

OFFICIAL STATEMENT

Dated May 22, 2023

Rating:
S&P: "AA"
(see "OTHER INFORMATION -
Rating" herein)

NEW ISSUE - Book-Entry-Only

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

\$12,425,000
TOWN OF PANTEGO, TEXAS
(Tarrant County)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023

Dated Date: June 1, 2023

Due: August 15, as shown on page 2

Interest accrues from the Delivery Date (defined herein)

PAYMENT TERMS. . . Interest on the \$12,425,000 Town of Pantego, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2023 (the "Certificates") will accrue from the date of initial delivery to the initial purchaser ("Initial Purchaser") of the Certificates (the "Delivery Date", anticipated to be on or about June 21, 2023), will be payable February 15 and August 15 of each year commencing February 15, 2024, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE. . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the Town of Pantego, Texas, (the "Town"), payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, upon all taxable property within the Town, and (ii) a pledge of the surplus revenues of the Town's Waterworks and Sewer System (the "System"), as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "THE CERTIFICATES – Authority for Issuance of the Certificates").

PURPOSE. . . Proceeds from the sale of the Certificates will be used for paying all or a portion of the Town's contractual obligations to be incurred in connection with (i) acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to the Town's waterworks and sewer system, including wells, treatment facilities, storage facilities, water and sewer lines, lift stations, manholes, pumps, valves, SCADA systems and related infrastructure improvements, and (ii) paying legal, fiscal and engineering fees in connection with such projects.

CUSIP PREFIX: 698641
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY. . . The Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas, (see Appendix C, "Form of Bond Counsel's Opinion"). McCall, Parkhurst & Horton L.L.P., Dallas, Texas, will act as Disclosure Counsel for the Town.

DELIVERY. . . It is expected that the Certificates will be available for delivery through the facilities of DTC on or about June 21, 2023.

MATURITY SCHEDULE

CUSIP Prefix: 698641 ⁽¹⁾

August 15 Maturity	Principal Amount	Interest Rate	Yield	CUSIP Suffix ⁽¹⁾
2024	\$ 280,000	5.000%	3.710%	HS9
2025	385,000	5.000%	3.500%	HT7
2026	400,000	5.000%	3.290%	HU4
2027	420,000	5.000%	3.170%	HV2
2028	445,000	5.000%	3.120%	HW0
2029	465,000	5.000%	3.090%	HX8
2030	485,000	5.000%	3.030%	HY6
2031	510,000	5.000%	3.020%	HZ3
2032	540,000	5.000%	3.030%	JA6
2033	565,000	5.000%	3.070%	JB4
2034	595,000	5.000%	3.140% ⁽²⁾	JC2
2035	625,000	5.000%	3.300% ⁽²⁾	JD0
2036	650,000	5.000%	3.480% ⁽²⁾	JE8
2037	680,000	5.000%	3.650% ⁽²⁾	JF5
2038	720,000	5.000%	3.770% ⁽²⁾	JG3
2039	750,000	5.000%	3.830% ⁽²⁾	JH1
2040	785,000	4.000%	4.200%	JJ7
2041	1,000,000	4.000%	4.250%	JK4
2042	1,040,000	4.250%	4.300%	JL2
2043	1,085,000	4.250%	4.350%	JM0

(Interest to accrue from the Delivery Date.)

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- (2) Yield calculated based on assumption that the Certificates denoted and sold at a premium will be redeemed on August 15, 2033, the first optional call date for such Certificates, at a redemption price of par, plus accrued interest to the redemption date.

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

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No dealer, broker, salesperson or other person has been authorized by the Town or the Initial Purchaser to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Town or the Initial Purchaser. This Official Statement does not constitute an offer to sell Certificates in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the Town and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Town's undertaking to provide certain information on a continuing basis.

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

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

NONE OF THE TOWN, THE INITIAL PURCHASER, OR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE, AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

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OFFICIAL STATEMENT SUMMARY

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

THE TOWN The Town of Pantego, Texas (the "Town") is a political subdivision and Type A general law municipal corporation of the State of Texas, located in Tarrant County, Texas (see "INTRODUCTION - Description of the Town").

THE CERTIFICATES The Certificates are issued as \$12,425,000 Combination Tax and Revenue Certificates of Obligation, Series 2023 (the "Certificates"). The Certificates are issued as serial certificates maturing August 15 in each of the years 2024 through 2043.

PAYMENT OF INTEREST

ON THE CERTIFICATES Interest on the Certificates accrues from the Delivery Date (anticipated to be June 21, 2023), and is payable February 15 and August 15 of each year, commencing February 15, 2024, until maturity or prior redemption (see "THE CERTIFICATES - Description of the Certificates").

AUTHORITY FOR ISSUANCE

FOR THE CERTIFICATES The Certificates are issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") adopted by the Town Council (see "THE CERTIFICATES - Authority for Issuance of the Certificates").

SECURITY FOR THE

CERTIFICATES The Certificates constitute direct obligations of the Town, payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, upon all taxable property located within the Town, and (ii) a pledge of the surplus revenues of the Town's Waterworks and Sewer System (the "System"), as provided in the Ordinance (see "THE CERTIFICATES – Security and Source of Payment of the Certificates").

OPTIONAL REDEMPTION OF

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

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

USE OF PROCEEDS FOR THE

CERTIFICATES Proceeds from the sale of the Certificates will be used for paying all or a portion of the Town's contractual obligations to be incurred in connection with (i) acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to the Town's waterworks and sewer system, including wells, treatment facilities, storage facilities, water and sewer lines, lift stations, manholes, pumps, valves, SCADA systems and related infrastructure improvements, and (ii) paying legal, fiscal and engineering fees in connection with such projects.

RATINGS FOR THE

CERTIFICATES The Certificates have been rated "AA" by Standard & Poor's ("S&P"), without regard to credit enhancement (see "OTHER INFORMATION - Rating").

BOOK-ENTRY-ONLY

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

PAYMENT RECORD The Town has never defaulted in payment of its general obligation tax debt.

PAYING AGENT/REGISTRAR..... The initial Paying Agent/Registrar for the Certificates is UMB Bank, N.A., Dallas, Texas.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Debt Per Capita
2019	2,532	317,795,276	125,512	2,735,000	0.86%	1,080
2020	2,480	345,995,597	139,514	2,665,000	0.77%	1,075
2021	2,568	342,705,813	133,452	2,565,000	0.75%	999
2022	2,619	353,865,395	135,115	2,465,000	0.70%	941
2023	2,619	380,378,282	145,238	8,595,000 ⁽⁴⁾	2.26%	3,282

(1) Derived from the U.S. Census Bureau data.

(2) As reported by the Appraisal Districts (defined herein) on the Town's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) General obligation debt in the amounts shown for which repayment is currently provided, as applicable, from (i) Net Revenues of the System. In the event payment is not made from such revenues, the City will be required to assess an ad valorem tax sufficient to make such payments.

(4) Excludes self-supporting debt. Includes the Certificates.

For additional information regarding the Town, please contact:

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TOWN OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Board Member	Term Expires	Occupation
Russ Brewster Mayor	2025	Business Manager
Tori Roemmich Councilmember - Place 1	2024	Business Owner
Tyler Loe Councilmember - Place 2	2024	Business Owner
Mike Duncan Mayor Pro-Tem - Place 3	2024	Retired Law Enforcement
Gregg Kidd Councilmember - Place 4	2025	Municipal Employee
Jeff Brown Councilmember - Place 5	2025	Financial Advisor

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service
Joe Ashton	City Manager	3 Years
Sean Smith	Finance Director	5 Years
Leslie Galloway	City Secretary	1 Year

CONSULTANTS AND ADVISORS

Auditors Rutledge Crain & Company, PC
Arlington, Texas

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

Financial Advisor.....Hilltop Securities Inc.
Dallas, Texas

OFFICIAL STATEMENT
RELATING TO
\$12,425,000
TOWN OF PANTEGO, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023
INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$12,425,000 Town of Pantego, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2023 (the "Certificates") being offered herein. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Certificates (the "Ordinance") which authorized the issuance of the Certificates, except as otherwise indicated herein.

