforceable lien on real property and are levied as of October 1st each year and become delinquent on February 1st. Delinquent real property taxes are expected to be collected, as the delinquent amounts are a lien against the related property until paid. Revenue from property taxes not collected during the current period is deferred until such collection is made. Property subject to taxation consists of real property and certain personal property situated in the City. Certain properties of religion, education and charitable organizations, as well as the Federal government and the State of Texas are exempt from taxation. Additionally, certain exemptions are granted to property owners in arriving at the net assessed valuation of property subject to City taxation. The property ad valorem tax rate for City's property tax year 2022 (collected in fiscal year 2023) was \$0.282334 per \$100 of assessed value for General Fund operations and \$.0617 per \$100 of assessed value for the Muenster Water District.

3. Sales Taxes

The City levies a two percent (2%) sales tax on taxable sales within the City. 66.7% of sales tax revenues are allocated to the City's General Fund, and 33.3% of sales tax revenues are allocated to the MIDC Special Revenue Fund.

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 products in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges to customers for sales and services. The Water and Sewer Fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for this fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the General Fund, Water and Sewer Fund, the District's M&O Fund, and the MIDC Fund. All annual appropriations lapse at fiscal year-end.

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Excess of Expenditures over Appropriations

For the year ended September 30, 2023, the General Fund exceeded appropriations at the departmental level for four departments. Management considers this occurrence specific to this fiscal year and the City does not expect the matter to recur in fiscal year 2024. Overall, General Fund expenditures were less than budgeted appropriations by \$81,233 or 4.3%, as shown on page 34.

NOTE 3: DEPOSITS AND INVESTMENTS

The City may invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, 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 (Article 842a-2 Vernon's Civil Statutes).

At September 30, 2023, the City's carrying amount of unrestricted and restricted cash and cash equivalent deposits was \$2,493,893 and the bank balance was \$2,521,268. At September 30, 2023, the City's carrying amount of investments (certificates of deposits) and the bank balance were both \$1,545,421. For total cash and investment bank balances of \$4,066,689, \$787,757 was covered by the Federal Depository Insurance Corporation (FDIC) and \$3,278,932 was covered by collateral held by the pledging financial institution's trust department.

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk - Deposits: In the case of deposits this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The government's investments are certificates of deposit.
- c. Credit Risk - This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. There is no credit risk for certificates of deposit.
- d. Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment.
- e. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. The City is not exposed to foreign currency risk.
- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the government's investment in a single issuer.

At year end, the City's investments as presented in the basic financial statements were fully comprised of certificates of deposits with initial maturities greater than ninety days.

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 4: RECEIVABLES

The following is total receivables for the City at September 30, 2023:

| | Primary Government | | | |
|--|--------------------|--------------------|--------------------|-----------------------|
| | General Fund | M.W.D. M&O Fund | Muenster I.D.C. | Water & Sewer Fund |
| Property tax | \$ 21,670 | \$ 9,212 | \$ - | \$ - |
| Sales tax | 88,894 | - | 44,448 | - |
| Court | 128,840 | - | - | - |
| Franchise fees | 34,902 | - | - | - |
| Grants | - | - | - | - |
| Sanitation and water bills | 45,604 | - | - | 141,913 |
| Gross receivables | 319,910 | 9,212 | 44,448 | 141,913 |
| Less: Allowance for uncollectables (court) | (110,703) | - | - | - |
| Net receivables | \$ 209,207 | \$ 9,212 | \$ 44,448 | \$ 141,913 |

NOTE 5: CAPITAL ASSETS

Governmental fund type capital asset activity for the year ended September 30, 2023 was as follows:

