**OFFICIAL STATEMENT DATED: AUGUST 3, 2021**

**S&P Insured Rating "AA"**
**S&P Underlying "A+"**
**(See "RATINGS" herein)**

**NEW ISSUE: Book-Entry-Only**

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

THE BONDS ARE DESIGNATED
AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

# $965,000
# CITY OF MERKEL, TEXAS
## (Taylor County)
## General Obligation Refunding Bonds, Series 2021

**Dated Date: September 1, 2021** **Due: September 1, as shown on inside cover**

**Payment Terms**… Interest on the $965,000 City of Merkel, Texas, General Obligation Refunding Bonds, Series 2021 (the "Bonds"), will accrue from their delivery date to the underwriter listed below (the "Underwriter") and will be payable March 1 and September 1 of each year, commencing on March 1, 2022. The Bonds will be issued only in fully registered form in principal denominations of $5,000 or any integral multiple thereof. Principal of the Bonds will be payable to the registered owner (the "Owner") at maturity or prior redemption upon presentation at the principal corporate office of the paying agent/registrar (the "Paying Agent/Registrar"), initially UMB Bank, N.A., Austin, Texas. The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interests in the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

**Purpose**… Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See "THE BONDS – Sources and Uses of Funds" herein.

**Redemption**… The Bonds maturing on and after September 1, 2037, are subject to optional redemption in whole or in part on September 1, 2031, or on any date thereafter at a redemption price equal to the principal amount thereof plus accrued interest as more fully described herein. Certain of the Bonds may be subject to mandatory sinking fund redemption in the event the Underwriter elects to aggregate two or more maturities as term Bonds. See "THE BONDS – Optional Redemption" and " – Mandatory Redemption" herein.

**Security And Source Of Payment**… The Bonds will constitute direct obligations of the City of Merkel, Texas (the "City"), payable from ad valorem taxes levied against all taxable property within the City within the limits prescribed by law as provided in the ordinance authorizing the Bonds.

**Insurance**… The scheduled payment of principal and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM"). BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P").

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**See Principal Amounts, Maturities, Interest Rates, and Prices on the Inside Cover Page**

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**Legality**… The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas.

**Delivery**… The Bonds are expected to be available for delivery to the Underwriter through DTC on or about September 2, 2021.

**RAYMOND JAMES**

**MATURITY SCHEDULE**

**$965,000 General Obligation Refunding Bonds, Series 2021**

**$550,000 Serial Bonds**

| Maturity (9/1)[a] | Principal Amount | Interest Rate | Initial Yield/Price[b] | CUSIP[c] |
|---|---|---|---|---|
| 2022 | $50,000 | 2.000% | 0.400% | 590060CH0 |
| 2023 | 50,000 | 2.000 | 0.450 | 590060CJ6 |
| 2024 | 50,000 | 2.000 | 0.550 | 590060CK3 |
| 2025 | 50,000 | 3.000 | 0.650 | 590060CL1 |
| 2026 | 55,000 | 3.000 | 0.850 | 590060CM9 |
| 2027 | 55,000 | 3.000 | 1.000 | 590060CN7 |
| 2028 | 55,000 | 3.000 | 1.150 | 590060CP2 |
| 2029 | 60,000 | 3.000 | 1.300 | 590060CQ0 |
| 2030 | 60,000 | 3.000 | 1.400 | 590060CR8 |
| 2031 | 65,000 | 3.000 | 1.450 | 590060CS6 |

**Term Bonds**

**$415,000 3.000% Term Bonds due September 1, 2037, Yield 1.670%, Price 112.198 CUSIP: 590060CT4[a][b][c][d]**

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(a) The Bonds maturing on and after September 1, 2037, are subject to optional redemption, in whole or in part, on September 1, 2031, or any date thereafter, at a price equal to the par value thereof, plus accrued interest from the most recent interest payment date to the date or redemption. The Bonds maturing in 2037 are subject to mandatory sinking redemption. (See "THE BONDS – Optional Redemption" and "– Mandatory Redemption").

(b) The initial yields and prices are established by, and are the sole responsibility of the Underwriter and may subsequently be changed.

(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the City, the Financial Advisor, nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(d) Priced to earliest redemption date of September 1, 2031.

**CITY OF MERKEL, TEXAS**

**CITY COUNCIL**

| | |
|---|---|
| Mary Schrampfer | Mayor |
| Matthew Riggan | Councilmember, Place 1 |
| Shae Garrett | Councilmember, Place 2 |
| Larry Hewitt | Councilmember, Place 3 |
| Brady Rutledge | Councilmember, Place 4 |
| Joseph Wilson | Councilmember, Place 5 |

**ADMINISTRATIVE OFFICERS**

| | |
|---|---|
| Steve Campbell | City Manager |
| Evelyn Morse | City Secretary |
| Claudia Clinton | City Attorney |

**CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS**

| | |
|---|---|
| McCall, Parkhurst & Horton L.L.P., Dallas, Texas | Bond Counsel |
| Cathrine Wilks CPA LLC, Sweetwater, Texas | Independent Auditor |
| Government Capital Securities Corporation, Southlake, Texas | Financial Advisor |

For additional information regarding the City, please contact:


Steve Campbell
City Manager
City of Merkel, Texas
100 Kent Street
Merkel, Texas 79536
(352) 928-4911
steve@merkeltexas.com

Jake Lawrence
Government Capital Securities Corporation
559 Silicon Drive, Suite 102
Southlake, TX 76092
(817) 722-0239
jlawrence@govcapsecurities.com

## USE OF INFORMATION IN OFFICIAL STATEMENT

*This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.*

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

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

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

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

*The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information set forth in this Official Statement in accordance with, and as part of, its 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.*

*None of the City, the Financial Advisor or the Underwriter make any representation as to the accuracy, completeness or adequacy of the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.*

*Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Appendix E - Specimen Municipal Bond Insurance Policy."*

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## BOND INSURANCE

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

## BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

*Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $477.7 million, $156.4 million and $321.3 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

*Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at www.buildamerica.com/videos.

(The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Credit Profiles.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Disclaimers.** The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

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## SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the schedules and appendices hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement including the Appendices hereto.

| | |
|---|---|
| **The Issuer** | The City of Merkel, Texas (the "City"), is located in Taylor County, Texas. For information regarding the City, see Appendices A and B. |
| **The Bonds** | $965,000 General Obligation Refunding Bonds, Series 2021, dated September 1, 2021, maturing on the dates and in the amounts set forth on the inside front cover of this Official Statement. Interest on the Bonds will accrue from their date of delivery and will be paid semiannually on March 1 and September 1, commencing March 1, 2022, until maturity or prior redemption. |
| **Purpose of Bonds** | Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See "THE BONDS – Sources and Uses of Funds" herein. |
| **Authorization and Security** | The Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Bond Ordinance"), in which the City Council delegated to certain officials of the City the authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" (the Bond Ordinance and the Pricing Certificate are jointly referred to herein as the "Ordinance"). The Bonds are payable from ad valorem taxes to be levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance. |
| **Optional Redemption** | The Bonds maturing on and after September 1, 2037, are subject to optional redemption in whole or in part on September 1, 2031, or on any date thereafter at a price of par plus accrued interest as more fully described herein. See "THE BONDS – Optional Redemption" herein. |
| **Mandatory Redemption** | The Bonds maturing in 2037 are subject to mandatory sinking redemption. See "THE BONDS – Mandatory Redemption" herein. |
| **Tax Exemption** | In the opinion of Bond Counsel, interest on the Bonds 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. See "TAX MATTERS. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel. |
| **Qualified Tax Exempt Obligations** | The City has designated the Bonds as "qualified tax-exempt obligations". (See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions" herein.) |
| **Rating** | S&P Global Ratings, a Standard and Poor's Financial Services LLC business ("S&P"), has assigned a rating of "AA" to the Bonds based upon the Municipal Bond Insurance Policy to be issued by Build America Mutual Assurance Company. The Bonds have also been assigned an underlying rating of "A+" by S&P. An explanation of the significance of such rating may be obtained from S&P. See "RATINGS" herein. |
| **Book-Entry-Only System** | The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York, pursuant to the book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as |

defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

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

(*Remainder of Page Intentionally Left Blank*)

**SELECTED FINANCIAL INFORMATION**
**(Unaudited)**

| | |
|---|---|
| 2020 Certified Taxable Assessed Valuation……... (100% of Market Value as of January 1, 2020) | $94,009,697 [(a)] |
| City Debt: | |
| Outstanding Tax Supported Debt (as of March 1, 2020)…….…. | $5,712,000 [(b)] |
| Plus: The Bonds……... | $ 965,000 |
| Less: The Refunded Obligations | $1,309,000 |
| Total Tax Supported Debt……. | $5,368,000 |
| General Fund Balance (as of Sept. 30, 2020)…….. | $1,703,660 |

| | % of 2020 Assessed Valuation | 2020 Per Capita (2,643) |
|---|---|---|
| Debt Ratios: | | |
| Direct Tax Supported Debt……. | 5.71 % | $2,031.03 |

| | |
|---|---|
| 2020 Tax Rate (per $100 of Assessed Valuation) | |
| Maintenance and Operation | $0.6515 |
| Debt Service …… | $0.0000 |
| Total …… | $0.6515 |

| | |
|---|---|
| Estimated Annual Debt Service Requirements…….. | |
| Average…… | $ 279,225 |
| Maximum (2024)……. | $ 357,800 |

| | |
|---|---|
| Tax Collections | |
| Tax Year 2019 (fiscal year ending September 30, 2020)……. | 96.95% |

(a) Provided by the Taylor County Appraisal District (the "Appraisal District") and net of exemptions. Such value is further subject to changes as additions, corrections and deletions are made to the tax roll.
(b) Includes self-supporting debt.
(c) Includes outstanding principal and interest.

**OFFICIAL STATEMENT**
**RELATING TO**

**$965,000**
**CITY OF MERKEL, TEXAS**
**(Taylor County)**
**General Obligation Refunding Bonds, Series 2021**

## INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, the schedules and the appendices hereto, provides certain information regarding the issuance by the City of Merkel, Texas (the "City") of $965,000 General Obligation Refunding Bonds, Series 2021 (the "Bonds").

The Bonds will be authorized to be issued, sold and delivered by an ordinance (the "Bond Ordinance") enacted by the City's governing body (the "City Council"), in which the City Council delegated to certain officials of the City the authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" (the Bond Ordinance and the Pricing Certificate are jointly referred to herein as the "Ordinance"). Capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Ordinance, except as otherwise indicated herein.

The City is a political subdivision of the State of Texas (the "State") and a Type A general law municipal corporation organized and existing under the laws of the State. For information regarding the City, see Appendices A and B of this Official Statement.

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

## THE BONDS

### Purpose

Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See "THE BONDS – Sources and Uses of Funds" herein.

### Authorization

The Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds and a pricing certificate executed pursuant thereto.

### Security for the Bonds

The Bonds are payable from ad valorem taxes to be levied and collected, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance.

### Optional Redemption

The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 20__, in whole or in part, in integral multiples of $5,000, on September 1, 20__ or any date thereafter, such redemption date or dates to be fixed by the City, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar (as defined herein) to select by lot the Bonds, or portions thereof, within each maturity to be redeemed.

**Mandatory Redemption**

The Bonds maturing on 2037 (the "Term Bonds") are subject to mandatory sinking fund redemption and shall be redeemed by the City prior to their scheduled maturities on September 1 in the years and in the amounts set forth below at a redemption price equal to the principal amount redeemed plus accrued interest to the mandatory redemption date (the "Mandatory Redemption Dates"):

| Term Bond Maturity Date | Mandatory Redemption Dates | Principal Amounts |
|---|---|---|
| September 1, 2037 | September 1, 2032 | $65,000 |
| | September 1, 2033 | 65,000 |
| | September 1, 2034 | 70,000 |
| | September 1, 2035 | 70,000 |
| | September 1, 2036 | 75,000 |
| | September 1, 2037 | 70,000 |

The principal amount of Term Bonds to be redeemed will be reduced, at the option of the City, by the principal amount of Term Bonds of the respective maturity which, at least 50 days prior to the mandatory sinking fund redemption date, (1) have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (2) have been purchased and canceled by the Paying Agent/Registrar at the request of the City, or (3) have been redeemed pursuant to the optional redemption provisions above and not credited against a mandatory sinking fund redemption requirement.

**Notice of Redemption**

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. If notice is so given and sufficient funds are provided for the payment of the redemption price of the Bonds, interest shall cease to accrue after the date fixed for redemption whether or not the Bonds have been submitted for payment. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, AND THE FUNDS NECESSARY TO REDEEM SUCH BONDS HAVING BEEN PROVIDED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND 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 Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC.

In such event, DTC may implement, through its Book-Entry Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners.

Any such selection of Bonds 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 DTC participants, indirect participants, or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see "THE BONDS – Book-Entry Only System").

**Refunded Obligations**

The principal and interest due on the Refunded Obligations are to be paid on the redemption date of the Refunded Obligations from funds to be deposited directly to the holder of the Refunded Obligations.

**Sources and Uses of Funds**

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

| | |
|---|---|
| **Sources** | |
| Principal Amount of Bonds | $ 965,000.00 |
| Net Original Issue Premium | 103,874.55 |
| Issuer Contribution | 305,000.00 |
| **Total Sources of Funds** | 1,373,874.55 |
| **Uses** | |
| Deposit with the holder of the Refunded Obligations | 1,309,302.21 |
| Costs of Issuance | 41,498.84 |
| Underwriter's Discount | 16,573.50 |
| Bond Insurance | 6,500.00 |
| **Total Uses of Funds** | $ 1,373,874.55 |

## GENERAL INFORMATION REGARDING THE BONDS

**General Description**

The Bonds will be dated September 1, 2021 (the "Dated Date"), and will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof. The Bonds will bear interest from the date of delivery to the underwriter listed on the cover page hereof (the "Underwriter"), and interest will be paid semiannually on each March 1 and September 1, commencing March 1, 2022. Interest will accrue on the Bonds on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as book-entry only securities pursuant to arrangements made with The Depository Trust Company, New York, New York. See "BOOK-ENTRY-ONLY SYSTEM."