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

DESCRIPTION OF THE TOWN . . . The Town is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the general laws of the State, as a Type A general law municipality. The Town was incorporated in 1952. The town operates under a Council/Manager form of government with a Town Council comprised of the Mayor and five Council members. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the other terms of the three Councilmembers expiring in even-numbered years. Some of the services that the Town provides are: public safety (police and fire protection), streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The estimated 2023 population is 2,619. The Town covers approximately 1.2 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Certificates will be used for paying all or a portion of the Town's contractual obligations to be incurred in connection with (i) acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to the Town's waterworks and sewer system, including wells, treatment facilities, storage facilities, water and sewer lines, lift stations, manholes, pumps, valves, SCADA systems and related infrastructure improvements, and (ii) paying legal, fiscal and engineering fees in connection with such projects.

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

SOURCES OF FUNDS:

Par Amount of Certificates	\$ 12,425,000.00
Net Premium	890,016.70
TOTAL ISSUES:	<u>\$ 13,315,016.70</u>

USES OF FUNDS:

Deposit to Project Fund	\$ 13,000,000.00
Costs of Issuance	150,331.11
Initial Purchaser's Discount	164,685.59
TOTAL USES:	<u>\$ 13,315,016.70</u>

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated June 1, 2023 (the "Dated Date"), and mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the date of initial delivery (the "Delivery Date", anticipated to be June 21, 2023), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year commencing February 15, 2024, until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").

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

SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES . . . The Certificates are payable from the proceeds of a continuing and direct annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property located within the Town and from a pledge of the Surplus Revenues (as defined in the Ordinance) of the Town's combined Waterworks and Sewer System (the "System") that remain after the payment of all maintenance and operation expenses thereof, and all debt service, reserve and other requirements in connection with all of the Town's revenue obligations (now or hereafter outstanding) that are secured by a lien on all or any part of the net revenues of the System.

TAX RATE LIMITATION . . . All taxable property within the Town is subject to the assessment, levy and collection by the Town of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 4, of the Texas Constitution is applicable to the Town, and limits its maximum ad valorem tax rate to \$1.50 per \$100 Taxable Assessed Valuation for all Town purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate.

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

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Certificates, the Town shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates 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. **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, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.**

With respect to any optional redemption of the Certificates, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may, at the option of the Town, state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received or such prerequisites are not satisfied, such notice shall be of no force and effect, the Town shall not redeem such Certificates and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

The Paying Agent/Registrar and the Town, so long as a book-entry-only system is used for the Certificates, will send any notice of redemption relating to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemptions of portions of the Certificates by the Town will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates within a maturity to be redeemed will not be governed

by the Ordinance and will not be conducted by the Town or the Paying Agent/Registrar. Neither the Town nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption (see "THE CERTIFICATES – Book-Entry-Only System" herein).

DEFEASANCE . . . The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on the Certificates (the "Defeased Certificates"), plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with 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 Certificates shall have become due and payable, and thereafter the Town will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such Defeased Certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the defeasance is approved by the Town Council of the Town, 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 Town Council of the Town, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The Town 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 Town 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 Certificates. 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 Town to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the Town: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon making such deposit in the manner described, such defeased Certificates 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 Town for purposes of taxation or applying any limitation on the Town's ability to issue debt or for any other purpose.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Town believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

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

Purchases of Certificates under the DTC system must be made by or through direct Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct or 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 interest in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system described herein is discontinued.**

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

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

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

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

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

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

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

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

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

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

Principal of the Certificates will be payable to the registered owner at maturity or prior redemption upon presentation and surrender at the principal office of the Paying Agent/Registrar. Interest on the Certificates shall 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 (see "THE CERTIFICATES – Record Date for Interest Payment" herein), and such interest shall be paid (i) by check sent by 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. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday or day when banking institutions in the town 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 day when 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. So long as Cede & Co. is the registered owner of the Certificates, payments of principal and interest on the Certificates will be made as described in "THE CERTIFICATES - Book-Entry-Only System" herein.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Certificate certificates will be delivered to the registered owners of the Certificates and thereafter the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be of the same series, in denominations of \$5,000 or integral multiples thereof for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - Book-Entry-Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the Town nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

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

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

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

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the Town defaults in the payment of the principal of or interest on the Certificates when due, or the Town defaults in the observance or performance of any of the covenants, conditions, or obligations of the Town, 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 Town, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the Town to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the Town to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006 Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous language." Because it is unclear whether the Texas legislature has effectively waived the Town's sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the Town for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the Town could be obtained, it could not be enforced by direct levy and execution against the Town's property. Further, the registered owners cannot themselves foreclose on property within the Town or sell property within the Town to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities under certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services to cities.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson I*"), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests LTD. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) ("*Wasson II*"), and together with *Wasson I* ("*Wasson*"), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

As noted above, the Ordinance provides that holders of the Certificates may exercise the remedy of mandamus to enforce the Certificates of the Town under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or

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

AMENDMENTS . . . The Town may amend or supplement the Ordinance, without the consent of any registered owner, in order to (i) cure any ambiguity, defect or omission in the Ordinance that does not materially adversely affect the interests of the registered owners, (ii) grant additional rights or security for the benefit of the registered owners, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance and that shall not materially adversely affect the interests of the registered owners, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (v) make such other provisions in regard to matters or questions arising under the Ordinance as will not be inconsistent with the provisions of the Ordinance and that will not in the opinion of the Town's Bond Counsel materially adversely affect the interests of the registered owners. Additionally, the registered owners of Certificates aggregating 51% of the aggregate principal amount of then outstanding Certificates have the right to approve any amendment that may be deemed necessary or desirable by the Town; provided, however, that without the consent of 100% of the registered owners of the then outstanding Certificates, no amendment shall: (1) make any change in the maturity of any of the outstanding Certificates; (2) reduce the rate of interest borne by any of the outstanding Certificates; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (4) modify the terms of payment of principal or of interest on outstanding Certificates or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of Certificates necessary for consent to such amendment.

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TAX INFORMATION

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

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (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. The same land may not be qualified as both agricultural and open-space land.

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

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

LOCAL OPTION HOMESTEAD EXEMPTIONS . . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

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

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

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

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

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

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

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

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

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

For a discussion of how the various exemptions described above are applied by the Town, see "TAX INFORMATION – Town Application of Property Tax Code" herein.

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

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$52,978,200 for the 2022 tax year and \$57,216,456 for the 2023 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

LEVY AND COLLECTION OF TAXES . . . The Town is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an

additional penalty of up to twenty percent (20%) if imposed by the Town. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the Town may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

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

At any time after taxes on property become delinquent, the Town 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 Town must join other taxing units that have claims for delinquent taxes against all or part of the same property.

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

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

PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS . . . The following terms as used in this section have the meanings provided below:

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

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

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

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

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

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

The Town'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 Town must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the Town to the Town 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 Town's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the Town's tax-supported debt obligations, including the Obligations.

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 Town is subject to the assessment, levy and collection by the Town 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 Town, 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.