| | Beginning Balance | Additions | Retirements and Reclasses | Ending Balance |
|--|------------------------|------------|---------------------------------|-------------------|
| | Nondepreciable assets: | | | |
| Land | \$ 1,691,405 | \$ - | \$ - | \$ 1,691,405 |
| Construction in progress | - | 48,467 | - | 48,467 |
| Depreciable assets: | | | | |
| Streets and other infrastructure | 2,950,301 | 934,449 | - | 3,884,750 |
| Buildings | 2,910,086 | 35,997 | - | 2,946,083 |
| Other improvements | 524,335 | 32,457 | - | 556,792 |
| Water district reservoir | 10,374,792 | - | - | 10,374,792 |
| Vehicles and equipment | 1,149,877 | 73,170 | (39,913) | 1,183,134 |
| Total capital assets being depreciated | 17,909,391 | 1,076,073 | (39,913) | 18,945,551 |
| Less: accumulated depreciation | 6,151,838 | 501,411 | (39,913) | 6,613,336 |
| Net assets being depreciated | 11,757,553 | 574,662 | - | 12,332,215 |
| Total governmental capital assets, net | \$ 13,448,958 | \$ 623,129 | \$ - | \$ 14,072,087 |

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 5: CAPITAL ASSETS - CONTINUED

Proprietary fund type capital asset activity for the year ended September 30, 2023 is as follows:

| | Beginning Balance | Additions | Retirements and Reclasses | Ending Balance |
|--|----------------------|-------------|---------------------------------|-------------------|
| Nondepreciable assets: | | | | |
| Land | \$ 127,117 | \$ - | \$ - | \$ 127,117 |
| Depreciable assets: | | | | |
| Water and sewer system | 5,551,147 | 38,785 | - | 5,589,932 |
| Buildings | 42,375 | - | - | 42,375 |
| Machinery and equipment | 398,793 | 23,232 | - | 422,025 |
| Total capital assets being depreciated | 5,992,315 | 62,017 | - | 6,054,332 |
| Less: accumulated depreciation | 2,344,546 | 134,266 | | 2,478,812 |
| Net assets being depreciated | 3,647,769 | (72,249) | - | 3,575,520 |
| Proprietary fund capital assets, net | \$ 3,774,886 | \$ (72,249) | \$ - | \$ 3,702,637 |

Depreciation expense for governmental activities was charged to departments of the primary government shown on the Statement of Activities as follows:

| | |
|--|-------------------|
| <i>Governmental activities:</i> | |
| Police | \$ 40,016 |
| General Government | 17,916 |
| Reservior | 203,740 |
| Streets | 162,638 |
| Parks | 27,414 |
| Fire | 38,471 |
| Swimming Pool | 4,124 |
| Library | 7,092 |
| Total depreciation expense - governmental activities | <u>\$ 501,411</u> |

NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The City had no interfund payables/receivables at September 30, 2023.

The City had no interfund transfers during fiscal year 2023:

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 7: LONG-TERM LIABILITIES

The City had no long-term liabilities during the year ended September 30, 2023.

NOTE 8: PENSION PLAN

A. Plan Description

The City of Muenster participates 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) is an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 40I (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

B. 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:

| | |
|-------------------------------------|------------------------------|
| Employee Deposit Rate | 5.00% |
| Matching (District to employee) | 2 to 1 |
| Years for full vesting | 5 |
| Service requirement eligibility | |
| (expressed as age/years of service) | 60/5, 0/25 |
| Updated service credit | 100% repeating, Transfers |
| Annuity increase (to retirees) | 0% of CPI, Repeating |

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 8: PENSION PLAN - CONTINUED

Employees Covered by Benefit Terms:

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|-----------|
| Inactive employees or beneficiaries currently receiving benefits: | 12 |
| Inactive employees entitled to, but not yet receiving benefits: | 8 |
| Active employees: | <u>14</u> |
| Total: | 34 |

C. 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 were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 1.85% and 1.90% in calendar years 2022 and 2023, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2023 were \$14,185, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2022, and determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation - 2.5% per year

Overall payroll growth - 3.5% to 11.5% including inflation

Investment Rate of Return - 6.75% (net of investment expense, incl. inflation)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 8: PENSION PLAN – CONTINUED

Actuarial assumptions used in the December 31, 2022 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2014 through December 31, 2018, first used in the December 31, 2019 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

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

| Asset Class | Target Allocation | Geometric Real Rate of Return |
|------------------------------|-------------------|-------------------------------|
| Global Equity | 35.00% | 7.55% |
| Core Fixed Income | 6.00% | 2.00% |
| Non-Core Fixed Income | 20.00% | 5.68% |
| Other Public/Private Markets | 12.00% | 7.22% |
| Real Estate | 12.00% | 6.85% |
| Hedge Funds | 5.00% | 5.35% |
| Private Equity | 10.00% | 10.00% |

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.