Principal of the Bonds will be payable to the registered owners (the "Owners") at maturity or prior redemption upon presentation and surrender of such Bonds at the principal corporate office of the paying agent/registrar (the "Paying Agent/Registrar"), initially UMB Bank, N.A., Austin, Texas. Interest on the Bonds will be payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to Owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment" herein), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on a Bond shall be a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will mature on the dates, in the amounts and bear interest at the rates as set forth on inside cover page of this Official Statement.

**Legality**

The Bonds are offered when, as and if issued, subject to the approvals of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See "LEGAL MATTERS" and Appendix C – "Form of Opinion of Bond Counsel").

**Defeasance**

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, 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 the Paying Agent/Registrar, or authorized escrow agent, in trust (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Issuer with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds shall have become due and payable, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such Defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharges obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the defeasance is approved by the City Council of the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the defeasance is approved by the City Council of the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

Upon defeasance, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon making such deposit in the manner described, such defeased Bonds shall no longer be deemed outstanding obligations secured by the Ordinance, but will be payable only from the funds and Defeasance Securities deposited in escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose.

**Amendments to the Ordinance**

In the Ordinance, the City has reserved the right to amend such Ordinance without the consent of any holder of the Bonds in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, defect or omission therein.

The Ordinance further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Ordinance; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds; or (v) changing the minimum percentage of

the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

## OWNERSHIP

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of principal and interest, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary.

All payments made to the person deemed to be the owner of any Bond in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

## OWNER'S REMEDIES

The Ordinance does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds 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, 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. A registered owner of Bonds could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Ordinance. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The City is also 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 taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders 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 opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code, by principles of governmental immunity, and by general principles of equity that permit the exercise of judicial discretion.

## BOOK-ENTRY-ONLY SYSTEM

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds 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 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest, and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on 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, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities depository). In that event, physical Bonds 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 Bonds are in the Book-Entry Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry Only System and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

## REGISTRATION, TRANSFER AND EXCHANGE

### Paying Agent/Registrar

UMB Bank, N.A., Austin, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank; a trust company organized under applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date

(hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal and redemption payments of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, principal, interest, and redemption payments on the Bonds will be made as described in "BOOK-ENTRY ONLY SYSTEM" above.

**Future Registration**

In the event the book-entry only system should be discontinued, printed Bonds will be delivered to the Owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the Owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar in lieu of the Bond 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 at the Owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered Owner or assignee of the Owner after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be of like kind and in authorized denominations and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in the settlement and transfer of the Bonds.

**Record Date for Interest Payment**

The record date ("Record Date") for the interest payable on any interest payment date is the close of business on the 15th calendar day of the month next preceding such interest payment date, as specified in the Ordinance. In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least 5 days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**Limitation on Transfer of Bonds**

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond, or any portion thereof, called for redemption prior to maturity within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

**Replacement of Bonds**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfactory to them that such Bond 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 Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

## AD VALOREM PROPERTY TAXATION

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

### Valuation of Taxable Property

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

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

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land. See Table 1 for the reduction in taxable valuation attributable to valuation by Productivity Value.

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

### State Mandated Homestead Exemptions

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See Table 1for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

### Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing

unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See Table 1 for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

**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. See Table 1 for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

**Personal Property**

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

**Freeport Exemptions**

Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See Table 1 for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

**Other Exempt Property**

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

**Tax Increment Financing Zones**

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

payment of other obligations of such taxing units. See "AD VALOREM PROPERTY TAXATION" City Application of Property Tax Code" for descriptions of any TIRZ created in the City.

**Tax Abatement Agreements**

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" for descriptions of any of the City's tax abatement agreements. See Table 1 for the reduction in taxable valuation, if any, attributable to tax abatement agreements.

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

**Public Hearing and Maintenance and Operation Tax Rate Limitations**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Debt Tax Rate Limitations**

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 4, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $1.50 per $100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.00 of the $1.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

**City's Rights in the Event of Tax Delinquencies**

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain

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

**Issuer and Taxpayer Remedies**

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

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

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

**City Application of the Property Tax Code**

The City does not grant a local exemption for residence homesteads of persons 65 years of age or older or for residence homesteads of persons who are disabled.

The City taxes only business personal property.

The City does not permit split payments and does not allow discounts.

The City does not grant the Freeport exemption.

The City has not taken action to tax Goods-in-Transit

The City does not participate in a TIRZ.

The City does not have any tax abatement agreements.

## RETIREMENT PLAN

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System, an agent multi-employer public employee retirement system. For a discussion of the Retirement Plan, see Appendix D "Audited Financial Statements for the Fiscal Year Ended September 30, 2020."

## INVESTMENT POLICIES

### Accounting Principles Generally Accepted in the United States

The City policy is to adhere to accounting principles generally accepted in the United States (see Appendix D "Audited Financial Statements for the Fiscal Year Ended September 30, 2020").

### Legal Investments

Under State 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 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 unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) obligations issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share Bonds meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (i) that are issued by or through an institution that has its main office or a branch office in the State, 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 or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (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 United States 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 United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the 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 "AAAm" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**Investment Policies**

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each 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, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the City's investment officers shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, 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 strategy statements and (b) state law. No person may invest City funds without express written authority from City Council.

**Additional Provisions**

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategy; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis

of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

**Current Investments**

As of September 30, 2020, the City's investment portfolio was invested in the following categories. As of such date, the market value of such investments was approximately 100% of their book value.

| Type of Investment | Amount |
|---|---|
| Governmental Fund | $110,356 |
| Business – Type Fund Water and Sewer Fund | $1,090,257 |
| **Total** | $1,200,613 |

## INFECTIOUS DISEASE OUTBREAK – COVID-19

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and the State. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the State Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in the State (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting State business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation and reopening of the State. These include, for example, the issuance on March 2, 2021 of Executive Order GA-34, which, among other things, removed any COVID-19-related operating limits for any business or other establishment and ended the State-wide mask mandate, effective March 10, 2021. The Governor's order also maintains, in providing or obtaining services every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. On May 18, 2021, Governor Abbott issued Executive Order GA-36, which supersedes Executive Order GA-34 in part. Executive GA-36 prohibits governmental entities in the State, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine up to $1,000 for noncompliance, subject to certain exceptions. Executive orders remain in place until they are amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and caused volatility in financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within the State. Stock values and crude oil prices, in the U.S. and globally, have seen significant volatility attributed to COVID-19 concerns. The State may be particularly at risk from

any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions and volatility, if continued, could result in declines in the demand for residential and commercial property and could reduce or negatively affect property values or homebuilding activity in the City. The Bonds are secured by ad valorem taxes to be levied and collected, within the limits prescribed by law, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds.

The City continues to monitor the spread of COVID-19 and the potential impact of COVID-19 on the City. While the potential impact of COVID-19 on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition. The financial and operating data contained herein are the latest available but may not reflect the full economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the full economic impact of the Pandemic on the City's financial condition.

## RATINGS

Standard & Poor's Rating Services, a Standard and Poor's Financial Services LLC business, ("S&P") has assigned a rating of "AA" to the Bonds based upon the Municipal Bond Insurance Policy to be issue by Build America Mutual Assurance Company. The Bonds have also been assigned an underlying rating of "A+" by S&P. An explanation of the significance of such ratings may be obtained from S&P. Such ratings reflect only the views of S&P and the City makes no representation as to the appropriateness of any rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Neither the Underwriter nor the City has undertaken any responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of the rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

## PENDING LITIGATION

There is no material litigation currently pending against the City.

## LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel to the effect that (i) the Bonds are issued in compliance with the provisions of the Ordinance are valid and legally binding obligations of the City and (ii) the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions (see "TAX MATTERS"). Bond Counsel has not been engaged to investigate the financial resources of the City or its ability to provide for payment of the Bonds, and the opinion of Bond Counsel will make no statement as to such matters, or any other information that may have been relied on by anyone in making the decision to purchase the Bonds. Though it represents the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Bonds. The applicable legal opinion will be printed on or attached to the definitive Bonds.

Bond Counsel has reviewed the statements and information appearing in the Official Statement under the captions "THE BONDS" (except the subcaption "Sources and Uses of Funds"), "GENERAL INFORMATION REGARDING THE BONDS," "REGISTRATION, TRANSFER AND EXCHANGE," "AD VALOREM PROPERTY TAXATION – Public Hearing and Maintenance and Operation Tax Rate Limitations," "LEGAL MATTERS," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS," "REGISTRATION AND QUALIFICATION OF ISSUE FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except the subcaption "Compliance With Prior Undertakings"), and Bond Counsel is of the opinion that the information contained under such captions and subcaptions fairly summarizes the procedures and documents referred to therein and is correct as to matters of law. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor

have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy, completeness, or fairness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy, completeness, or fairness of any of the information contained herein.

## TAX MATTERS

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

In rendering its opinion, Bond Counsel to the Issuer will rely upon (a) certain information and representations of the Issuer, including information and representations contained in the Issuer's federal tax certificate, and (b) covenants of the Issuer contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith. Failure by the Issuer to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

### Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX

ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

**State, Local and Foreign Taxes**

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

**Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under Sections 1471 through 1474 or backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

**Future and Proposed Legislation**

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

**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 Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds 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 Bonds would not be "qualified tax-exempt obligatio**ns."

## LEGAL INVESTMENTS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such Bonds are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

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

## REGISTRATION AND QUALIFICATION OF ISSUE FOR SALE

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration and qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

## CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligations, because the City does not currently have outstanding more than $10,000,000 in aggregate principal amount of municipal securities (excluding securities offered in transactions that were exempt from the Rule). Pursuant to the exemption, in the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

**Annual Reports**

The City will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included this Official Statement, but only to the extent that such information is customarily prepared by the City and publicly available. Currently, the only information that is customarily prepared by the City and publicly available consists of an annual audit of the City's financial statements. The City will update and provide this information within twelve months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information of the City of the general type included in this Official Statement by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D 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's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of September in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

**Material Event Notices**

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

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

**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 the Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable 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 Bonds in the primary offering of the Bonds. If the City amends its agreement, it must include with the next financial information and opening 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 type of information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

**Compliance with Prior Undertakings**

The City has not been subject to a continuing disclosure obligation for the past 5 years.

## OTHER INFORMATION

**Financial Advisor**

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the City for certain information concerning the City and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, 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.

**Audited Financial Statements**

Cathrine Wilks CPA LLC, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Brooks Watson & Co. relating to City's financial statements for the fiscal year ended September 30, 2020 is included in this Official Statement in APPENDIX D; however, Cathrine Wilks CPA LLC has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement.

**Underwriting**

Raymond James & Associates, Inc., the Underwriter, has agreed to purchase the Bonds from the City for $1,052,301.05 (being the principal amount of the Bonds, plus a net premium of $103,874.55, less an Underwriter's discount of $16,573.50).

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information set forth in this Official Statement in accordance with, and as part of, its 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**

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 obligations to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements 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.

**Concluding Statement**

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

In the Bond Ordinance, the City Council delegated to the Pricing Officer authority to approve the use and distribution of this Preliminary Official Statement by the Underwriter for the purpose of offering the Bonds.

/s/ Steve Campbell
City Manager, as Pricing Officer, City of Merkel, Texas

**SCHEDULE I**

SCHEDULE OF REFUNDED OBLIGATIONS

| Bond | Maturity Date | Interest Rate | Par Amount | Call Date | Call Price |
|---|---|---|---|---|---|
| Series 2011, Comb Tax & Rev C/O, 2011, SER: | | | | | |
| | 09/01/2022 | 4.250% | 24,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2023 | 4.250% | 25,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2024 | 4.250% | 26,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2025 | 4.250% | 27,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2026 | 4.250% | 28,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2027 | 4.250% | 29,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2028 | 4.250% | 30,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2029 | 4.250% | 32,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2030 | 4.250% | 33,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2031 | 4.250% | 35,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2032 | 4.250% | 36,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2033 | 4.250% | 38,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2034 | 4.250% | 39,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2035 | 4.250% | 41,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2036 | 4.250% | 43,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2037 | 4.250% | 44,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2038 | 4.250% | 46,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2039 | 4.250% | 48,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2040 | 4.250% | 50,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2041 | 4.250% | 52,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2042 | 4.250% | 55,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2043 | 4.250% | 57,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2044 | 4.250% | 59,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2045 | 4.250% | 62,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2046 | 4.250% | 64,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2047 | 4.250% | 67,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2048 | 4.250% | 70,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2049 | 4.250% | 73,000.00 | 09/02/2021 | 100.000 |
| | 09/01/2050 | 4.250% | 76,000.00 | 09/02/2021 | 100.000 |
| | | | 1,309,000.00 | | |

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**APPENDIX A**

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

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## FINANCIAL INFORMATION FOR THE CITY

**ASSESSED VALUATION** **TABLE 1**

| | | |
|---|---|---|
| 2020 Total Value of Taxable Property | | $118,823,151 |
| Less Exemptions: | | |
| Local, Optional Over-65 and/or Disabled Homestead Exemptions | $ 797,849 | |
| Disabled and Deceased Veterans' Exemptions | 210,305 | |
| Productivity Value Loss | 893,894 | |
| Homestead 10% Cap Adjustment | 260,630 | |
| Abatement | - | |
| Total Exempt Property | - | |
| Other | 22,650,776 | 24,813,454 |
| 2020 Net Taxable Assessed Valuation (100% of Actual)[(a)] | | $ 94,009,697 |

[(a)] *See "TAX INFORMATION - City Application of the Property Tax Code" in the Official Statement for a description of the City's taxation procedures.*

*Source: Taylor Central Appraisal District*

**PRINCIPAL TAXPAYERS** **TABLE 2**

| Name | Type of Business | 2020/21 Net Taxable Assessed Valuation | % of Total 2020/21 Assessed Valuation* |
|---|---|---|---|
| Dunagin Transportation Co. | Shipping/Freight | $ 3,358,854 | 3.57% |
| B & D Storage LP | Storage Units/Warehouse | 1,909,324 | 2.03% |
| Bennett Construction Inc | Developer | 1,836,855 | 1.95% |
| McElroy Metal Mill Inc. | Industrial Manufacturing | 1,700,476 | 1.81% |
| BW Gas & Convenience | Gas Station | 1,593,488 | 1.70% |
| Union Pacific Railroad Co | Railroad | 1,466,757 | 1.56% |
| City of Merkel | Industrial Manufacturing | 1,230,673 | 1.31% |
| Brookshire Grocery Co. | Grocery Store | 1,220,776 | 1.30% |
| Stroh Properties LP | Nursing Home | 1,175,189 | 1.25% |
| AEP Texas Inc. | Electric Utility/ Power Plant | 1,160,741 | 1.23% |
| **Total** | | $16,653,133 | 17.71% |

* Based on 2020 Net Taxable Assessed Valuation of $94,009,697.