2023 LEGISLATIVE SESSION . . . The 88th Texas Legislature convened on January 10, 2023 and will conclude on May 29, 2023. Thereafter, the Governor of Texas (the "Governor") may call one or more additional special sessions which may last no more than 30 days and for which the Governor sets the agenda. During the legislative session, the Legislature will consider a general appropriations act and may consider legislation affecting ad valorem taxation procedures affecting cities. The Town can make no representations or predictions regarding any actions the Legislature may take during the 88th Texas legislative session concerning the substance or the effect of any legislation that may be passed in the future or how such legislation could affect the Town.

TOWN APPLICATION OF PROPERTY TAX CODE . . . The Town grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$50,000; the disabled are also granted an exemption of \$10,000.

The Town grants an additional exemption of 20% of the market value of residence homesteads.

See Table 1 for a listing of the amounts of the exemptions described above.

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

The Town does not tax nonbusiness personal property; and the Tarrant County Tax Assessor/Collector collects taxes for the Town.

The Town does not permit split payments, and discounts are not allowed.

The Town does not tax freeport property.

The Town does collect an additional one-quarter of one percent sales tax for reduction of ad valorem taxes.

The Town has not adopted a tax abatement policy.

TABLE 1 – ASSESSED VALUATION AND EXEMPTION

2022/2023 Market Valuation Established by Tarrant Appraisal District (including totally exempt property)		\$ 470,813,990
Less Exemptions/Reductions at 100% Market Value:		
Capped Value Loss	\$ 12,299,862	
Homestead Exemption	36,922,208	
Over 65 Exemption	18,054,165	
Disabled Persons	360,000	
Disabled Veterans	1,872,300	
Totally Exempt	20,927,173	
Agricultural Loss	-	90,435,708
2022/2023 Taxable Assessed Valuation		\$ 380,378,282
General Obligation Debt Payable from Ad Valorem Taxes (as of 4/15/2023)		\$ 2,360,000
The Certificates		12,425,000
Total General Obligation Debt Payable from Ad Valorem Taxes		<u>\$ 14,785,000</u>
Less: General Obligation Self-Supporting Debt (as of 4/15/2023)		
The Certificates (Water & Sewer) ⁽¹⁾		<u>\$ 6,190,000</u>
Net General Obligation Debt Payable from Ad Valorem Taxes (as of 4/15/2023)		\$ 8,595,000
Interest and Sinking Fund (as of 3/01/2023)		\$ -
Ratio of Total Funded General Obligation Tax Debt to Taxable Assessed Valuation		3.89%
Ratio of Net Funded Debt to Taxable Assessed Valuation		2.26%

2023 Estimated Population - 2619
Per Capita Taxable Assessed Valuation - \$150,228
Per Capita Total Funded Debt - \$5,839

- (1) The Town currently expects to pay such general obligation debt in the amount shown from Net Revenues of the System. In the event payment is not made from such revenues, the City will be required to assess an ad valorem tax sufficient to make such payments.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	2023		2022		2021	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 242,444,265	51.49%	\$ 206,498,780	50.07%	\$ 203,051,880	48.32%
Real, Residential, Multi-Family	30,828,604	6.55%	25,182,881	6.11%	23,905,507	5.69%
Real, Vacant Lots/Tracts	2,179,638	0.46%	2,348,089	0.57%	2,307,442	0.55%
Real, Acreage (Land Only)	-	0.00%	-	0.00%	-	0.00%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%	-	0.00%
Real, Commercial	158,323,033	33.63%	131,274,193	31.83%	146,710,863	34.91%
Real, Industrial	2,338,492	0.50%	3,720,781	0.90%	1,202,000	0.29%
Real and Tangible Personal, Utilities	9,440,676	2.01%	9,566,853	2.32%	9,792,544	2.33%
Tangible Personal, Commercial	22,795,858	4.84%	32,996,727	8.00%	30,357,328	7.22%
Tangible Personal, Industrial	1,902,351	0.40%	271,378	0.07%	2,419,466	0.58%
Tangible Personal, Mobile Homes	-	0.00%	-	0.00%	-	0.00%
Special Inventory	561,073	0.12%	571,652	0.14%	487,015	0.12%
Total Appraised Value Before Exemptions	\$ 470,813,990	100.00%	\$ 412,431,334	100.00%	\$ 420,234,045	100.00%
Less: Total Exemptions/Reductions	(90,435,708)		(58,565,939)		(77,528,232)	
Taxable Assessed Value	<u>\$ 380,378,282</u>		<u>\$ 353,865,395</u>		<u>\$ 342,705,813</u>	

Taxable Appraised Value for Fiscal Year Ended September 30,				
Category	2020		2019	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 210,853,611	48.90%	\$ 191,470,593	50.14%
Real, Residential, Multi-Family	27,673,430	6.42%	9,716,342	2.54%
Real, Vacant Lots/Tracts	2,734,412	0.63%	2,669,382	0.70%
Real, Acreage (Land Only)	-	0.00%	-	0.00%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%
Real, Commercial	140,436,257	32.57%	134,653,179	35.26%
Real, Industrial	4,242,094	0.98%	2,853,120	0.75%
Real and Tangible Personal, Utilities	9,815,288	2.28%	9,873,507	2.59%
Tangible Personal, Commercial	32,403,170	7.52%	28,135,881	7.37%
Tangible Personal, Industrial	2,568,441	0.60%	2,041,082	0.53%
Tangible Personal, Mobile Homes	-	0.00%	-	0.00%
Special Inventory	442,917	0.10%	437,200	0.11%
Total Appraised Value Before Exemptions	\$ 431,169,620	100.00%	\$ 381,850,286	100.00%
Less: Total Exemptions/Reductions	(85,174,023)		(64,055,010)	
Taxable Assessed Value	<u>\$ 345,995,597</u>		<u>\$ 317,795,276</u>	

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

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TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Debt Per Capita
2019	2,532	317,795,276	125,512	2,735,000	0.86%	1,080
2020	2,480	345,995,597	139,514	2,665,000	0.77%	1,075
2021	2,568	342,705,813	133,452	2,565,000	0.75%	999
2022	2,619	353,865,395	135,115	2,465,000	0.70%	941
2023	2,619	380,378,282	145,238	8,595,000 ⁽⁴⁾	2.26%	3,282

(1) Derived from US Census Bureau data.

(2) As reported by the Appraisal Districts (defined herein) on the Town's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) General obligation debt in the amounts shown for which repayment is currently provided, as applicable, from (i) Net Revenues of the System. In the event payment is not made from such revenues, the City will be required to assess an ad valorem tax sufficient to make such payments.

(4) Excludes self-supported debt. Includes the Certificates.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Year Ended 9/30	Taxable Assessed Valuation	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2019	317,795,276	0.4200	0.4200	-	1,348,816	98.83%	99.48%
2020	345,995,597	0.4200	0.3701	0.0499	1,492,495	99.19%	99.31%
2021	342,705,813	0.4200	0.3713	0.0487	1,534,092	98.85%	99.05%
2022	353,865,395	0.4759	0.4318	0.0441	1,533,986	99.05%	99.05%
2023	380,378,282	0.4759	0.4318	0.0441	1,884,968	93.88% ⁽¹⁾	93.88% ⁽¹⁾

(1) Collections as of March 31, 2023.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2022/2023 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
2650 W Park Row LLC	Real Estate	\$ 16,554,176	4.35 %
SVS Apartments LLC	Real Estate	10,100,000	2.66 %
PS LPT Properties Investors/Public Storage Benelux	Storage Facilities	8,898,261	2.34 %
Oncor Electric Delivery Co LLP	Utilities	5,728,836	1.51 %
TSCA-201 LTD Partnership	Real Estate	5,347,091	1.41 %
Northlake Partners LLC	Real Estate	4,995,000	1.31 %
Four Seasons Pantego I Ltd	Real Estate	4,950,000	1.30 %
Texas Pneumatic Systems Inc.	Distribution Warehouse	4,770,352	1.25 %
Farrell Property Co Ltd	Real Estate	4,436,777	1.17 %
Store Here Pantego LLC	Storage Facilities	4,122,185	1.08 %
		<u>\$ 69,902,678</u>	<u>18.38 %</u>

Source: Appraisal District.