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

| | 1% Decrease 5.75% | Current Discount Rate 6.75% | 1% Increase 7.75% |
|----------------------------------|----------------------|-----------------------------------|----------------------|
| Net pension liability (asset) \$ | (146,239) | (330,219) | (486,442) |

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 8: PENSION PLAN – CONTINUED

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.

| Changes in the Net Pension Liability (Asset) | Increase (Decrease) | | |
|--|-----------------------------|---------------------------------|--------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liab./ (Asset) (a) - (b) |
| Balances at 12/31/2021: | \$ 1,684,076 | \$ 2,260,528 | \$ (576,452) |
| Changes for the year: | | | |
| Service cost | 63,317 | | 63,317 |
| Interest | 112,386 | | 112,386 |
| Effect of plan changes | - | | - |
| Effect of economic/demographic gains or losses | (47,403) | | (47,403) |
| Effect of assumptions changes or inputs | - | | - |
| Refund of contributions | - | | - |
| Benefit payments | (101,513) | (101,513) | - |
| Administrative expenses | | (1,428) | 1,428 |
| Member contributions | | 33,572 | (33,572) |
| Net investment income | | (164,203) | 164,203 |
| Employer contributions | | 12,422 | (12,422) |
| Other changes | | 1,704 | (1,704) |
| Balances at 12/31/2022: | \$ 1,710,863 | \$ 2,041,082 | \$ (330,219) |

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

For the year ended September 30, 2023, the City recognized pension expense/(income) of \$10,253.

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Deferred Inflows / Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources |
|--|-------------------------------|--------------------------------|
| Difference between expected and actual experience | \$ 28,780 | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings | - | 139,596 |
| Contributions subsequent to the measurement date | N/A | 10,862 |
| Totals: | \$ 28,780 | \$ 150,458 |

City of Muenster, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2023

NOTE 8: PENSION PLAN – CONTINUED

\$10,862 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Measurement Year Ending:</u> | | |
|---------------------------------|----|----------------|
| 2023 | \$ | (4,951) |
| 2024 | | 25,334 |
| 2025 | | 27,077 |
| 2026 | | 63,356 |
| 2027 | | - |
| Thereafter | | - |
| | \$ | <u>110,816</u> |

NOTE 9 – OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City carries commercial insurance for risks of loss. There were no reductions in coverage in the past fiscal year.

B. Subsequent Events

Management has evaluated subsequent events through January 8, 2024, the date on which the financial statements were available to be issued. Management has not identified any subsequent events to disclose for the City through this date.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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September 11, 2024

**CITY OF MUENSTER, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2024
DATED SEPTEMBER 11, 2024
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$1,035,000**

AS BOND COUNSEL FOR THE CITY OF MUENSTER, TEXAS (the "Issuer") in connection with the issuance of the Combination Tax and Revenue Certificates of Obligation, Series 2024, described above (the "Certificates of Obligation"), we have examined into the legality and validity of the Certificates of Obligation, which bear interest from the dates and mature and are subject to redemption on the dates, in accordance with the terms and conditions stated in the text of the Certificates of Obligation. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Certificates of Obligation (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates of Obligation, including one of the executed Certificates of Obligation (Certificate of Obligation Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates of Obligation have been duly authorized, issued, and delivered in accordance with law, and that the Certificates of Obligation, except as may be limited by laws applicable to the Issuer relating to principles of governmental immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates of Obligation have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates of Obligation are additionally secured by and payable from a pledge of surplus revenues of the Issuer's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the Issuer's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the Issuer's waterworks and sewer system, as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates of Obligation is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates of



Obligation are not "specified private activity bonds" and that, accordingly, interest on the Certificates of Obligation will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates of Obligation and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Certificates of Obligation may become includable in gross income retroactively to the date of issuance of the Certificates of Obligation.

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

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

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



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

Respectfully,

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Municipal Advisory Services
Provided By