*Source: Texas Comptroller of Public Accounts and Taylor Central Appraisal District*

**PROPERTY TAX RATES AND COLLECTIONS[(a)]** **TABLE 3**

| Tax Year | Net Taxable Assessed Valuation | Tax Rate | Collection % Current | Collection % Total[(b)] | Fiscal Year Ended |
|---|---|---|---|---|---|
| 2016 | $ 98,511,683 | $0.5854 | 99.37% | 99.37% | 9-30-17 |
| 2017 | 82,833,201 | 0.7014 | 98.98% | 98.98% | 9-30-18 |
| 2018 | 85,995,136 | 0.6500 | 98.70% | 98.70% | 9-30-19 |
| 2019 | 91,700,294 | 0.6600 | 96.95% | 96.95% | 9-30-20 |
| 2020 | 94,009,697 | 0.6515 | In process | | 9-30-21 |

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[(a)] *See "TAX INFORMATION - The City Application of the Property Tax Code" in the Official Statement for a description of the City's taxation procedures.*

[(b)] *Excludes interest and penalties.*

*Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Taylor Central Appraisal District, and the City's 2020 Annual Financial Statements.*

*Note: Assessed Valuations may change during the year due to various supplements and protests, and valuations on a later date or in other tables of this Official Statement may not match those shown on this table.*

**TAX RATE DISTRIBUTION** **TABLE 4**

| | 2020-21 | 2019-20 | 2018-19 | 2017-18 | 2016-17 |
|---|---|---|---|---|---|
| Maintenance & Operations | $0.6515 | $0.6600 | $0.6500 | $0.7014 | $0.5854 |
| I & S Fund | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| TOTAL | $0.6515 | $0.6600 | $0.6500 | $0.7014 | $0.5854 |

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*Source: City*

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**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS** **TABLE 5**

| Fiscal Year 30-Sept | Total Outstanding Debt Service | Less Refunded Obligations Debt Service | Principal | Interest | Total Debt Service |
|---|---|---|---|---|---|
| 2022 | $ 359,333 | $ 79,633 | $ 50,000 | $ 27,374 | $357,074 |
| 2023 | 360,713 | 79,613 | 50,000 | 26,450 | 357,550 |
| 2024 | 361,900 | 79,550 | 50,000 | 25,450 | 357,800 |
| 2025 | 337,895 | 79,445 | 50,000 | 24,450 | 332,900 |
| 2026 | 334,448 | 79,298 | 55,000 | 22,950 | 333,100 |
| 2027 | 335,958 | 79,108 | 55,000 | 21,300 | 333,150 |
| 2028 | 332,275 | 78,875 | 55,000 | 19,650 | 328,050 |
| 2029 | 334,550 | 79,600 | 60,000 | 18,000 | 332,950 |
| 2030 | 335,590 | 79,240 | 60,000 | 16,200 | 332,550 |
| 2031 | 337,438 | 79,838 | 65,000 | 14,400 | 337,000 |
| 2032 | 336,750 | 79,350 | 65,000 | 12,450 | 334,850 |
| 2033 | 336,820 | 79,820 | 65,000 | 10,500 | 332,500 |
| 2034 | 335,605 | 79,205 | 70,000 | 8,550 | 334,950 |
| 2035 | 340,148 | 79,548 | 70,000 | 6,450 | 337,050 |
| 2036 | 339,205 | 79,805 | 75,000 | 4,350 | 338,750 |
| 2037 | 336,978 | 78,978 | 70,000 | 2,100 | 330,100 |
| 2038 | 335,508 | 79,108 | - | - | 256,400 |
| 2039 | 338,753 | 79,153 | - | - | 259,600 |
| 2040 | 336,513 | 79,113 | - | - | 257,400 |
| 2041 | 333,988 | 78,988 | - | - | 255,000 |
| 2042 | 332,178 | 79,778 | - | - | 252,400 |
| 2043 | 339,040 | 79,440 | - | - | 259,600 |
| 2044 | 335,218 | 79,018 | - | - | 256,200 |
| 2045 | 332,110 | 79,510 | - | - | 252,600 |
| 2046 | 337,675 | 78,875 | - | - | 258,800 |
| 2047 | 333,555 | 79,155 | - | - | 254,400 |
| 2048 | 204,108 | 79,308 | - | - | 124,800 |
| 2049 | 79,333 | 79,333 | - | - | - |
| 2050 | 79,230 | 79,230 | - | - | - |
| **TOTAL** | $9,172,815 | $2,300,915 | $965,000 | $260,624 | $8,097,524 |

*Interest estimated at market rates for purposes of illustration.*

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**APPENDIX B**

**GENERAL INFORMATION REGARDING**
**THE CITY OF MERKEL, TEXAS**

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**General**

The City of Merkel, Texas (the "City") is city in Taylor County, Texas. Merkel is located 17 miles west of Abilene, Texas near Interstate Highway 20. The population was 2,590 at the 2010 census. The City is served by the Merkel Independent School District. Around 1870, when the Texas and Pacific Railway was built, the City was founded as Windmill Town. In 1881, it was renamed as Merkel in honor of the first settler in this area, S. M. Merkel from Germany. In 1882, the first mercantile store and in 1883, the first post office opened in the City.

**Taylor County**

Taylor County, Texas is a total area of 919 square mile. As of the 2010 census, its population was 131,506. Its county seat is Abilene, Texas. The county was created in 1858 and later organized in 1878. It is named for Edward Taylor, George Taylor, and James Taylor, three brothers who died at the Battle of the Alamo. Taylor County is included in the Abilene, Texas Metropolitan Statistical Area, and is considered part of West Texas.

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**APPENDIX C**

**FORM OF OPINION OF BOND COUNSEL**

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McCALL PARKHURST & HORTON

Focused on Public Finance since 1919.

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

*An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.*

**CITY OF MERKEL, TEXAS**
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2021**
**IN THE AGGREGATE PRINCIPAL AMOUNT OF $965,000**

---

AS BOND COUNSEL FOR THE CITY OF MERKEL, TEXAS, (the "Issuer") in connection with the issuance of the General Obligation Refunding Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Bonds and in the ordinance of the Issuer authorizing the issuance and sale of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in 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 and sale of the Bonds, including executed Bond Number T-1.

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

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

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the ordinance adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being refinanced and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, and the certification by the holder of the refunded obligations verifying the sufficiency of the amounts deposited therewith will be sufficient to pay the principal of and interest on the refunded obligations on the redemption date, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants,

interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

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

Respectfully,

**APPENDIX D**

**AUDITED FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

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# CITY OF MERKEL, TEXAS

**ANNUAL FINANCIAL REPORT**
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

CATHRINE WILKS CPA LLC

**CITY OF MERKEL, TEXAS**
**ANNUAL FINANCIAL REPORT**
**YEAR ENDED SEPTEMBER 30, 2020**

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Cathrine Wilks CPA LLC

501 Locust Street
P.O. Box 627
Sweetwater, Texas 79556
(325) 236-9552

# INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
Merkel, Texas 79536

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and the aggregate remaining funds of the City of Merkel, Texas, ("City") as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on our audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

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, the aggregate discretely presented component units, and the aggregate remaining funds of the City of Merkel, Texas, as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in net pension liability and related ratios, and the schedule of contributions and notes to schedule of contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an

appropriate operational, economic, or historical context. 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 our 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 us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued our report dated December 17, 2020, on our consideration of the City of Merkel's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Catherine Wills CPA LLC

Sweetwater, Texas

December 17, 2020

## CITY OF MERKEL, TEXAS

## Management's Discussion and Analysis
## September 30, 2020

This section of the City of Merkel's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2020. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The primary government's combined net position was nearly $4 million as of September 30, 2020.
- During the year, the primary government's combined net position increased $303,302 from the previous year.
- The general fund reported a fund balance this year of nearly $1.7 million at year end. Of this amount, $760,349 is available for spending at the government's discretion (unassigned fund balance).

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts—*management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds statements* tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund statements* offer *short-* and *long-term* financial information about the activities the government operates *like businesses*.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

#### Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred inflows of resources, and liabilities. All the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets and liabilities—are one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, culture and recreation, and interest on long-term debt. Property taxes and grants finance most of these activities.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole.

Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- City Administration establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *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-term and short-term financial information.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's (Primary Government) combined net position was nearly $4 million at September 30, 2020. The components of the City's net position are shown in the table below. The $2 million of unrestricted net position represents resources available to fund the programs of the City next year. This represents 50% of the total net position of the City.

**Statement of Net position**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Current & other assets | $1,853,492 | $1,695,572 | $ 1,442,553 | $ 1,013,025 | $3,296,045 | $2,708,597 |
| Capital assets | 1,533,262 | 1,602,925 | 6,174,984 | 6,333,835 | 7,708,246 | 7,936,760 |
| Total assets | 3,386,754 | 3,298,497 | 7,617,538 | 7,346,860 | 11,004,292 | 10,645,357 |
| Deferred outflows | 48,444 | 76,503 | 23,483 | 38,906 | 71,927 | 115,409 |
| Current liabilities | 26,471 | 43,154 | 85,322 | 105,977 | 111,793 | 149,131 |
| Long-term liabilities | 1,619,334 | 1,668,580 | 5,228,543 | 5,150,995 | 6,847,877 | 6,819,575 |
| Total Liabilities | 1,645,805 | 1,711,734 | 5,313,865 | 5,256,973 | 6,959,670 | 6,968,707 |
| Deferred pension inflow | 94,823 | 80,335 | 44,263 | 37,563 | 139,086 | 117,898 |
| Net position: | | | | | | |
| Net investment in Capital assets | 110,356 | 214,569 | 1,090,257 | 1,350,151 | 1,200,613 | 1,564,720 |
| Restricted | 470,549 | 200,860 | 318,675 | 204,284 | 789,224 | 405,144 |
| Unrestricted | 1,113,665 | 1,167,502 | 873,961 | 536,795 | 1,987,626 | 1,704,297 |
| Total Net position | $1,694,570 | $1,582,931 | $2,282,893 | $2,091,230 | $3,977,463 | $3,674,161 |

As the above table shows, current and other assets increased $587,448, and net capital assets decreased by $228,514. Cash in the general fund increased due to a debt advance and sale of assets at an auction. Both these were nearly $100,000 combined. The cash in the enterprise fund increased $471,390, the details of which can be seen on page 21 on the Statement of Cash Flows. The details of capital asset additions are discussed in more detail in the notes to the financial statements. Depreciation expense for the primary government for the year was $405,343.

Deferred pension outflows decreased $43,482 and deferred pension inflows increased $21,188, both related to TMRS assumption and investment changes for the year.

The City had a decrease in current liabilities in the amount of $37,338 which was nearly entirely from a decrease in accounts payable. The City had $5,015,979 in current year long-term debt additions and $4,987,677 in long-term debt reductions. This includes a bond refunding as explained on page 34. All scheduled debt service payments were timely made, and all debt covenants have been complied with. Details of the City's debt can be found on pages 31 through 34 in the notes to the financial statements.

**Statement of Activities**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Program Revenues: | | | | | | |
| Charges for services | $ 70,829 | $ 67,011 | $1,940,073 | $1,672,182 | $2,010,902 | $1,739,193 |
| Operating grants, contributions | 2,081 | 2,205 | - | - | 2,081 | 2,205 |
| Capital grants, contributions | - | 42,633 | - | - | - | 42,633 |
| General Revenues: | | | | | | |
| Taxes | 1,103,085 | 1,032,258 | - | - | 1,103,085 | 1,032,258 |
| Other | 94,466 | 106,936 | 73,110 | 5,007 | 167,576 | 111,943 |
| Total Revenues | 1,270,461 | 1,251,043 | 2,013,183 | 1,677,189 | 3,283,644 | 2,928,232 |
| Program Expenses | | | | | | |
| General government | 150,077 | 155,175 | - | - | 150,077 | 155,175 |
| Public safety | 581,238 | 557,449 | - | - | 581,238 | 557,449 |
| Streets | 291,644 | 380,468 | - | - | 291,644 | 380,468 |
| Culture and recreation | 77,291 | 74,053 | - | - | 77,291 | 74,053 |
| Interest on long-term debt | 58,572 | 64,626 | - | - | 58,572 | 64,626 |
| Water and sewer | - | - | 1,595,105 | 1,412,094 | 1,595,105 | 1,412,094 |
| Sanitation | - | - | 226,415 | 254,444 | 226,415 | 254,444 |
| Total Program Expenses | 1,158,822 | 1,231,771 | 1,821,520 | 1,666,538 | 2,980,342 | 2,898,309 |
| Increase (decrease) in net position | 111,639 | 19,271 | 191,663 | 10,651 | 303,302 | 29,923 |
| Beginning net position | 1,582,931 | 1,563,660 | 2,091,230 | 2,080,579 | 3,674,161 | 3,644,239 |
| Ending net position | $1,694,570 | $1,582,931 | $2,282,893 | $2,091,230 | $3,977,463 | $3,674,161 |

Total revenues increased from $2,928,232 to $3,283,644. This $355,412 is a 12% increase. As indicated in the table above, the main increase is in charges for services and other revenue. The increase in charges for services was due to a water rate increase to compensate for the increased cost to purchase water as seen further down in the table under program expenses of the water and sewer department. The increase in other revenue was from the

error detected by the City's sanitation services vendor. This error is discussed on page 44 in the notes to financial statements.