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the Town under current State law (see "THE CERTIFICATES – Tax Rate Limitation").

TABLE 6 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the Town are paid out of ad valorem taxes levied by such entities on properties within the Town. Such entities are independent of the Town and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Town, the Town has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the Town.

Taxing Jurisdiction	2022/2023 Taxable Assessed Value	2022/2023 Tax Rate	Total G.O. Tax Debt As of 4/15/2023	Estimated % Applicable	City's Overlapping G.O. Tax Debt As of 4/15/2023
Town of Pantego	\$ 380,378,282	\$ 0.4759	\$ 14,785,000 ⁽¹⁾	100.00%	\$ 14,785,000
Tarrant County	248,369,636,349	0.2240	404,360,000	0.18%	727,848
Tarrant County CD	249,496,147,427	0.1302	610,315,000	0.18%	1,098,567
Tarrant County Hospital	248,562,603,261	0.2244	448,410,000	0.18%	807,138
Arlington ISD	35,674,789,759	1.3087	1,136,549,956	1.15%	13,070,324
Total Direct and Overlapping G. O. Tax Debt					\$ 30,488,877
Ratio of Direct and Overlapping G. O. Tax Debt to 2022 Taxable Assessed Valuation					8.02%
Per Capita Overlapping G. O. Tax Debt					\$ 11,641

(1) Includes the Certificates.

TABLE 7 – TAX ADEQUACY ⁽¹⁾

Principal and Interest Requirements, 2023	\$ 177,375
\$0.04736 Tax Rate at 98% Collection Produces	\$ 177,398
Average Annual Principal and Interest Requirements, 2023-2043	\$ 623,784
\$0.16654 Tax Rate at 98% Collection Produces	\$ 623,815
Maximum Annual Principal and Interest Requirements, 2029	\$ 648,863
\$0.17323 Tax Rate at 98% Collection Produces	\$ 648,874

(1) Excludes self-supporting debt (see Table 1 herein for more detailed information on the Town's general obligation self-supporting debt).

DEBT INFORMATION

TABLE 8 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service			The Certificates			Less: W&S Revenue Supported Debt Service	Total General Obligation Debt Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total			
2023	\$ 105,000	\$ 72,375	\$ 177,375	\$ -	\$ -	\$ -	\$ -	\$ 177,375	
2024	110,000	69,150	179,150	280,000	675,582	955,582	488,416	646,316	
2025	110,000	65,850	175,850	385,000	573,463	958,463	486,775	647,538	
2026	115,000	62,475	177,475	400,000	554,213	954,213	486,775	644,913	
2027	120,000	58,950	178,950	420,000	534,213	954,213	486,275	646,888	13.73%
2028	120,000	55,350	175,350	445,000	513,213	958,213	485,275	648,288	
2029	125,000	51,675	176,675	465,000	490,963	955,963	483,775	648,863	
2030	130,000	47,850	177,850	485,000	467,713	952,713	486,775	643,788	
2031	135,000	43,875	178,875	510,000	443,463	953,463	484,025	648,313	
2032	135,000	39,825	174,825	540,000	417,963	957,963	485,775	647,013	34.49%
2033	140,000	35,700	175,700	565,000	390,963	955,963	486,775	644,888	
2034	145,000	31,425	176,425	595,000	362,713	957,713	487,025	647,113	
2035	150,000	27,000	177,000	625,000	332,963	957,963	486,525	648,438	
2036	155,000	22,425	177,425	650,000	301,713	951,713	485,275	643,863	
2037	160,000	17,700	177,700	680,000	269,213	949,213	483,275	643,638	60.44%
2038	165,000	12,825	177,825	720,000	235,213	955,213	485,525	647,513	
2039	170,000	7,800	177,800	750,000	199,213	949,213	481,775	645,238	
2040	175,000	2,625	177,625	785,000	161,713	946,713	482,275	642,063	
2041	-	-	-	1,000,000	130,313	1,130,313	485,875	644,438	
2042	-	-	-	1,040,000	90,313	1,130,313	483,675	646,638	92.71%
2043	-	-	-	1,085,000	46,113	1,131,113	484,763	646,350	100.00%
	<u>\$ 2,465,000</u>	<u>\$ 724,875</u>	<u>\$ 3,189,875</u>	<u>\$ 12,425,000</u>	<u>\$ 7,191,219</u>	<u>\$ 19,616,219</u>	<u>\$ 9,706,629</u>	<u>\$ 13,099,466</u>	

TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION

Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2023		\$	177,375
Interest and Sinking Fund, Fiscal Year Ending 9/30/2022	\$	6,445	
Budgeted Interest and Sinking Fund Tax Collection		178,449	
Budgeted Delinquent Taxes, Penalties and Interest		<u>1,355</u>	<u>186,249</u>
Estimated Balance, Fiscal Year Ending 9/30/2023		\$	<u>8,874</u>

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . The Town has no authorized but unissued bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . . The Town does not anticipate the issuance of additional general obligation debt within the next 12 months.

TABLE 11 – OTHER OBLIGATIONS . . . The Town has contracts with the City of Fort Worth and the City of Arlington for the treatment of wastewater. The contracts require the Town to pay varying amounts based on the costs associated with the wastewater treated. Charges for wastewater treatment during fiscal year 2022 were \$146,250 for Fort Worth and \$151,468 for Arlington. See “THE SYSTEM” and Note J to the “Excerpts From the Town of Pantego, Texas Annual Financial Report for the Fiscal Year Ended September 30, 2022 attached as Appendix B hereto.

The Town entered into a vehicle lease agreement currently paid for with revenue generated from ad valorem taxes. As of September 30, 2022, the outstanding balance of the vehicle lease agreement was \$195,906 with \$36,590 due within one year.

PENSION FUND . . . The Town provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide 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.tmr.com.

For more information regarding the Town’s retirement plan commitments, including benefits, contributions, and net pension liability, see Note M to the “Excerpts From the Town of Pantego, Texas Annual Financial Report for the Fiscal Year Ended September 30, 2022” attached as Appendix B hereto.

OTHER POST-EMPLOYMENT BENEFITS . . . The Town provides death benefits for active and former employees through a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”) administered by TMRS. Such plan is a voluntary program in which participating cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. The Town may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF covers both active and retiree benefits with no segregation of assets, and therefore does not meet the definition of trust under GASB 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan with benefit payments treated as being equal to the employer’s yearly contribution for retirees.

For more information regarding the Town’s OPEB plan, including benefits and total OPEB liability, see Note N to the “Excerpts From the Town of Pantego, Texas Annual Financial Report for the Fiscal Year Ended September 30, 2022” attached as Appendix B hereto.

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FINANCIAL INFORMATION

TABLE 12 – GENERAL FUND REVENUE AND EXPENDITURE HISTORY

	Fiscal Years Ended September 30,				
	2022	2021	2020	2019	2018
<u>Revenues:</u>					
<u>Taxes:</u>					
Property Taxes	1,359,001	\$ 1,351,279	\$ 1,315,990	\$ 1,351,076	\$ 1,247,876
Sales Tax	1,904,228	1,771,100	1,641,736	1,681,997	1,620,587
Franchise Tax	282,204	272,956	293,989	331,327	335,336
Fines and Forfeitures	432,795	544,376	557,362	684,302	729,559
Licenses, Permits and Fees	88,590	63,406	44,020	55,094	91,979
Ambulance service	116,182	101,275	101,314	84,012	82,934
Intergovernmental	22,750	32,994	289,073	7,810	6,084
Charges for services	18,602	18,678	2,170	3,705	11,070
Contributions and Donations	-	-	3,200	5,000	6,121
Investment Earnings	7,786	748	20,495	64,294	44,738
Miscellaneous	105,254	70,827	68,776	220,490	25,777
Total Revenues	<u>\$ 4,337,392</u>	<u>\$ 4,227,639</u>	<u>\$ 4,338,125</u>	<u>\$ 4,489,107</u>	<u>\$ 4,202,061</u>
<u>Expenditures:</u>					
General and administrative	\$ 583,275	\$ 522,747	\$ 567,951	\$ 553,576	\$ 590,851
Public works	347,835	260,830	239,225	221,992	262,177
Community development	12,202	7,403	141,094	141,360	141,224
Police	1,751,308	1,648,215	1,708,420	1,710,497	1,490,173
Fire	1,385,729	1,307,860	1,316,126	2,073,485	1,322,936
Municipal Court	376,586	346,102	391,963	393,037	388,718
Other	10,867	10,162	8,533	10,897	9,624
Capital Outlay	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Total Expenditures	<u>\$ 4,467,802</u>	<u>\$ 4,103,319</u>	<u>\$ 4,373,312</u>	<u>\$ 5,104,844</u>	<u>\$ 4,205,703</u>
Excess(deficiency) of Revenues					
Over Expenditures	<u>\$ (130,410)</u>	<u>\$ 124,320</u>	<u>\$ (35,187)</u>	<u>\$ (615,737)</u>	<u>\$ (3,642)</u>
<u>Other Financing Sources (Uses)</u>					
Transfers In	-	142,433	-	10,893	18,691
Transfers Out	(496,103)	-	(348,082)	-	(1,877)
Sale of Capital Assets	8,460	-	5,886	-	3,970
Total other Financing Sources (uses)	<u>\$ (487,643)</u>	<u>\$ 142,433</u>	<u>\$ (342,196)</u>	<u>\$ 10,893</u>	<u>\$ 20,784</u>
Net Change in Fund Balances	\$ (618,053)	\$ 266,753	\$ (377,383)	\$ (604,844)	\$ 17,142
Fund Balances at Beginning of Year	<u>\$ 1,874,086</u>	<u>\$ 1,607,333</u>	<u>\$ 1,984,716</u>	<u>2,589,560</u>	<u>2,572,418</u>
Fund Balances at End of Year	<u>\$ 1,256,033</u>	<u>\$ 1,874,086</u>	<u>\$ 1,607,333</u>	<u>\$ 1,984,716</u>	<u>\$ 2,589,560</u>

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The Town has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the Town the power to impose and levy a 1% Local Sales and Use Tax within the Town; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the Town monthly.

Fiscal Year Ended 9/30	1 Cent City Sales Tax Collections	1/4 Cent Property Tax Reduction Sales Tax Collections	1/4 Cent Property Street Repair Sales Tax Collections	1/2 Cent EDC Sales Tax Collections	Total Collected	Total Collections as a % of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2019	\$ 1,347,740 ⁽¹⁾	\$ 336,935	\$ 336,935	\$ 673,870	\$ 2,695,480	199.84%	\$ 0.8482
2020	1,289,250	322,313	322,313	644,625	2,578,500	172.76%	0.7452
2021	1,385,052	346,263	346,263	692,526	2,770,104	180.57%	0.8083
2022	1,502,123	375,531	375,531	751,062	3,004,246	195.85%	0.8490
2023	899,260	224,815	224,815	449,630	1,798,519	95.41%	0.4728

(1) Source: Texas Comptroller of Public Accounts web site.

(2) Collections through April 2023.

THE SYSTEM

GENERAL INFORMATION REGARDING THE SYSTEM

The Town's Waterworks and Sewer System (the "System") serves approximately 2,650 people within and outside the Town limits. During the fiscal year ending September 30, 2022, the System delivered an average of 540,000 gallons per day of potable water to 1,225 residential, commercial and industrial accounts. The current source of water supply available to the System is groundwater pumped from the Trinity and Puluxy Aquifers by a Town-owned wellfield consisting of six (6) active wells located throughout the Town. In recent years, annual water usage has averaged approximately 518-acre feet, but actual usage can vary significantly depending on weather conditions during summer months. The Town-owned wellfield can supply more than 1,679-acre feet per year of water.

In addition to the Town-owned wellfield, the System includes one (1) elevated storage water tank with a total capacity of 300,000 gallons, two (2) ground storage water tanks with a total capacity of 1 million gallons, approximately 23.9 miles of water main lines, and approximately 18.9 miles of sewer main lines.

Wastewater treatment is under contract with the Cities of Fort Worth and Arlington. See "DEBT INFORMATION – Other Obligations" and Note J to the "Excepts From the Town of Pantego, Texas Annual Financial Report for the Fiscal Year Ended September 30, 2022" attached as Appendix B hereto.

In 2011, the Town adopted a Water Resource Management Plan, which includes the Town's Water Conservation Plan and Drought Contingency Plan. The Water Conservation Plan is in effect at all times and is aimed at reducing water consumption from levels that would prevail without conservation efforts, reducing water loss and waste, improving efficient water use, extending the life of the Town's current water supplies by reducing the rate of growth of demand, and educating water uses about the need for water conservation. Among other measures, the Water Conservation Plan prohibits watering, with certain exceptions, between the hours of 10:00 a.m. and 6:00 p.m. every day. The Drought Contingency Plan is in effect only during periods where certain "trigger conditions" based on levels of water demand are met and contains a three (3) stage response plan. The Town is not currently in a drought and emergency response stage.

BILLING AND COLLECTION PROCEDURES

System customers are billed monthly for water and sewer services. Bills are due upon receipt and are considered delinquent after the billing due date with a penalty of 10% of the balance due to be charged if payment in full is not received by the Town. In the event of delinquency in payment of the complete monthly service charges beyond 30 days after the date of billing, service shall be disconnected after two (2) days' notice to the customer. Before service is restored, a disconnected customer must pay a fee for reconnection and restoration of service, as well as all unpaid billings plus penalties. A customer may petition in writing to the City Manager to extend the period before disconnection up to 180 days, and the City Manager may grant the extension, in writing, if a demonstrable hardship is identified.

As of September 30, 2022, past due charges reserved in allowance for doubtful accounts totaled approximately 0.48% of System revenues for such fiscal year (net of sales tax, other charges, penalty and disconnection fees, and inclusive of amounts collected on such bad debt).

RATES

The Town expects to increase the tiered consumption per 1,000-gallon water rates by 94.1% to be effective October 1, 2023.

OTHER CAPITAL IMPROVEMENTS AND SYSTEM MAINTENANCE

The Town recently completed a capital improvement needs assessment for the System. Such assessment identifies major capital improvement needs over the next 5 years. Exclusive of the project being financed with a portion of the proceeds of the Certificates, which, among other improvements, includes a new well and reverse osmosis water filtration system (see "PLAN OF FINANCING – Purpose"), the expected source of funds for such capital improvements will be from current System revenues.

The Town performs routine maintenance and upgrades its water distribution and sanitary sewer lines utilizing currently available System revenues.