Total program expenses increased $82,033. The main increase was in the water and sewer department while the street department saw the largest decrease. The cost to purchase water increased as mentioned above. The street department decrease in program expenses is due to a decrease in street maintenance and repair projects. At the end of the current fiscal year, the City of Merkel is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

### Governmental Activities

The focus of the City's general fund is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The general fund has several categories of restricted and assigned fund balances as seen on page 27. The unassigned fund balance in the general fund of $760,349 represents nearly 7 months of operating costs.

The City's total general fund revenues were up $101,523 from the previous year. Debt advances of $73,412 and proceeds from sale of assets of $23,158 were some of the largest increases. Property taxes increased $57,656 and sales tax revenue increased $33,996. Other revenue decreased due to an insurance recovery that occurred in fiscal year 2019. A significant portion, 86%, of the City's revenue comes from taxes that include property, sales, franchise taxes, and other taxes.

The total cost of all governmental activities program expenses was $1,191,214 as seen on page 16. This amounts to a decrease of $45,285 from the previous fiscal year. The police department saw an increase of $58,863 with their purchase of a new police vehicle and equipment. The street department saw a decrease of $71,175 since they were unable to get as many street paving projects completed in fiscal year 2020 as they did in fiscal year 2019.

### Business-type Activities

The City's business-type revenues increased from $1,698,214 to $2,013,184. This increase is mainly attributable to an increase in water rates. Costs of business-type activities increased $154,982. As mentioned above, the cost of water purchased increased this past fiscal year by $88,775. Another large increase was the bond issuance costs this fiscal year of $142,762.

### General Fund Budgetary Highlights

The City had no budget amendments during the year as discussed on page 25 of the notes. Actual general fund expenditures were $137,372 under budgeted amounts. The most significant negative variances resulted from capital outlay in the police department. The parks department had additional payroll costs that put them over budget. Revenues were $64,756 more than budgeted. Sales and property taxes were more than budgeted. Property tax collection rates were better than they were in fiscal year 2019 resulting in more than anticipated collections. Other revenues were over budget as well mainly due to restitution from a lawsuit that was settled. The net result was a positive budget variance of $166,593 in the net change in fund balance of the general fund.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2020, the City had invested a little over $14 million in a broad range of capital assets including land, equipment, buildings, and vehicles. The general fund purchased a police vehicle and equipment for $111,284. The enterprise fund purchased a backhoe for $65,000 and some office computers. More details on capital assets are in the notes to the financial statements. The Merkel Volunteer Fire Department (discretely presented component units) capital asset information is presented in the notes as well.

**Capital Assets**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Land | $ 12,500 | $ 12,500 | $ 72,080 | $ 72,080 | $ 84,580 | $ 84,580 |
| Construction in-progress | - | - | - | - | - | - |
| Buildings | 141,968 | 141,968 | 1,975 | 1,975 | 143,943 | 143,943 |
| Water system | - | - | 9,416,242 | 9,416,242 | 9,416,242 | 9,416,242 |
| Infrastructure | 1,912,060 | 1,912,060 | - | - | 1,912,060 | 1,912,060 |
| Machinery and equipment | 1,148,839 | 1,199,226 | 391,324 | 325,779 | 1,540,163 | 1,525,005 |
| Vehicles | 1,076,857 | 1,077,279 | 40,574 | 55,311 | 1,117,431 | 1,132,590 |
| Total at historical cost | 4,292,224 | 4,343,032 | 9,922,196 | 9,871,387 | 14,214,420 | 14,214,420 |
| Total accumulated Depreciation | (2,758,963) | (2,740,109) | (3,747,211) | (3,537,551) | (6,506,174) | (6,277,660) |
| Net capital assets | $ 1,533,262 | $ 1,602,924 | $6,174,984 | $6,333,836 | $7,708,246 | $7,936,760 |

### Long-Term Obligations

At year-end the City had a little less than $7 million in outstanding obligations as shown in the following table. The City had a bond refunding whereby the Series 2020 General Obligation bonds refunded the 1994, 2008 and 2009 outstanding bonds. More detailed information about the City's debt is presented in the notes to the financial statements on pages 31 through 34. All debt payments were made, and all debt covenants have been satisfied for the year. The police department issued a note in the amount of $73,412 to pay for the new police vehicle and equipment. Net pension liability decreased $80,240 and total OPEB liability increased $8,380. Details of the pension and OPEB plans are on pages 35 through 43 of the notes to the financial statements.

**City's Long-Term Obligations**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Notes | $ 80,912 | $ 37,500 | $ 160,210 | $ 194,684 | $ 241,122 | $ 232,184 |
| Capital leases | 17,494 | 34,356 | - | - | 17,494 | 34,356 |
| Bonds | 1,332,000 | 1,354,000 | 4,924,520 | 4,789,000 | 6,256,520 | 6,143,000 |
| Compensated absences | 13,145 | 17,803 | 6,813 | 7,589 | 19,958 | 25,392 |
| Net Pension liability | 149,510 | 204,378 | 124,052 | 149,424 | 273,562 | 353,802 |
| Total OPEB liability | 26,273 | 20,543 | 12,948 | 10,298 | 39,221 | 30,841 |
| Total Long-Term Obligations | $1,619,334 | $1,668,580 | $5,228,543 | $5,150,995 | $6,847,877 | $6,819,575 |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's budgetary general fund will not change significantly next year. Ad valorem tax rate will decrease from .6600 to .6515 which is the no-new-revenue tax rate. A 3% cost-of-living raise is budgeted for 2021. The City will also continue with the implementation of their 5-year water rate increase plan. The Sanitation Department is anticipating a 12% increase in their costs.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Administrative Office at (325) 928-4911 or by mail at 100 Kent Street, Merkel, Texas 79536.

# Government-wide Financial Statements

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# CITY OF MERKEL, TEXAS

Statement of Net Position
September 30, 2020

| | Primary Government | | | Component Units |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | |
| **Assets** | | | | |
| Current cash and cash equivalents | $ 1,089,875 | $ 1,123,156 | $ 2,213,031 | $ 580,647 |
| Investments | 24,131 | - | 24,131 | 454,241 |
| Receivables (net of allowance for uncollectibles) | 100,499 | 195,374 | 295,873 | 17,149 |
| Inventory | - | - | - | - |
| Internal balances | 194,652 | (194,652) | - | - |
| Prepaid items | 21,683 | - | 21,683 | |
| Cash - restricted | 417,652 | 318,675 | 736,327 | - |
| Lease receivable | 5,000 | - | 5,000 | - |
| Capital assets (net of accumulated depreciation): | | | | |
| Land | 12,500 | 72,080 | 84,580 | - |
| Buildings and improvements | 25,586 | - | 25,586 | - |
| Utility system | - | 5,957,331 | 5,957,331 | - |
| Machinery and equipment | 113,763 | 133,318 | 247,081 | 33,631 |
| Furniture and fixtures | - | - | - | - |
| Vehicles | 157,560 | 12,255 | 169,815 | - |
| Infrastructure | 1,223,853 | - | 1,223,853 | - |
| Total assets | 3,386,754 | 7,617,538 | 11,004,292 | 1,085,668 |
| **Deferred Outflows of Resources** | | | | |
| Deferred pension outflow | 44,307 | 21,637 | 65,944 | - |
| Deferred OPEB outflow | 4,137 | 1,846 | 5,983 | - |
| Total deferred outflows of resources | 48,444 | 23,483 | 71,927 | - |
| **Liabilities** | | | | |
| Accounts payable | 21,209 | 42,271 | 63,480 | - |
| Customer deposits | - | 29,946 | 29,946 | - |
| Accrued liabilities | 5,262 | 13,105 | 18,367 | - |
| Long-term Liabilities: | | | | |
| Due Within one year | 74,824 | 170,822 | 245,646 | - |
| Due in More than one year | 1,544,510 | 5,057,721 | 6,602,231 | - |
| Total liabilities | 1,645,805 | 5,313,865 | 6,959,670 | - |
| **Deferred Inflows of Resources** | | | | |
| Deferred pension inflow | 93,933 | 43,812 | 137,745 | - |
| Deferred OPEB inflow | 890 | 451 | 1,341 | |
| Total deferred inflows of resources | 94,823 | 44,263 | 139,086 | - |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 110,356 | 1,090,257 | 1,200,613 | 33,631 |
| Restricted for Debt service | 308,407 | 318,675 | 627,082 | - |
| Restricted for Public safety | 54,670 | - | 54,670 | - |
| Restricted for Tourism development | 87,176 | - | 87,176 | - |
| Restricted for Court Technology and Security | 20,296 | - | 20,296 | - |
| Restricted for Streets | - | - | - | - |
| Restricted for Economic development | - | - | - | 925,290 |
| Unrestricted | 1,113,665 | 873,961 | 1,987,626 | 126,747 |
| Total Net Position | $ 1,694,570 | $ 2,282,893 | $ 3,977,463 | $ 1,085,668 |

The notes to the financial statements are an integral part of this statement.

## CITY OF MERKEL, TEXAS

Statement of Activities
For the Year Ended September 30, 2020

| Function/Program Activities | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expenses) Revenues and Changes in Net Position: Primary Government: Governmental Activities | Primary Government: Business-type Activities | Primary Government: Total | Component Units |
|---|---|---|---|---|---|---|---|---|
| **Primary Government:** | | | | | | | | |
| Governmental Activities | | | | | | | | |
| General government | $ 150,077 | $ - | $ - | $ - | $ (150,077) | $ - | $ (150,077) | $ - |
| Public safety | 581,238 | 69,449 | 1,530 | - | (510,259) | - | (510,259) | - |
| Streets | 291,644 | - | - | - | (291,644) | - | (291,644) | - |
| Culture and recreation | 77,291 | 1,380 | 551 | - | (75,360) | - | (75,360) | - |
| Interest on long-term debt | 58,572 | - | - | - | (58,572) | - | (58,572) | |
| **Total governmental activities** | 1,158,822 | 70,829 | 2,081 | - | (1,085,912) | - | (1,085,912) | - |
| Business-type Activities: | | | | | | | | |
| Water and sewer | 1,595,105 | 1,615,237 | - | - | - | 20,132 | 20,132 | - |
| Sanitation | 226,415 | 324,836 | | | | 98,421 | 98,421 | |
| **Total business-type activities** | 1,821,520 | 1,940,073 | - | - | - | 118,553 | 118,553 | - |
| **Total Primary Government** | $ 2,980,342 | $ 2,010,902 | $ 2,081 | $ - | $ (1,085,912) | $ 118,553 | $ (967,359) | $ - |
| **Component Units:** | | | | | | | | |
| Volunteer Fire Department | 11,381 | - | 36,937 | - | - | - | - | 25,556 |
| Merkel Economic Development Corporation | 220,261 | - | - | - | - | - | - | (220,261) |
| **Total Component Units** | $ 231,642 | $ - | $ 36,937 | $ - | $ - | $ - | $ - | $ (194,705) |
| General revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes, levied for general purposes | | | | | 618,230 | - | 618,230 | - |
| Sales tax | | | | | 423,468 | - | 423,468 | 141,156 |
| Occupancy | | | | | 4,781 | - | 4,781 | - |
| Franchise tax | | | | | 56,606 | - | 56,606 | - |
| Investment earnings | | | | | 5,030 | 5,479 | 10,509 | 11,179 |
| Gain on sale of capital assets | | | | | 23,158 | - | 23,158 | - |
| Miscellaneous income | | | | | 66,278 | 67,631 | 133,909 | - |
| Total general revenues | | | | | 1,197,551 | 73,110 | 1,270,661 | 152,335 |
| Change in net position | | | | | 111,639 | 191,663 | 303,302 | (42,370) |
| Net Position - beginning | | | | | 1,582,931 | 2,091,230 | 3,674,161 | 1,128,038 |
| Net Position - ending | | | | | $ 1,694,570 | $ 2,282,893 | $ 3,977,463 | $ 1,085,668 |

The notes to the financial statements are an integral part of this statement.

# Fund Financial Statements

# CITY OF MERKEL, TEXAS

Balance Sheet
Governmental Funds
September 30, 2020

| | General | Non-Major Governmental | Total Governmental Funds |
|---|---|---|---|
| **Assets** | | | |
| Current cash and cash equivalents | $ 1,049,213 | $ 40,662 | $ 1,089,875 |
| Investments | 11,512 | 12,619 | 24,131 |
| Receivables, net of allowance for uncollectibles | 100,499 | - | 100,499 |
| Due from other funds | 194,652 | - | 194,652 |
| Cash - restricted | 417,652 | - | 417,652 |
| Total Assets | $ 1,773,528 | $ 53,281 | $ 1,826,810 |
| **Liabilities** | | | |
| Accounts payable | 20,825 | 384 | 21,209 |
| Total Liabilities | 20,825 | 384 | 21,209 |
| **Deferred Inflows of Resources** | | | |
| Unavailable revenue - property taxes | 49,043 | - | 49,043 |
| Total Deferred Inflows of Resources | 49,043 | - | 49,043 |
| **Fund Balances:** | | | |
| Restricted | 417,652 | 52,897 | 470,549 |
| Assigned | 525,659 | - | 525,659 |
| Unassigned | 760,349 | - | 760,349 |
| Total fund balances | 1,703,660 | 52,897 | 1,756,557 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | $ 1,773,528 | $ 53,281 | $ 1,826,810 |

The notes to the financial statements are an integral part of this statement.