TABLE 14 – MONTHLY WATER RATES (2022)

3/4" - 5/8" Meter Size			1" Meter Size		
Consumption Tiers per 1,000 gals	Inside	Outside	Consumption Tiers per 1,000 gals	Inside	Outside
3,001 - 6,000	\$2.33	\$3.50	3,001 - 14,000	\$2.37	\$3.56
6,001 - 25,000	\$2.33	\$3.50	14,001 - 35,000	\$2.39	\$3.59
> 25,001	\$2.84	\$4.26	> 35,001	\$2.84	\$4.26
<i>Base Rate 0 - 3,000</i>	\$14.63	\$21.95	<i>Base Rate 0 - 3,000</i>	\$36.41	\$54.62

1.5" Meter Size			2" - 4" Meter Size		
Consumption Tiers per 1,000 gals	Inside	Outside	Consumption Tiers per 1,000 gals	Inside	Outside
3,001 - 25,000	\$2.39	\$3.59	3,001 - 25,000	\$2.39	\$3.87
25,001 - 50,000	\$2.41	\$3.62	25,001 - 100,000	\$2.42	\$3.92
> 50,001	\$3.00	\$4.83	> 100,001	\$3.00	\$4.83
<i>Base Rate 0 - 3,000</i>	\$83.29	\$124.94	<i>2" Meter Base Rate 0 - 3,000</i>	\$113.62	\$170.43
			<i>3" Meter Base Rate 0 - 3,000</i>	\$117.03	\$175.55
			<i>4" Meter Base Rate 0 - 3,000</i>	\$132.71	\$199.07

TABLE 15 – MONTHLY SEWER RATES

Residential Sewer Rates		
Notes	Service Gallons Between 0 - 3,000 gallons	Service Gallons Between 3,001 + gallons
Inside City Limits	\$19.11	\$3.23
Outside City Limits	\$28.67	\$4.85

Commercial Sewer Rates		
Notes	Service Gallons Between 0 - 3,000 gallons	Service Gallons Between 3,001 + gallons
Inside City Limits	\$19.71	\$3.52
Outside City Limits	\$29.57	\$5.28

TABLE 16 – WATER AND SEWER SYSTEM STATEMENT OF OPERATIONS

	Fiscal Year Ended September 30,				
	2022	2021	2020	2019	2018
Operating Revenues					
Water Sales	\$ 620,211	\$ 570,666	\$ 597,424	\$ 603,617	\$ 582,394
Sewer Charges	569,088	490,702	480,997	523,405	450,882
Groundwater Conservation Fees	22,931	17,506	23,788	35,984	43,668
Infrastructure Improvement Fees	309,366	313,657	316,838	341,438	317,517
Late Payment Charges	19,365	17,255	10,735	14,864	15,743
Miscellaneous	7,860	7,190	4,455	7,700	8,770
Total Operating Revenues	\$ 1,548,821	\$ 1,416,976	\$ 1,434,237	\$ 1,527,008	\$ 1,418,974
Operating Expenses					
Personnel	\$ 226,010	\$ 427,013	\$ 594,388	\$ 425,658	\$ 336,446
Utilities	129,632	99,686	102,264	82,939	111,053
Maintenance and Repairs	60,666	94,191	78,354	84,798	92,807
Franchise Fees	53,013	46,498	47,631	44,918	47,942
Other Expenses	39,148	25,908	25,189	27,174	24,554
Sewage Treatment - Other Governments	297,718	272,516	329,329	358,706	275,146
Depreciation	209,248	231,035	235,385	236,038	200,220
Total Operating Expenses	\$ 1,015,435	\$ 1,196,847	\$ 1,412,540	\$ 1,260,231	\$ 1,088,168
Operating Income (Loss)	\$ 533,386	\$ 220,129	\$ 21,697	\$ 266,777	\$ 330,806
Non Operating Revenues					
Investment Earnings	\$ 8,679	\$ 1,157	\$ 10,191	\$ 15,942	\$ 13,219
Other Income	435	3,370	470	504	7,321
Total Non Operating Revenues (Expenses)	\$ 9,114	\$ 4,527	\$ 10,661	\$ 16,446	\$ 20,540
Transfers In	\$ 1,676,190	\$ 269,920	\$ 164,176	\$ -	\$ -
Transfers Out	-	(142,433)	-	-	-
Change in Net Position	\$ 2,218,690	\$ 352,143	\$ 196,534	\$ 283,223	\$ 351,346
Net Position, October 1	\$ 3,987,838	\$ 3,635,695	\$ 3,439,161	\$ 3,164,295	\$ 2,812,949
Prior Period Adjustment	-	-	-	(8,357)	-
Net Position, September 30	\$ 6,206,528	\$ 3,987,838	\$ 3,635,695	\$ 3,439,161	\$ 3,164,295

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FINANCIAL POLICIES

Basis of Accounting . . . The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred. Interest on long term debt is recorded when due.

Ad valorem and sales tax revenues are recognized under the susceptible to accrual concept. Licenses and permits, franchise taxes, charges for services, fines and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned because they are measurable and available.

The accrual basis of accounting is utilized by proprietary funds.

Budgetary Procedures . . . The Town Council follows these procedures in establishing budgetary data reflected in the financial statements:

- (1) Prior to September 1, the City Manager submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) Prior to September 30, the budget is legally enacted through passage of an ordinance.
- (4) The City Manager is authorized to transfer budgeted amounts within a category in a department. Transfers between categories or between departments exceeding budgeted amounts require Council approval.
- (5) Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Fund and Debt Service Fund. Budgetary control is maintained at the function level.
- (6) Budgets for the General, Special Revenue, and Debt Service Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- (7) Budgetary data for the Capital Projects Funds are not presented in combined financial statements of the Town as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration of the Capital Projects Funds is not employed and comparison of actual results of operations to budgetary data for such fund is not presented.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under State law, the Town is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the Town in compliance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "PFIA"), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the Town's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the Town appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for Town deposits, or (ii) certificates of deposit where (a) the funds are invested by the Town

through a broker or institution that has a main office or branch office in the State and selected by the Town in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the Town, (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 Town appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the Town with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above or clause (12) below, which are pledged to the Town, held in the Town's name, and deposited at the time the investment is made with the Town or with a third party selected and approved by the Town, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the Town with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with SEC Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the SEC that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the Town is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the Town, held in the Town's name, and deposited at the time the investment is made with the Town or with a third party designated by the Town, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

The Town 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 Town 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 Town retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Town must do so by order, ordinance, or resolution. The Town 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 pay no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bear 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 State law, the Town is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for Town funds, maximum allowable stated maturity of any individual investment, 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 PFIA. All Town funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio and (6) yield.

The investment officer of a local government is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government's investment policy regarding the debt issuance or the agreement.

Under State law, Town investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the Town shall submit an investment report detailing: (1) the investment position of the Town, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, ending market value and the fully accrued interest of each pooled fund group for the reporting period, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements

and (b) State law. No person may invest Town funds without express written authority from the Town Council.

ADDITIONAL PROVISIONS . . . Under State law, the Town is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the Town to disclose the relationship and file a statement with the Texas Ethics Commission and the Town Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the Town to: (a) receive and review the Town's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Town and the business organization that are not authorized by the Town's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Town's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority) and (c) deliver a written statement in a form acceptable to the Town and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Town's investment policy; (6) provide specific investment training for the Town's designated Investment Officer; (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 purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the Town'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 Town.

TABLE 17 - CURRENT INVESTMENTS

As of March 31, 2023 the Town's investable funds were invested in the following categories:

Description	Market Value	% Total
TexPool Prime	\$ 3,537,091	66.21%
LOGIC	976,515	18.28%
Cash	828,515	15.51%
	<u>\$ 5,342,121</u>	<u>100.00%</u>

COVID-19

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State. The Governor retains the right to impose additional restrictions on activities if needed in order to mitigate the effects of COVID-19. The Town has not experienced any decrease in property values or unusual tax delinquencies as a result of COVID-19; however the Town cannot predict the long- term economic effect of COVID- 19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

The Town can make no representation or give any assurance regarding the short or long-term impact that the outbreak of COVID-19 may have on the Town or its finances.

TAX MATTERS

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

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

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross

income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel to the Town are conditioned on compliance by the Town with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the Town has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

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

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

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

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

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

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

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

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

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

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

DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

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

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The Town will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the Town of the general type included in this Official Statement under the Tables numbered 1 through 5 and 7 through 14. The Town will update and provide this information in the numbered tables within twelve (12) months after the end of each fiscal year ending in and after 2023 and audited financial statements within twelve (12) months after the end of each fiscal year ending in and after 2023. If the audit of such financial statements is not complete within twelve (12) months after any such fiscal year end, then the Town shall file unaudited financial statements within such twelve (12) month period and audited financial statements for the applicable fiscal year, when and if the audited financial statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the Town may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The Town's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-referenced tables, and audited financial statements, must be provided by September 30 of each year, unless the Town changes its fiscal year. If the Town changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the Town otherwise would be required to provide financial information and operating data.

NOTICE OF CERTAIN EVENTS . . . The Town will also provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5702-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Town; (13) the consummation of a merger, consolidation, or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, 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; and (14) appointment of a successor or additional trustee or the change of name of the trustee if material, (15) incurrence of a financial obligation of the Town, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Town, 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 Town, any of which reflect financial difficulties. In addition, the Town will provide to the MSRB, in a timely manner, notice of any failure by the Town to provide the required annual financial information and operating data described above under "Annual Reports".

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Town in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Town, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Town. For the purposes of the above describe event (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a financial obligation shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

AVAILABILITY OF INFORMATION . . . The Town has agreed to provide the foregoing financial and operating information only as described above. Investors may access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The Town has agreed to update information and to provide notices of material events only as described above. The Town 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 Town makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The Town disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the Town to comply with its agreement. The Town may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Town, if (i) the agreement, as amended, would have permitted the Initial Purchaser, to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the Town (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Certificates. The Town may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions 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 the Initial Purchaser from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the Town so amends its continuing disclosure agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the Town believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

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OTHER INFORMATION

RATING

The Certificates are rated "AA" by Standard & Poor's ("S&P") without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the Town makes no representation as to the appropriateness of the 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 such rating company, if in the judgment such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price or marketability of the Certificates.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The Town assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments and investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, the PIFA, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency (see "OTHER INFORMATION - Rating" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the Town has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

No representation is made that the Certificates will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Town has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Certificates for such purposes.

LEGAL OPINION

The delivery of the Certificates is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Certificates are valid and legally binding Certificates of the Town payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the Town, and, with respect to the Certificates, from a pledge of the Surplus Revenues of the System, and based upon examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the Town ("Bond Counsel"), to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as APPENDIX C.

Though it may represent the Initial Purchaser from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the Town in the issuance of the Certificates. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Notice of Sale and Bidding Instructions, the Official Bid Form or the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance.

The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. The legal opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In

rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

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

The Financial Advisor to the Town 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 Town 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.

INITIAL PURCHASER FOR THE CERTIFICATES

After requesting competitive bids for the Certificates, the Town accepted the bid of Fidelity Capital Markets (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on page 2 of the Official Statement at a price of 105.837675%, which produces compensation to the Initial Purchaser in the amount of \$164,685.59. The Initial Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the Town to the Initial Purchaser. The Town has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the sole responsibility of the Initial Purchaser.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the Town, that are not purely historical, are forward-looking statements, including statements regarding the Town'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 Town on the date hereof, and the Town assumes no obligation to update any such forward-looking statements. The Town's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Town. 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.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the Town will furnish a certificate, executed by a proper officer, acting in such officer's official capacity, to the effect that to the best of his or her knowledge and belief: (a) the descriptions and statements of or pertaining to the Town contained in the Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the Town and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the Town, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Town believes to be reliable and the Town has no reason to believe that they are untrue in any material

respect; and (d) there has been no material adverse change in the financial condition of the Town since the date of the last audited financial statements of the Town.

The Ordinance authorizing the issuance of the Certificates has also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Initial Purchaser.

/s/ Russ Brewster
Mayor
Town of Pantego, Texas

ATTEST:

/s/ Leslie Galloway
City Secretary
Town of Pantego, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE TOWN

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THE TOWN

Pantego is a Type A General Law Municipality incorporated in Tarrant County, Texas in the Cross Timbers, some ten miles southeast of the Tarrant County Court House in Fort Worth. It is approximately one square mile in area and has a population of 2559 as of the 2020 US Census. It is surrounded on three sides by the City of Arlington and on one side – south side – by the City of Dalworthington Gardens. West Park Row and Pioneer Parkway (TX Spur 303) are the two major east-west traffic corridors while South Bowen Road is the major north-south traffic corridor.

LABOR FORCE

Tarrant County Employment figures, as reflected by the Texas Workforce Commission, are as follows:

	<u>2023 ⁽¹⁾</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Labor Force	1,173,283	1,156,971	1,129,056	1,099,524	1,077,051
Employed	1,124,547	1,120,314	1,086,822	1,030,917	1,038,049
Unemployed	48,736	36,657	42,234	68,607	39,002
Unemployment Rate	4.2%	3.2%	3.7%	6.2%	3.6%

(1) As of February 2023.

APPENDIX B

EXCERPTS FROM THE
TOWN OF PANTEGO, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2022

The information contained in this Appendix consists of excerpts from the Town of Pantego, Texas, Annual Financial Report for the Year Ended September 30, 2022, and is not intended to be a complete statement of the Town's financial condition. Reference is made to the complete Report for further information.

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TOWN OF PANTEGO, TEXAS

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Prepared by:

Sean Smith, CPA
Director of Finance

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TOWN OF PANTEGO, TEXAS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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TOWN OF PANTEGO, TEXAS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
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Introductory Section

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**1614 S. Bowen Rd.
Pantego, Texas 76013
(817) 617-3700
Fax (817) 617-3726**

March 31, 2023

TO: Honorable Mayor and Town Council Members and
Citizens of the Town of Pantego, Texas:

The Annual Comprehensive Financial Report of the Town of Pantego for fiscal year ended September 30, 2022, is hereby submitted. State law and Town Financial Management Policies require that the Finance Department prepare a complete set of financial statements that are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by licensed independent certified public accountants. This report is published to satisfy that requirement and to provide the Town Council, staff, our citizens, bondholders and other interested parties with detailed information concerning the financial condition and activities of the Town government.

Responsibility for both accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. The Town is responsible for establishing and maintaining internal controls designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Town. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

State Law requires the Town's basic financial statements to be audited by independent certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Town are presented fairly, in all material respects, for the fiscal year ended September 30, 2022. This independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Rutledge Crain & Company, PC, Certified Public Accountants, performed the required audit and have issued an unmodified ("clean") opinion on the Town of Pantego's financial statements for the year ended September 30, 2022. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

THE REPORTING ENTITY

Pantego incorporated in 1952 as a village but changed to a Type A General Law city in 1967. Pantego is located in Tarrant County and is entirely surrounded by the cities of Arlington and Dalworthington Gardens. It is located in the middle of the Dallas-Fort Worth Metroplex, a metropolitan area spanning several counties. General Law cities are smaller cities, most of which are less than 5,000 in population. All General Law cities operate according to specific state statutes prescribing their powers and duties. General Law cities are limited to doing what the state authorizes or permits them to do. If state law does not grant General Law cities the express or implied power to initiate a particular action, none may be taken.