# CITY OF MERKEL, TEXAS

Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
September 30, 2020

| | | |
|---|---|---|
| Total Fund Balances - Governmental Funds | $ | 1,756,557 |
| Capital assets, receivables and deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $4,343,032 and accumulated depreciation was ($2,740,107). Also included is a note receivable in the amount of $35,000 and deferred outflow of resources of $76,503. | | 1,714,428 |
| In addition, long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. At the beginning of the year, this balance was ($1,668,580). Also added is ($5,523) of accrued interest payable and ($80,335) of deferred inflows of resources. | | (1,754,438) |
| Current year capital outlays of $111,283, and long-term debt reductions of $68,862 and debt advances of ($73,412), are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions/additions in long-term debt in the government-wide financial statements along with changes in other liabilities of $4,658. The net effect of including these changes is to increase (decrease) net assets. | | 111,391 |
| Included in the items related to debt is the recognition of the City's proportionate share of the net pension liability required by GASB 68 and 75 in the amount of $49,138, a deferred resource outflow related to pensions in the amount of ($28,059), and a deferred resource inflow related to pensions in the amount of ($14,488). This amounted to a change in Net Position in the amount of $6,591. | | 6,591 |
| The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. | | (180,946) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis accounting. These include recoginzing deferred revenue as revenue, and eliminating interfund transactions. The net effect of these reclassifictions and recognitions is to increase (decrease) net assets. | | 40,987 |
| Net Position of Governmental Activities | $ | 1,694,570 |

The notes to the financial statements are an integral part of this statement.

# CITY OF MERKEL, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2020

| | General | Non-Major Governmental | Total Governmental Funds |
|---|---|---|---|
| **Revenues** | | | |
| Taxes: | | | |
| Property | $ 622,569 | $ - | $ 622,569 |
| Sales | 423,468 | - | 423,468 |
| Occupancy | 4,781 | - | 4,781 |
| Franchise Fees | 56,606 | - | 56,606 |
| Licenses and permits | 4,940 | - | 4,940 |
| Charges for services | 1,790 | - | 1,790 |
| Fines | 45,099 | - | 45,099 |
| Contributions and donations | 185 | 366 | 551 |
| Intergovernmental | 20,530 | - | 20,530 |
| Rents and royalties | 2,835 | - | 2,835 |
| Investment earnings | 4,727 | 303 | 5,030 |
| Other | 93,443 | - | 93,443 |
| Total revenues | 1,280,973 | 669 | 1,281,642 |
| **Expenditures** | | | |
| Current: | | | |
| General government | 148,176 | - | 148,176 |
| Public safety | 490,197 | 700 | 490,897 |
| Streets | 242,606 | - | 242,606 |
| Culture and recreation | 70,557 | - | 70,557 |
| Debt Service: | | | |
| Principal | 68,862 | - | 68,862 |
| Interest | 58,833 | - | 58,833 |
| Capital outlay: | | | |
| Public safety | 111,283 | - | 111,283 |
| Streets | - | - | - |
| Culture and recreation | - | - | - |
| Total expenditures | 1,190,514 | 700 | 1,191,214 |
| Excess (deficiency) of revenues over (under) expenditures | 90,459 | (31) | 90,428 |
| **Other financing sources (uses)** | | | |
| Debt Advances | 73,412 | - | 73,412 |
| Sale of assets | 23,158 | | 23,158 |
| Total other financing sources and uses | 96,570 | - | 96,570 |
| Net change in fund balances | 187,029 | (31) | 186,998 |
| Fund balances - beginning | 1,516,631 | 52,928 | 1,569,559 |
| Fund balances - ending | $ 1,703,660 | $ 52,897 | $ 1,756,557 |

The notes to the financial statements are an integral part of this statement.

# CITY OF MERKEL, 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, 2020

| | | |
|---|---|---|
| Amounts reported for governmental activities in the statement of activities (page 12) are different because: | | |
| Net change in fund balances - total governmental funds (page 16) | $ | 186,998 |
| Current year capital outlays of $111,283 and long-term debt payments of $68,862 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions/additions in long-term debt in the government-wide financial statements along with changes in other liabilities. Also shown as increases in debt are changes in compensated absences of $4,658. The net effect of including these changes is to increase (decrease) net assets. | | 184,803 |
| Current year loan and other debt proceeds are other financing sources in the fund financial statements, but they should be shown as increases in debt in the government-wide financial statements. | | (73,412) |
| Included in the items related to debt is the recognition of the City's proportionate share of the net pension and OPEB expenses required by GASB 68 and 75 | | 6,591 |
| The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. | | (180,946) |
| Reclassification entries to convert modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, and adjusting current year revenue to show revenue earned from the current year's tax levy, as well as revenue earned on a current year contract yet not available in the current year. | | (12,395) |
| Change in net position of governmental activities (page 12) | $ | 111,639 |

The notes to the financial statements are an integral part of this statement.

# CITY OF MERKEL, TEXAS

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended September 30, 2020

| | Budgeted Amounts | | Actual Amounts | Variance with Final budget- Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **Revenues** | | | | |
| Taxes: | | | | |
| Property | $ 593,117 | $ 593,117 | $ 622,569 | $ 29,452 |
| Sales | 371,250 | 371,250 | 423,468 | 52,218 |
| Occupancy | 7,500 | 7,500 | 4,781 | (2,719) |
| Franchise tax | 60,000 | 60,000 | 56,606 | (3,394) |
| Licenses and permits | 4,000 | 4,000 | 4,940 | 940 |
| Charges for services | 750 | 750 | 1,790 | 1,040 |
| Fines | 61,500 | 61,500 | 45,099 | (16,401) |
| Contributions and donations | 8,000 | 8,000 | 185 | (7,815) |
| Intergovernmental | 40,000 | 40,000 | 20,530 | (19,470) |
| Rents and royalties | 4,300 | 4,300 | 2,835 | (1,465) |
| Investment earnings | 3,500 | 3,500 | 4,727 | 1,227 |
| Other | 62,300 | 62,300 | 93,443 | 31,143 |
| Total revenues | 1,216,217 | 1,216,217 | 1,280,973 | 64,756 |
| **Expenditures** | | | | |
| Current: | | | | |
| General government | 198,473 | 198,473 | 148,176 | 50,297 |
| Public safety: | | | | |
| Ambulance | 4,000 | 4,000 | 2,994 | 1,006 |
| Fire department | 38,662 | 38,662 | 35,861 | 2,801 |
| Police department | 486,426 | 486,426 | 510,615 | (24,189) |
| Municipal Court | 61,795 | 61,795 | 52,010 | 9,785 |
| Streets | 321,408 | 321,408 | 242,606 | 78,802 |
| Culture and Recreation: | | | | |
| Heritage Hall | 28,515 | 28,515 | 23,250 | 5,265 |
| Library | 31,289 | 31,289 | 31,957 | (668) |
| Parks | 12,398 | 12,398 | 15,350 | (2,952) |
| Debt Service: | | | | |
| Principal | 86,162 | 86,162 | 68,862 | 17,300 |
| Interest | 58,758 | 58,758 | 58,833 | (75) |
| Total expenditures | 1,327,886 | 1,327,886 | 1,190,514 | 137,372 |
| Excess (deficiency) of revenues over (under) expenditures | (111,669) | (111,669) | 90,459 | 202,128 |
| **Other financing sources (uses)** | | | | |
| Transfer in | 132,105 | 132,105 | - | (132,105) |
| Debt Advances | - | - | 73,412 | 73,412 |
| Sale of assets | - | - | 23,158 | 23,158 |
| Total other financing sources and uses | 132,105 | 132,105 | 96,570 | (35,535) |
| Net change in fund balances | 20,436 | 20,436 | 187,029 | 166,593 |
| Fund balances - beginning | 1,516,631 | 1,516,631 | 1,516,631 | - |
| Fund balances - ending | $ 1,537,067 | $ 1,537,067 | $ 1,703,660 | $ 166,593 |

The notes to the financial statements are an integral part of this statement.

# CITY OF MERKEL, TEXAS

Statement of Net Position
Proprietary Funds
September 30, 2020

| | Business-type Activities-Enterprise Fund |
|---|---|
| **Assets** | |
| Current assets: | |
| Cash and cash equivalents | $ 1,123,156 |
| Restricted cash | 318,675 |
| Accounts receivable (net of allowance for uncollectibles) | 195,374 |
| Total current assets | 1,637,205 |
| Capital assets: | |
| Land | 72,080 |
| Buildings | 1,975 |
| Machinery and equipment | 391,324 |
| Vehicles | 40,575 |
| Utility system | 9,416,242 |
| Less accumulated depreciation | (3,747,211) |
| Total capital assets ( net of accumulated depreciation) | 6,174,984 |
| Total assets | 7,812,190 |
| **Deferred Outflows of Resources** | |
| Deferred pension outflow | 21,637 |
| Deferred OPEB outflow | 1,846 |
| Total deferred outflows of resources | 23,483 |
| **Liabilities** | |
| Current Liabilities: | |
| Accounts payable | 42,274 |
| Due to other funds | 194,652 |
| Accrued expenses | 13,105 |
| Customer deposits | 29,946 |
| Compensated absences | 1,703 |
| Note payable - current | 30,041 |
| Bonds payable - current | 120,000 |
| Total current liabilities | 431,720 |
| Noncurrent liabilities: | |
| Compensated absences | 5,110 |
| Net pension liability | 124,052 |
| Total OPEB liability | 12,948 |
| Note payable | 130,166 |
| Bond payable | 4,804,521 |
| Total noncurrent liabilities | 5,076,797 |
| Total liabilities | 5,508,517 |
| **Deferred Inflow of Resources** | |
| Deferred pension inflow | 43,812 |
| Deferred OPEB inflow | 451 |
| Total deferred inflows of resources | 44,263 |
| **Net Position** | |
| Net investment in capital assets | 1,090,256 |
| Restricted for debt service (expendable) | 318,675 |
| Unrestricted | 873,961 |
| Total net position | $ 2,282,892 |

The notes to the financial statements are an integral part of this statement.

# CITY OF MERKEL, TEXAS

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended September 30, 2020

| | Business-type Activities-Enterprise Fund |
|---|---|
| Operating revenues: | |
| Charges for sales and services: | |
| Water | $ 1,251,186 |
| Sewer | 333,819 |
| Sanitation | 324,836 |
| Other operating revenue | 30,233 |
| Total operating revenue | 1,940,074 |
| Operating expenses: | |
| Personal services | 248,287 |
| Maintenance and supplies | 110,707 |
| Other services and charges | 1,040,418 |
| Depreciation | 224,397 |
| Total operating expenses | 1,623,809 |
| Operating income (loss) | 316,266 |
| Nonoperating revenues (expenses): | |
| Interest income | 5,479 |
| Miscellaneous income | 67,631 |
| Interest expense | (197,712) |
| Total nonoperating revenue (expense) | (124,602) |
| Change in net position | 191,663 |
| Total net position - beginning | 2,091,230 |
| Total net position - ending | $ 2,282,893 |

The notes to the financial statements are an integral part of this statement.

# CITY OF MERKEL, TEXAS

Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2020

| | Business-type Activities- Enterprise Fund |
|---|---|
| **Cash Flows From Operating Activities** | |
| Receipts from customers and users | $ 1,898,693 |
| Payments to suppliers | 1,082,372 |
| Payments to employees | 249,662 |
| Net cash provided by operating activities | 566,659 |
| **Cash Flows From Noncapital Financing Activities** | |
| Refund of sanitation service overcharges | 67,631 |
| Net cash provided (used) by noncapital financing activities | 67,631 |
| **Cash Flows From Capital and Related Financing Activities** | |
| Proceeds from Refunding bonds | 4,933,265 |
| Acquisition and construction of capital assets | (65,545) |
| Principal paid on debt | (4,823,481) |
| Interest paid on debt | (212,618) |
| Net cash provided (used) by capital and related financing activities | (168,379) |
| **Cash Flows From Investing Activities** | |
| Interest and dividends received | 5,479 |
| Net cash provided (used) by investing activities | 5,479 |
| Net increase in cash and cash equivalents | 471,390 |
| Cash and cash equivalents at beginning of year | 970,441 |
| Cash and cash equivalents at end of year | $ 1,441,831 |
| As reported on the balance sheet: | |
| Cash and cash equivalents | 1,123,156 |
| Restricted cash | 318,675 |
| Total cash and equivalents at end of year | $ 1,441,831 |
| **Reconciliation of operating income to net cash provided (used) by operating activities:** | |
| Operating income (loss) | 316,266 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 224,397 |
| (Increase) decrease in accounts receivable | (43,361) |
| (Increase) decrease in inventory | 18,240 |
| (Increase) decrease in deferred outflows of resources | 15,423 |
| Increase (decrease) in accounts payable | (16,470) |
| Increase (decrease) in due to other funds | 66,983 |
| Increase (decrease) in customer deposits | 1,980 |
| Increase (decrease) in compensated absences | (776) |
| Increase (decrease) in pension and OPEB liability | (22,722) |
| Increase (decrease) in deferred inflows of resources | 6,700 |
| Total adjustments | 250,393 |
| Net cash provided by operating activities | $ 566,659 |

The notes to the financial statements are an integral part of this statement.

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## (1) Summary of Significant Accounting Policies

### A. General Statement

The City of Merkel, Texas, is a Type A General Law City with a council-manager form of government and provides the following services: Police and Fire, Streets, Sanitation, Water, Sewer, Social Services, Recreation, Public Improvements, and General Administrative Services.

### B. Financial Reporting Entity

The governmental reporting entity consists of the City (Primary Government) and its component units. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the City are such that exclusion would cause the City's financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the City's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the City. Organizations for which the City is not financially accountable are also included when doing so is necessary in order to prevent the City's financial statements from being misleading.

The basic financial statements include both blended and discretely presented component units. The blended component unit, although a legally separate entity is, in substance, part of the City's operations and so data from this unit is combined with data of the primary government. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government.

**Discretely presented component units.**
Based on these criteria, Merkel Economic Development Corporation is reported as a discretely presented component unit of the City. The corporation is fiscally dependent upon the City and the City is able to impose its will on the organization. The EDC does not have separately issued financial statements.

The Merkel Volunteer Fire Department is reported as a discretely presented component unit of the City. They are fiscally dependent on the City and a financial benefit exists. The Volunteer Firemen provide services to the City as well as the surrounding area. They do not prepare separate financial statements.

**Blended component unit.**
The Emergency Medical Services, Inc. is reported as a blended component unit of the City. They are fiscally dependent upon the City, the City is able to impose its will on the organization, and they are nearly exclusively funded by the City. Exclusion of the organization would result in misleading or incomplete financial statements. The funds of the Emergency Medical Services, Inc. have been included in the Governmental Activities in the financial statements. They do not prepare separate financial statements.

Resource flows (except those affecting the statement of net assets/balance sheet only) between a primary government and its discretely presented component unit are reported as external transactions – that is, as revenues and expenses. Resource flows between the primary government and blended component units are classified as interfund transactions in the financial statements.

### C. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a

specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate fund financial statements are provided for governmental funds and proprietary funds.

D. 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.

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 government reports the following major governmental fund:

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.

The government reports the following major proprietary fund:

The *water, sewer and sanitation fund* accounts for the activities of the City. The City of Merkel supplies water to city residents, disposal of wastewater is primarily limited to the citizens of Merkel. The City also provides for solid waste collection and disposal within the City.

The City has one non-major governmental fund. The Emergency Medical Services is a blended component unit; therefore, it is a special revenue fund.

As a rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

the City enterprise fund and the government's internal service funds are charges to customers for sales and services. The City 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 nonoperating revenues and expenses.

E. Budgetary Control

The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year after which the City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15. The City has one governmental fund with a legally adopted budget and it is the General Operating fund.

Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Rate Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City. The Council is precluded from passing the Budget Ordinance (second reading) until ten days have passed after the Ordinance Publication and after the first Monday in September.

Prior to October 1, the budget is legally adopted or is amended by the City Council on a basis consistent with generally accepted accounting principles. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The City did not have any budget amendments for the year ending September 30, 2020.

F. Cash and Investments

Cash and cash equivalents reflected in the financial statements includes petty cash and cash in banks.

For purposes of reporting cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

In accordance with GASB Statement No. 72 *Fair Value Measurement and Application*, investments are recorded at fair value. Consistent with GASB Statement No. 72, the City categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. A detail of the fair value hierarchy of investments held by the City are disclosed in Note (3) to the financial statements.

G. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

H. Receivables and Payables

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

I. Inventory

Inventories are valued at cost using the first in/first-out (FIFO) method. The costs of inventories are recorded as expenditures when purchased.

J. Restricted Assets

Certain cash balances in the water sewer and sanitation fund are set aside for the repayment of debt. They are maintained in separate bank accounts and their use is limited by applicable bond or lending covenants. The general fund has cash that is restricted for debt service and restricted by legislative mandates such as hotel/motel tax monies, drug seizure monies, and court security and technology monies. The general fund restricted cash is $417,652. Of this amount, $109,245 is restricted by legislative mandates. The water sewer and sanitation fund has $318,675 restricted cash for debt service.

K. 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 $500 and an estimated useful life in excess of three 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 incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, infrastructure, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Vehicles | 3 – 5 |
| Machinery and Equipment | 6 – 30 |
| Buildings | 40 – 60 |
| Infrastructure | 40 – 60 |
| Improvements | 27.5 – 60 |

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualifies for reporting in this category; the deferred outflow related to pensions and also OPEB reported in the government-wide Statement of Net Position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types which arise only under a modified accrual basis of accounting that qualifies for reporting in this category.

Accordingly, the item, unavailable revenue, is reported only in the fund balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

M. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation, sick, and comp pay benefits. Employees are allowed to carryover 5 days for unused vacation time. Employees are allowed to accumulate 30 days of sick time. However, no payment for unused sick pay would be made in the event of termination or death. The estimated liability for accumulated time as of September 30, 2020 is recorded as an accrued payable in the appropriate fund. Governmental fund liabilities are paid by the general fund. Business-type compensated absences are paid by the water, sewer and sanitation fund.

N. Long-term Obligations

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

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

O. Fund Balance

In the fund financial statements, governmental funds report the following classifications of fund balance:

*Restricted* - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

*Assigned* - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or the City Manager when the City Council has delegated that authority. Modifications or rescissions of the constraints can also be removed by the same action that limited the funds.

*Unassigned* - all other spendable amounts.

As of September 30, 2020, fund balances are composed of the following:

| | General Fund | Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|
| Restricted: | | | |
| Public Safety | $ 1,773 | 52,897 | $ 54,670 |
| Tourism Development | 87,176 | - | 87,176 |
| Court Technology and Security | 20,296 | - | 20,296 |
| Debt | 308,407 | - | 308,407 |
| Assigned: | | | |
| Street Improvements | 441,708 | - | 441,708 |
| Debt | 58,507 | - | 58,507 |
| Senior Nutrition | 25,444 | - | 25,444 |
| Unassigned Fund Balances | 760,349 | - | 760,349 |
| Total Fund Balances | $ 1,703,660 | $ 52,897 | $1,756,557 |

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

Net Position

In the government-wide financial statements and proprietary fund financial statements, the net position is reported in three components: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. Net investment in capital assets represents the City's total investment in capital assets, net of depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restriction imposed by creditors, grantors or laws or regulations of other governments.

The government-wide statement of net position of the primary government reported restricted net position of $789,224 of which, $109,245 is restricted by enabling legislation.

Net Investment in Capital Assets

Net investment in capital assets is composed of the following:

| | Capital Assets - Net | Related Debt | Unspent Debt Proceeds | Total |
|---|---|---|---|---|
| Governmental Fund | $ 1,533,262 | $ 1,422,906 | $ - | $ 110,356 |
| Business-Type Fund Water and Sewer Fund | $ 6,174,984 | $ 5,084,727 | $ - | $ 1,090,257 |

## (3) Deposits and Investments

As of September 30, 2020, the Primary Government and both discretely presented component units had investments in certificates of deposit.

*Interest rate risk.* This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair value by keeping its investment portfolio sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

*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. It is the City's policy to limit its investments to those investments that are fully insured or collateralized from a bank in the State of Texas and under the term of written depository agreement, obligations of the United States government, its agencies and instrumentalities and government sponsoring enterprises, or Texas Local Government Investment Pools. The City currently has no investments in obligations of the United States government or Texas Local Government Investment Pools.

*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.

*Custodial credit risk - deposits and investments.* State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a fair value of not less than the principal amount of the deposits. The Primary Government's deposits and

certificates of deposits were fully insured or collateralized as required by the state statutes at September 30, 2020. At year-end, the carrying amount of the Primary Government's deposits totaled $2,949,358 and certificates of deposit totaled $24,131. The bank balances totaled $2,978,324 and the certificates of deposit totaled $24,131. The collateral is held by Prosperity Bank of El Campo, Texas and is held in the City's name.

The City's discretely presented component units had carrying amounts of $1,034,888 in cash and certificates of deposit, and bank balances were the same. The deposits of the Volunteer Fire Department were fully secure at year end. The Economic Development discretely presented component unit had $605,633 in Prosperity Bank which is fully secure by FDIC and pledged securities held by Prosperity Bank of El Campo, Texas in the EDC's name. The EDC also has deposits at First Financial Bank with a balance of $302,507. This account was secured by FDIC in the amount of $250,000 and pledge securities of $456,650 held by Frost Bank in Merkel Economic Development Corporation's name. All cash, cash equivalents and certificates of deposit of the City and its component units were fully secure as of September 30, 2020.

*Concentration of credit risk.* This is the risk of loss attributed to the magnitude of the City's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5% or more in the securities of a single issuer. It is the City's policy to not allow for a concentration of credit risk. Investments issued by the U.S. Government and investments in investment pools are excluded from the 5% disclosure requirement. The City is not exposed to concentration of credit risk.

At year end, the City's and its component unit's investment balances were as follows:

| | Fair Value | Weighted Average Maturity (Years) |
|---|---|---|
| Primary Government: | | |
| Certificates of Deposit | $ 24,131 | <1 |
| | | |
| Component Units: | | |
| Volunteer Fire Dept – Certificates of Deposit | $ 94,292 | 1 |
| EDC – Certificates of Deposit | 359,949 | 2 |
| Total Component Units | $ 454,241 | |

The investments of the City are in compliance with the Council's investment policy and with the Public Funds Investment Act (Government Code Chapter 2256). The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year. Investments at year-end are representative of the types of investments maintained by the City during the year. The certificates of deposit of the primary government and the two discretely presented component unit are considered a level 1 of the fair value hierarchy as explained in note F.

## (4) Receivables

Receivables as of year-end for the government's individual major funds, and non-major funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Water, Sewer Sanitation Fund | Total |
|---|---|---|---|
| Accounts | $ - | $ 271,931 | $ 271,931 |
| Taxes | 105,948 | - | 105,948 |
| Gross Receivables | 105,948 | 271,931 | 377,879 |
| Less: allowance for Uncollectibles | (5,449) | (76,557) | (82,006) |
| Net total receivables | $ 100,499 | $ 195,374 | $ 295,873 |

The City's component unit, Merkel Economic Development Corporation, had taxes receivable of $17,149. Receivables are expected to be collected within one year.

The City's capital lease receivable consists of a lease/purchase agreement with McElroy Metals, Inc. ("the Company") for land and improvements constructed for the Company pursuant to a contract between the City and the Texas Department of Economic Development. The purpose of this contract was to provide partial funding for the construction of a manufacturing facility through the Texas Capital Fund (TCF). Under the terms of the lease/purchase agreement the Company makes lease payments of $2,500 per month over the 20 year term of the lease. Beginning five years after the closing of the TCF contract, the Company has the option to purchase merchantable title to the property for the original amount of the lease obligation less the aggregate amount of rent paid by the Company under the lease. The City is obligated to remit the amount of the lease payments received to the Texas Department of Housing and Community Affairs in repayment of the construction costs reimbursed under the City's agreements with the Texas Department of Economic Development. The total minimum lease payments to be received under the lease as of September 30, 2020 is $5,000.

As of September 30, 2020, the minimum lease payments receivable are as follows:

| Year | Amount |
|---|---|
| 2021 | 5,000 |
| | $ 5,000 |

## (5) Capital Assets

Capital asset activity for the year ended September 30, 2020 was as follows:

### Primary Government

| Governmental activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 12,500 | $ - | $ - | $ 12,500 |
| Total capital assets not being depreciated | 12,500 | - | - | 12,500 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 141,968 | - | - | 141,968 |
| Equipment | 1,156,938 | 42,904 | (88,912) | 1,110,929 |
| Infrastructure | 1,912,060 | - | - | 1,912,060 |
| Motor vehicles | 1,077,279 | 68,380 | (68,802) | 1,076,857 |
| Furniture and fixtures | 42,288 | - | (4,378) | 37,910 |
| Total capital assets being depreciated | 4,330,532 | 111,284 | (162,092) | 4,279,724 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 112,619 | 3,763 | - | 116,382 |
| Equipment | 1,030,699 | 55,381 | (88,912) | 997,168 |
| Infrastructure | 628,143 | 60,064 | - | 688,208 |
| Motor vehicles | 926,410 | 61,688 | (68,802) | 919,295 |
| Furniture and fixtures | 42,238 | 50 | (4,378) | 37,910 |
| Total accumulated depreciation | 2,740,109 | 180,946 | (162,092) | 2,758,963 |
| Total capital assets, being depreciated, net | 1,590,424 | (69,662) | - | 1,520,762 |
| Governmental activities capital assets, net | $ 1,602,924 | $(69,662) | $ - | $ 1,533,262 |

| **Business-type activities:** | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 72,080 | $ - | $ - | $ 72,080 |
| Total capital assets not being depreciated | 72,080 | - | - | 72,080 |
| Capital assets, being depreciated: | | | | |
| Buildings | 1,975 | - | - | 1,975 |
| Equipment | 325,779 | 65,545 | - | 391,324 |
| Motor vehicles | 55,311 | - | (14,736) | 40,574 |
| Water system | 9,416,242 | - | - | 9,416,242 |
| Total capital assets being depreciated | 9,799,307 | 65,545 | (14,736) | 9,850,116 |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,975 | - | - | 1,975 |
| Equipment | 239,860 | 18,147 | - | 258,007 |
| Motor vehicles | 41,456 | 1,599 | (14,736) | 28,319 |
| Water system | 3,254,260 | 204,651 | - | 3,458,912 |
| Total accumulated depreciation | 3,537,551 | 224,397 | (14,736) | 3,747,211 |
| Total capital assets, being depreciated, net | 6,261,756 | (158,852) | - | 6,102,905 |
| Business-type activities capital assets, net | $6,333,836 | $(158,852) | $ - | $6,174,984 |

Depreciation expense was charged to functions as follows:

| | |
|---|---|
| Governmental activities: | |
| General government | $ 2,612 |
| Public safety | 99,520 |
| Streets | 71,944 |
| Culture and recreation | 6,870 |
| Total depreciation expense – governmental activities | $180,946 |

## Component Unit

| **Merkel Volunteer Fire Department** | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, being depreciated: | | | | |
| Equipment | $ 280,541 | $ 4,167 | $ - | $ 284,708 |
| Total capital assets being depreciated | 280,541 | 4,167 | - | 284,708 |
| Less accumulated depreciation for: | 233,892 | 17,185 | - | 251,077 |
| Total accumulated depreciation | 233,892 | 17,185 | - | 251,077 |
| Total capital assets being depreciated, net | 46,649 | (13,018) | - | 33,631 |
| capital assets, net | $ 46,649 | $(13,018) | $ - | $ 33,631 |

## (6) Capital Lease

**Governmental Type Activities:**

The City has entered into an agreement to lease police department equipment. This agreement is in substance a purchase and is reported as a capital lease obligation. The following schedule presents future minimum lease payments as of September 30, 2020. The value of equipment leased at September 30, 2020 was $50,608 and amortization on leased equipment is included with depreciation expense.

| Year Ending September 30, | Governmental Leases |
|---|---|
| 2021 | 18,150 |
| Net minimum lease payments | 18,150 |
| Less: interest | 656 |
| Present Value of Minimum Lease payments | $ 17,494 |

## (7) Long-Term Notes and Certificates of Obligation

At September 30, 2020, long-term debt consisted of the following:

**Governmental-Type Activities:**

| | |
|---|---|
| A Texas Department of Housing and Community Affairs loan for $600.000 bearing an interest rate of 0% payable in 240 monthly installments of $2,500. Final maturity of the loan is in December 2020. | $ 7,500 |
| A Government Capital Corporation loan for $73,412 bearing an interest rate of 3.885% payable in 3 annual installments of $26,396. This note is for the purchase of a police vehicle and equipment and is secured by the vehicle and equipment. | 73,412 |
| Total Notes payable | $ 80,912 |
| Combination Tax & Revenue Certificates of Obligation, Series 2011 in the amount of $1,500,000. The certificates bear interest of 4.25%. and have a final maturity in 2050. Property taxes, waterworks and sewer revenues are pledged for payments of the obligations. This bond issue is for street and pavement improvements. | $ 1,332,000 |

**Business-Type Activities:**

| | |
|---|---|
| General Obligation Refunding Bonds, Series 2020, dated March 31, 2020 in the original amount of $4,380,000 due in annual installments through September 2048, bearing interest from 3% to 4% increasing in fiscal year 2031. Property taxes secure the obligations and surplus revenues of the City's waterworks and sewer system are used for payment of the obligations. | $ 4,380,000 |
| Note payable to Prosperity Bank for water line replacement. Loan advance in the amount of $397,000 with 3.150% interest due in monthly installments of $3,322 through January 2025. This note is unsecured. | $ 160,211 |

### Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for the years subsequent to September 30, 2020 are as follows:

Governmental Activities:

| Year Ending September 30 | Principal | Interest | Total Obligation |
|---|---|---|---|
| 2021 | 54,044 | 59,462 | 113,506 |
| 2022 | 48,459 | 57,570 | 106,029 |
| 2023 | 50,409 | 55,600 | 106,009 |
| 2024 | 26,000 | 53,550 | 79,550 |
| 2025 | 27,000 | 52,445 | 79,445 |
| 2026-2030 | 152,000 | 244,120 | 396,120 |
| 2031-2035 | 189,000 | 208,760 | 397,760 |
| 2036-2040 | 231,000 | 165,155 | 396,155 |
| 2041-2045 | 285,000 | 111,733 | 396,733 |
| 2046-2050 | 350,000 | 45,900 | 395,900 |
| Total | $ 1,412,912 | $ 1,054,295 | $ 2,467,207 |

Business-Type Activities:

| Year Ending September 30 | Principal | Interest | Total Obligation |
|---|---|---|---|
| 2021 | 155,235 | 167,932 | 323,167 |
| 2022 | 156,377 | 163,190 | 319,567 |
| 2023 | 162,556 | 158,411 | 320,967 |
| 2024 | 168,774 | 153,444 | 322,218 |
| 2025 | 122,268 | 148,538 | 270,806 |
| 2026-2030 | 585,000 | 691,700 | 1,276,700 |
| 2031-2035 | 705,000 | 584,000 | 1,289,000 |
| 2036-2040 | 860,000 | 430,800 | 1,290,800 |
| 2041-2045 | 1,030,000 | 245,800 | 1,275,800 |
| 2046-2050 | 595,000 | 43,000 | 638,000 |
| Total | $ 4,540,211 | $ 2,786,815 | $ 7,327,026 |

### Changes in Outstanding Long-Term Obligations

The following is a summary of the changes in noncurrent liabilities reported in Statement of Net Position for the year ended September 30, 2020:

| | Balance September 30, 2019 | Issues or Additions | Payments or Expenditures | Balance September 30, 2020 | Due Within One Year |
|---|---|---|---|---|---|
| Governmental Activities | | | | | |
| Notes Payable | $ 37,500 | $ 73,412 | $ 30,000 | $ 80,912 | $ 31,044 |
| Capital Lease | 34,356 | - | 16,862 | 17,494 | 17,494 |
| Certificates of Obligation | 1,354,000 | - | 22,000 | 1,332,000 | 23,000 |
| Compensated Absences | 17,803 | 922 | 5,580 | 13,145 | 3,286 |
| Net Pension Liability | 204,378 | - | 54,868 | 149,510 | - |
| Total OPEB Liability | 20,543 | 5,730 | - | 26,273 | - |
| Total Governmental | $ 1,668,580 | $ 80,064 | $ 129,310 | $ 1,619,334 | $ 74,824 |

One note payable in the governmental activities is paid from a note receivable from McElroy Metals, Inc. that is detailed on page 29. The other note is not paid from any one governmental revenue source. The capital

lease is not paid from any one governmental revenue source either. Repayment of principal and interest of Certificates of Obligation governmental debt is principally made from M&O property taxes. Also, for governmental activities, compensated absences, pension obligations, and other postemployment benefit obligations are liquidated by the general fund.

| | Balance September 30, 2019 | Issues or Additions | Payments or Expenditures | Balance September 30, 2020 | Due Within One Year |
|---|---|---|---|---|---|
| Business-type Activities | | | | | |
| Certificates of Obligation | $ 4,789,000 | $ - | $ 4,789,000 | $ - | $ - |
| General Obligation bonds | - | 4,380,000 | - | 4,380,000 | 120,000 |
| Premium | - | 553,265 | 8,745 | 544,520 | 19,078 |
| Total Bonds | 4,789,000 | 4,933,265 | 4,797,745 | 4,924,520 | 139,078 |
| Note Payable | 194,684 | - | 34,474 | 160,210 | 30,041 |
| Compensated Absences | 7,589 | - | 776 | 6,813 | 1,703 |
| Net Pension Liability | 149,424 | - | 25,372 | 124,052 | - |
| Total OPEB Liability | 10,298 | 2,650 | - | 12,948 | - |
| Total Business-type Activities | $ 5,150,995 | $ 4,935,915 | $ 4,858,367 | $ 5,228,543 | $ 170,822 |

The General Obligation bonds are Refunding Bonds, Series 2020. The bond sale was used to refund Certificates of Obligation Series 1994, 2008 and 2009. As a result, these three Series of bonds are considered to be defeased and the escrowed assets and the liabilities for the bonds have been removed from these financial statements. The City reduced its debt service payments by $1,565,581 and obtained an economic gain (difference between present value of debt service of old and new debt plus refunding funds on hand) of $1,170,391.

**Direct Interest**

The debt listed for business-type activities above was issued for the creation or continuing existence of specific programs for the City's water and sewer system. Interest on the debt is reported in the water and sewer fund as direct expenses on the Statement of Activities. In governmental fund financial statements, interest is reported by the department responsible for the debt and making the payment.

## (9) Operating Lease

Commitments under operating (noncapitalized) lease agreements for equipment provide for the minimum future rental payments as of September 30, 2020, are as follows:

| Year Ending September 30, | |
|---|---|
| 2021 | 3,137 |
| 2022 | 3,137 |
| 2023 | 262 |
| Total Minimum Rentals | $ 6,536 |

Rental Expenditures in Fiscal Year 2020 $ 3,137

## (10) Property Tax

The City's property tax is levied and becomes a lien each October 1, on 100 percent of assessed value listed for all real and personal property located in the City as of the prior January 1. Assessed values are established by the Taylor County Central Appraisal District and certified by the Board of Review.

The City is permitted by Article II, Section 5 of the State of Texas constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. Taxes are due on the levy date and are delinquent on January 31,

following the October 1, levy date. Current tax collections for the year ended September 30, 2019 were 96 percent of the tax levy.

Property tax revenues are recognized when they become available. Available means collected within the current period and the amount expected to be collected soon after year-end to pay liabilities of the current period not to exceed 60 days. The amount of taxes collected in the balance of taxes receivable, net of allowance, is recorded as unavailable revenue.

Beginning in 1982, the Appraisal District is required under the Property Tax Code to assess all property within the Appraisal District on the basis of 100 percent of its appraised market value and is prohibited from applying any assessment ratios. The value of property within the Appraisal District must be reviewed every four years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the Appraisal District through various appeals and if necessary, legal action. Under this legislation the City continues to set tax rates on City property. However, if the effective tax rates, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 3.5 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 3.5 percent above the calculated tax rate of the previous year levy and the current year valuation.

## (11) Employee Retirement Systems
## Texas Municipal Retirement System (TMRS)

### A. Plan Description

The City participates as one of 888 member cities 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 comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.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.

TMRS members vest after 5 years of service. If a vested member leaves covered employment before reaching retirement eligibility, the member may leave his or her deposits with TMRS, earn interest on the deposits, and, upon reaching age 60, apply for and receive a monthly retirement payment. A member becomes eligible for service retirement based on various combinations of age and service, depending on which provisions have been adopted by the employing municipality. The City of Merkel has adopted a 5 yrs/age 60, 25 yrs/any age provision for their service retirement eligibilities.

A member city may elect to increase the annuities of its retirees ( grant a cost-of-living adjustment, or COLA), either annually or on an annually repeating basis, effective January 1 of a calendar year. For cities that adopted annuity increases since January 1, 2000, the adjustment is either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index - All Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December 13 months before the effective date of the increase, applied to the original monthly annuity.

**Employees covered by benefit terms.**

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

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 8 |
| Inactive employees entitled to but not yet receiving benefits | 19 |
| Active employees | 18 |
| | 42 |

## 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 of Merkel were required to contribute 6% of their annual gross earnings through December 2019, then 7% starting January 2020. The contribution rates for the City were 11.69% and 13.53% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were $71,513 and were equal to the required contributions.

## D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**Actuarial assumptions:**

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.5% per year |
| Overall payroll growth | 3.0% per year |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |

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

For disabled annuitants, the same mortality tables for healthy retirees is used with a 4 year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|---|---|---|
| Global Equity | 30.0% | 5.30% |
| Core Fixed Income | 10.0% | 1.28% |
| Non-Core Fixed Income | 20.0% | 4.14% |
| Real Return | 10.0% | 3.85% |
| Real estate | 10.0% | 4.00% |
| Absolute Return | 10.0% | 3.48% |
| Private Equity | 10.0% | 7.75% |
| Total | 100.0% | |

**Discount Rate**

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

**Changes in the Net Pension Liability**

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability [a] | Plan Fiduciary Net Position [b] | Net Pension Liability [a] – [b] |
| Balance at 12/31/2018 | $ 1,711,654 | $ 1,357,852 | $ 353,802 |
| Changes for the year: | | | |
| Service cost | 83,870 | - | 83,870 |
| Interest | 118,305 | - | 118,305 |
| Change in current period benefits | 49,271 | | 49,271 |
| Difference between expected and actual experience | (46,504) | - | (46,504) |
| Changes in assumptions | 14,048 | - | 14,048 |
| Contributions – employer | - | 59,930 | (59,930) |
| Contributions – employee | - | 30,554 | (30,554) |
| Net investment income | - | 209,967 | (209,967) |
| Benefit payments, including refunds of employee contributions | (100,383) | (100,383) | - |
| Administrative expense | - | (1,186) | 1,186 |
| Other changes | - | (36) | 36 |
| Net changes | $ 118,607 | $ 198,847 | $ (80,240) |
| Balance at 12/31/2019 | $ 1,830,261 | $ 1,556,699 | $ 273,562 |

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

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

| | Discount rate | Net pension liability |
|---|---|---|
| 1% decrease | 5.75% | $ 536,429 |
| Current discount rate | 6.75% | $ 273,562 |
| 1% increase | 7.75% | $ 60,910 |

**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*.

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

For the year ended September 30, 2020 the city recognized pension expense of $61,082.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 87,435 |
| Changes in actuarial assumptions | 9,457 | - |
| Difference between projected and actual investment earnings | - | 50,310 |
| Contributions subsequent to the measurement date | 56,487 | - |
| Total | $ 65,944 | $ 137,745 |

$56,487 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ending Dec 31: | |
|---|---|
| 2020 | $ (79,904) |
| 2021 | (27,183) |
| 2022 | 2,463 |
| 2023 | (23,664) |
| 2024 | - |
| Thereafter | - |
| Total | $(128,288) |

## (12) Employee Retirement Systems - Volunteer Fire Department Texas Emergency Services Retirement System (TESRS)

### A. Plan Description

The Texas Emergency Services Retirement System is an agency of the State of Texas and its financial records comply with state statutes and regulations. The nine Board of Trustees, appointed by the Governor, establishes policy for the administration of the Texas Emergency Services Retirement System.

The TESRS was created as a standalone agency by the 83rd Legislature via the passage of SB 220, effective September 1, 2013, to assume the related functions of the abolished Office of the Fire Fighters' Pension Commissioner. While the agency is new, the System has been in existence since 1977. TESRS, which is under the authority of Title 8, Subtitle H, Chapters 861-865 of the Texas Government Code, provides death and disability benefits to active volunteer fire fighters and first responders, and a pension to members with vested service, as well as to their survivor/beneficiaries. For financial reporting purposes, the State of Texas is considered the primary reporting government. TESRS' financial statements are included in the State's Comprehensive Annual Financial Report. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations which may be of interest are also available at the same link.

Information that is available in the annual financial report is not repeated in the allocation schedules and related notes.

The preparation of the schedules of participating department allocations and collective pension amounts in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reporting amounts during the reporting period. Actual results could differ from those estimates.

### B. Benefits Provided

The benefit provision include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's year of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

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

### C. Contributions

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

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2017, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

The contributions to TESRS for the year ended September 30, 2020 were $1,080 and were equal to the required contributions.

### D. Net Pension Liability

The Volunteer Fire Department's Net Pension obligations are not recorded on the financial statements because of their materiality.

## (13) Other Post-Employment Benefits

### A. Plan Description

The City also participates in an optional cost sharing multiple-employer defined benefit group life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). It provides death benefits to both active and retired members, and each participating municipality can elect to cover just active members, or active and retired members. A supplemental death contribution rates is determined annually for each participating municipality as a percentage of that city's covered payroll. The contribution rate finances the expected benefit payments each year on a pay-as-you-go basis.

As stated in the previous paragraph, the SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB no. 75, paragraph 4b, (i.e., no assets are accumulated for OPEB). As such the SDBF is considered to be a single-employer unfunded OPEB plan ( and not a cost sharing plan) with benefit payments treated as being equal to the employer's yearly contributions for retirees. In accordance with paragraph 155, the applicable discount rate for an unfunded OPEB is based on an index of tax exempt 20-year municipal bond rates rated as AA or higher.

As of December 31, 2019, the discount rate used in the development of the Total OPEB Liability was 2.75% compared to 3.71% as of December 31, 2018.

**B. Benefits Provided**

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is a fixed amount of $7,500.

**Employees covered by benefit terms.**

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

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 5 |
| Inactive employees entitled to but not yet receiving benefits | 2 |
| Active employees | 15 |
| | 22 |

**C. Contributions**

The employer contribution rates for the municipalities participating in the SDBF are certified annually by the Board of Trustees which is responsible for establishing and maintaining the funding policy. These rates are determined actuarially, based on the plan provisions in effect as of April 1, 2020 and the actuarial assumptions and methodology adopted by the Board which have been updated since the prior valuation based on the results of the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. The Board's current policy is that the contribution rates determine by a given actuarial valuation become effective one (1) year after the valuation date. For example, the rates determined by the December 31, 2019 actuarial valuation will be applicable for the calendar year beginning January 1, 2021 and ending December 31, 2021.

**D. Total OPEB Liability**

**Actuarial assumptions:**

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. For purposes of developing the SDBF contribution rates, no other demographic assumptions are applicable. Mortality assumptions were modified as of the December 31, 2019 valuation. In addition, premiums for retirees are based on the full $7,500 benefit versus the $2,500 previously used. A credit is granted against premiums for active employees equal to 2% of the SDB Fund balance as of the valuation date expressed as a percentage of payroll.

| | |
|---|---|
| General Inflation | 2.50% |
| Salary increases | 3.5% to 11.5% including inflation. |
| Discount Rate* | 2.75% |
| Retirees' share of benefit-related costs | $0 |

| | |
|---|---|
| Administrative expenses | All administrative expense are paid through the Pension Trust and Accounted for under reporting requirements under GASB Statement No. 68. |
| Mortality rates – service retirees | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| Mortality rates – disabled retirees | 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

### Changes in the Total OPEB Liability

| | |
|---|---|
| Total OPEB Liability – beginning of year | $30,841 |
| Changes for the year: | |
| Service cost | 1,324 |
| Interest | 1,164 |
| Changes in benefit terms | - |
| Differences between expected and actual experience | (1,075) |
| Changes in assumptions or other inputs | 7,222 |
| Benefit payments** | (255) |
| Net changes | 8,380 |
| Total OPEB Liability - end of year | $ 39,221 |

** Due to the SDBF considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

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

The following presents the net OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

| | Discount rate | Total OPEB liability |
|---|---|---|
| 1% decrease | 1.75% | $ 47,814 |
| Current discount rate | 2.75% | $ 39,221 |
| 1% increase | 3.75% | $ 32,645 |

### E. OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2020 the city recognized OPEB expense of $3,490. At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 1,341 |
| Changes in assumptions and other inputs | 5,774 | |
| Contributions subsequent to the measurement date | 209 | - |
| Total | $ 5,983 | $ 1,341 |

The $209 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

| Year ending Dec 31: | |
|---|---|
| 2020 | $ 1,002 |
| 2021 | 1,002 |
| 2022 | 1,002 |
| 2023 | 606 |
| 2024 | 821 |
| Thereafter | 0 |
| Total | $ 4,433 |

## (14) Individual Fund Disclosures

For fiscal year ended September 30, 2020, the City has expended funds in excess of appropriations at the level of control in the following areas:

| Fund | Excess Amount |
|---|---|
| Police Department | 24,189 |
| Library | 668 |
| Parks | 2,952 |

These over-expenditures were funded by greater than anticipated revenues and under-budget expenditures in other departments.

## (15) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2020, is as follows:

| | Due From | Due To |
|---|---|---|
| General fund | $ 194,652 | $ - |
| Major business-type fund | - | 194,652 |
| | $ 194,652 | $ 194,652 |

The general fund pays all city employees and the water sewer fund reimburses the general fund. This balance due is scheduled to be collected in the subsequent year.

## (16) Health Care Coverage

During the year ended September 30, 2020, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums for full time employee to the Plan. Employees at their option, authorized payroll withholdings to pay premiums for dependents. TML Multistate IEBP operates under the authority of the Interlocal Cooperation Act and Chapter 172 of the Local Government Code, which established the Texas Political Subdivision Uniform Group Benefits Program. The Pool consists of political subdivisions that join together through an Interlocal Agreement to provide health benefits to eligible employees, officials, retirees, and dependents.

The contract is renewable January 1, and terms of coverage and premium costs are included in the contractual provisions.

## (17) 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. During fiscal year 2020, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TMLIRP"). TMLIRP is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TMLIRP for its above insurance coverage. During the last three years, no program has had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in coverage from coverage in the prior years.

## (18) Contingent Liabilities

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

The Texas Commission on Environment Quality (TCEQ) found the City's Wastewater Treatment Facility to be in violation of permitted effluent limitations. The notice of alleged violation included a proposed Agreed Order with an administrative penalty in the amount of $51,562. In lieu of payment of the proposed penalty, the City made application to TCEQ for a Supplemental Environmental Project (SEP). That SEP is for removal of sludge from the facility's facultative lagoon. Included in the application is the City's commitment to provide additional funding above the amount of the penalty to complete the SEP. The total project cost was estimated to be $100,000. The additional amount would then be approximately $48,438. The TCEQ is currently evaluating the SEP application.

## (19) Refund of overcharges from vendor

In August of 2020, the City was notified from one of their vendors, that they had been overcharges for services on their monthly invoices going back to February 2017. The total amount that the City was overcharged was $89,040. The current year excess charges were $21,410 and the amount going back to previous years and included in the financial statements non-operating revenues for the year ended September 30, 2020 is $67,630. This amount is immaterial, this a prior period adjustment was not necessary.

# Required Supplementary Information

**CITY OF MERKEL, TEXAS**

Schedule of Changes in Net Pension Liability and Related Ratios - TMRS
Last 10 years ( will ultimately be displayed)

| | Measurement Year 2019 | Measurement Year 2018 | Measurement Year 2017 | Measurement Year 2016 |
|---|---|---|---|---|
| **Total pension liability** | | | | |
| Service Cost | $ 83,870 | $ 71,058 | $ 65,072 | $ 70,767 |
| Interest ( on the Total Pension Liability) | 118,305 | 108,857 | 120,182 | 113,433 |
| Changes of benefit terms | 49,271 | - | - | - |
| Difference between expected and actual experience | (46,504) | (9,178) | (243,261) | 31,577 |
| Change of assumptions | 14,048 | - | - | - |
| Benefit payments, including refunds of employee contributions | (100,383) | (72,512) | (152,995) | (72,913) |
| Net Change in Total Pension Liability | 118,607 | 98,225 | (211,002) | 142,864 |
| Total Pension Liability - Beginning | 1,711,654 | 1,613,429 | 1,824,431 | 1,681,567 |
| Total Pension Liability - Ending (a) | $ 1,830,261 | $ 1,711,654 | $ 1,613,429 | $ 1,824,431 |
| **Plan Fiduciary Net Position** | | | | |
| Contributions - Employer | $ 59,930 | $ 68,889 | $ 61,935 | $ 68,655 |
| Contributions - Employee | 30,554 | 30,259 | 28,129 | 30,903 |
| Net Investment Income | 209,967 | (41,129) | 175,007 | 78,295 |
| Benefit payments, including refunds of employee contributions | (100,383) | (72,512) | (152,995) | (72,913) |
| Administrative Expense | (1,186) | (795) | (906) | (884) |
| Other | (36) | (42) | (46) | (48) |
| Net change in Plan Fiduciary Net Position | 198,846 | (15,330) | 111,124 | 104,008 |
| Plan Fiduciary Net Position - Beginning | 1,357,853 | 1,373,183 | 1,262,059 | 1,158,051 |
| Plan Fiduciary Net Position - Ending (b) | $ 1,556,699 | $ 1,357,853 | $ 1,373,183 | $ 1,262,059 |
| Net Pension Liability - Ending (a) - (b) | $ 273,562 | $ 353,801 | $ 240,246 | $ 562,372 |
| Plan Fiduciary Net Position as a % of Total Pension Liability | 85.05% | 79.33% | 85.11% | 69.18% |
| Covered Employee Payroll | $ 509,229 | $ 504,314 | $ 468,821 | $ 515,044 |
| Net Pension Liability as a % of Covered Employee Payroll | 53.72% | 70.16% | 51.24% | 109.19% |

Notes to Schedule:
N/A

| Measurement Year 2015 | Measurement Year 2014 |
|---|---|
| $ 66,494 | $ 64,854 |
| 111,355 | 106,830 |
| - | - |
| (37,710) | (27,992) |
| 21,935 | - |
| (76,096) | (83,630) |
| 85,978 | 60,062 |
| 1,595,589 | 1,535,527 |
| $ 1,681,567 | $ 1,595,589 |
| | |
| $ 68,792 | $ 63,243 |
| 30,043 | 28,408 |
| 1,674 | 61,010 |
| (76,096) | (83,630) |
| (1,020) | (637) |
| (50) | (52) |
| 23,342 | 68,342 |
| 1,134,709 | 1,066,367 |
| $ 1,158,051 | $ 1,134,709 |
| | |
| $ 523,516 | $ 460,880 |
| | |
| 68.87% | 71.12% |
| $ 500,712 | $ 473,464 |
| 104.55% | 97.34% |

CITY OF MERKEL, TEXAS

Schedule of Contributions - TMRS
Last 10 years (will ultimately be displayed)

| | 9/30/2020 | 9/30/2019 | 9/30/2018 | 9/30/2017 |
|---|---|---|---|---|
| Actuarially Determined Contribution | $ 71,513 | $ 60,515 | $ 70,824 | $ 63,574 |
| Contributions in relation to the actuarially determined contribution | $ 71,513 | $ 60,515 | $ 70,824 | $ 63,574 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Covered employee payroll | $ 546,028 | $ 494,788 | $ 523,392 | $ 479,127 |
| Contributions as a percentage of covered employee payroll | 13.10% | 12.23% | 13.53% | 13.27% |

Notes to Schedule of Contributions

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, closed |
| Remaining Amortization Period | 24 years |
| Asset Valuation Method | 10 Year smoothed market; 12% soft corridor |
| Inflation | 2.5% |
| Salary Increases | 3.50% to 11.5% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018. |
| Mortality | Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis wit scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP. |

**Other information:**

| | |
|---|---|
| Notes | Increased employee contribution rate from 6% to 7% |

| 9/30/2016 | 9/30/2015 |
|---|---|
| $ 69,196 | $ 66,909 |
| $ 69,196 | $ 66,909 |
| $ - | $ - |
| $ 514,947 | $ 490,528 |
| 13.44% | 13.64% |

**CITY OF MERKEL, TEXAS**

Schedule of Changes in Total OPEB Liability and Related Ratios - TMRS
Last 10 years ( will ultimately be displayed)

| | Measurement Year 2019 | Measurement Year 2018 | Measurement Year 2017 |
|---|---|---|---|
| **Total OPEB liability** | | | |
| Service Cost | $ 1,324 | $ 1,362 | $ 1,125 |
| Interest ( on the Total OPEB Liability) | 1,164 | 1,065 | 1,036 |
| Changes of benefit terms | - | - | - |
| Difference between expected and actual experience | (1,075) | (671) | - |
| Change of assumptions | 7,222 | (2,321) | 2,663 |
| Benefit payments ** | (255) | (202) | (141) |
| Net Change | 8,380 | (767) | 4,683 |
| Total OPEB Liability - Beginning | 30,841 | 31,608 | 26,925 |
| Total OPEB Liability - Ending (a) | $ 39,221 | $ 30,841 | $ 31,608 |
| Covered employee payroll | $ 509,229 | $ 504,314 | $ 523,392 |
| Total OPEB Liability as a percentage of covered payroll | 7.77% | 6.12% | 6.74% |

** Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Notes to RSI:

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

Notes to Schedule:

[1] No assets are accumulated in a trust meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits

[2] Mortality assumptions and premium calculation methods were modified as of the December 31, 2019 valuation.

# Other Information Required by Government Auditing Standards

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Cathrine Wilks CPA LLC

501 Locust Street
P.O. Box 627
Sweetwater, Texas 79556
(325) 236-9552

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and
Members of the City Council
Merkel, TX 79536

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, and the aggregate remaining funds of the City of Merkel, Texas ("City"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated December 17, 2020.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in a normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during the audit I did not identify any deficiency in internal control that I consider to be a material weakness. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Merkel's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cathrine Wilks CPA LLC

Sweetwater, Texas
December 17, 2020

# CITY OF MERKEL, TEXAS

Schedule of Findings and Responses
For the Year Ended September 30, 2020

## I. Summary of the Auditor's Results:

a. The type of report issued on the general-purpose financial statements of the City of Merkel was an unmodified opinion.
b. There were no significant deficiencies in internal control detected by the audit.
c. There were no significant deficiencies that were material weaknesses in internal control
d. The audit disclosed no instances of noncompliance which would be material to the financial statements.

## II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards.*

None

# CITY OF MERKEL, TEXAS

Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2020

| Finding/Recommendation | Current Status | Management's Explanation If not Implemented |
|---|---|---|
| None | | |

**APPENDIX E**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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# MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $_____ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: _____

Risk Premium: $_____
Member Surplus Contribution: $_____
Total Insurance Payment: $_____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

SPECIMEN

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

**Notices (Unless Otherwise Specified by BAM)**

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

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