The governing body of a municipality operating as a Type A General Law municipality is known as the "City Council" and if the city has not been divided into wards, the governing body always consists of a Mayor and five Council members. Under this form of government, the Mayor and five Council members are elected at large for staggered two-year terms on the first Saturday in May. All members serve without compensation. The Mayor and City Council appoint the City Manager, City Secretary, Town Attorney, and all who serve on the Town's Boards and Commissions. The City Manager in turn appoints the heads of various departments.

In 1980, the Town adopted a Council-Manager form of government. The basic structure of the Council-Manager plan is similar to that of a private corporation, in which the stockholders elect a board of directors which then hires a president to run the company. Under the Council-Manager plan, the voters elect a City Council which, in turn, hires a City Manager to administer the Town's day-to-day affairs. The Town Council serves as the legislative body, sets policy, approves an annual operating budget, sets the tax rate, and determines the size of the payroll and the extent and cost of municipal services. In short, the Council is the final authority on all the many policy decisions that determine the scope and functions of the Town government.

The Town provides a full range of services. These include public safety (police, fire and emergency medical services), municipal court, public works, community development and general administrative services. In addition, the Town owns and operates a water and sewer distribution system.

The basic financial statements of the Town include all governmental activities, organizations and functions for which the Town is financially accountable. The criteria considered in determining governmental activities to be reported within the Town's basic financial statements are based upon and consistent with those set forth in the Codification of Governmental Accounting and Financial Reporting Standards. Component units are legally separate organizations that a primary government must include as a part of its financial reporting entity. The government-wide financial statements include not only the Town itself (known as the primary government), but also include the Pantego Economic Development

Corporation (PEDC) as a discretely presented component unit. The discretely presented component unit is presented in a separate column in the government-wide financial statements.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and evaluating the Town's accounting system, consideration is given to the accuracy of internal control over financial reporting. These controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from the control. The evaluation of costs and benefits requires estimates and judgments by management. We believe the Town's current system of internal control over financial reporting adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

In addition to the system of internal controls, the Town maintains budgetary controls. The objective of these budgetary controls is to ensure compliance of legal provisions embodied in the annual appropriated budget adopted by the Town Council. Budgetary controls are exercised at the departmental level. If necessary, the original adopted budget is modified to incorporate into a proposed mid-year budget, which is then used as the working budget for the remainder of the fiscal year.

LOCAL ECONOMY

The Town of Pantego's location between Dallas and Fort Worth is ideal for business and residents. The North Texas region possesses diverse research and educational institutions, logistics, oil and gas, manufacturing and industrial, and a professional service. This base has traditionally contributed to a relative stability of the unemployment rate. The Town currently enjoys a favorable economic environment and local indicators point to continued stability even after a few post pandemic struggles. Overall, the North Texas region has fared better than the nation as a whole. Relative low taxes, housing and energy costs make the area attractive to business, with the additional enticement that Texas has no state personal income tax.

As it is widely recognized, revenue sources for municipalities are primarily derived from Ad-Valorem (Property), sales and use taxes. Combined, property and sales tax funded approximately 73% of the General Fund maintenance and operation expenditures for Fiscal Year 2022. Sales tax revenue is the largest source of income for the Town of Pantego. The Town of Pantego and the PEDC are committed to the support and growth of the local economy. Rich with an eclectic mix of small businesses and national retailers, the Town and PEDC seek new investments and redevelopment that build on the abundant strengths already present in the community. To assist in this effort, PEDC continues the use of several valuable business assistance tools, such as economic incentives and small business grants.

In July 2014, both PEDC and the Town Council unanimously voted to officially join the Arlington Chamber of Commerce. The investment in becoming part of the Chamber's President Advisory Council

continues to provide significant new resources to Pantego's businesses. The Chamber has expanded its marketing and communications tools to further elevate the Pantego business community and deliver unique services for businesses to access new customers, capital and continuing education. These resources continue to enhance the Town's proactive visionary attitude toward business development, retention and quality of life and its mission on building an economically sustainable community.

BUDGETING PROCESS

State Law requires that an operating budget be adopted prior to the first day of the fiscal year beginning October 1st. The Town's budget process is a six-month cycle, which begins in early April and ends in late September. Departments submit budget proposals by early May and during the months of May and June the City Manager and the Finance Director develop the recommended budget based on the directives received from the Council.

The Town of Pantego uses a program-based budgeting process. Each budgeting unit/department is given a target "baseline" funding level based upon the previous year's funding level. With a few exceptions, no capital assets, wages and benefits, or one-time packages are included in the baseline funding. Any funding request that represents new expenditures and programs, or that is in excess of baseline funding, must be submitted as a separate request or "package." These packages may be either a new or restoration request of resources, depending upon the budgeting unit's funding target.

The budget revenue projections for the new fiscal year begin early in the current fiscal year. The projections are made by the departments responsible for the revenues with help from the Finance Director. Projections are based upon consultations with state and local agencies, trend analysis, anticipated changes in the local and regional economy, and discussions with directly associated staff members. Although revenue projections are prepared early in the budget process, the budget revenue analysis continues with departmental budget development and extends until the budget is adopted based upon any new information. Given revenue projections and baseline funding requirements, budget funding changes are made according to necessity and priority. A total recommended funding level is determined and is weighed against available resources.

Prior to August, the City Manager submits to the Council a proposed budget of expenditures and the means to finance them for the next year. The Council holds workshop meetings and public hearings on the proposed budget to receive citizen feedback and make final determinations about the eventual adopted budget. Prior to September 30th, the budget is legally enacted through the favorable passage of an appropriation ordinance. The budget may be amended during the year only after complying with the notice procedure called for adopting of the budget.

The City Manager is authorized to make line-item and departmental budget adjustments during the year in order to avoid over-expenditures of particular line items. Adjustments require no further Council action if the total appropriation for each fund as set forth in the adopted budget is not exceeded. Expenditures in excess of the adopted appropriations for each fund require budget amendments in accordance with Town

Policy. Budget maintenance is a year-round activity of divisions/departments and the Finance Director. Spending control mechanisms during the year include monthly review of expenditures and financial reports to Town Council. Finally, program goals, objectives and measures are evaluated during the budget implementation to determine effectiveness of program activities and levels of appropriate funding for subsequent years. The legally adopted budgets for the General Fund, Court House Security Special Revenue Fund, Court Technology Special Revenue Fund, Shamburger Special Revenue Fund, and the Debt Service 2019 CO Fund are adopted on a basis consistent with generally accepted accounting principles.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Pantego for its Annual Comprehensive Financial Report for the fiscal year ended September 30, 2021. This award recognizes conformance with the highest standards for preparation of state and local government financial reports. A Certificate of Achievement is valid for a period of one year only. This was the eighth year for which the Town of Pantego received this prestigious award. We believe our current Annual Comprehensive Financial Report conforms to the Certificate of Achievement Program requirements and consequently we will be submitting to the GFOA to determine its eligibility.

The preparation of this report could not be accomplished on a timely basis without the efficient and dedicated endeavors of the entire Town staff. We would like to express our sincere appreciation to all employees who contributed to the preparation. We would also like to thank the Mayor and Town Council for their support in planning and conducting the financial operations of the Town in a responsible manner.

Respectfully submitted,



Joe Ashton
City Manager



Sean Smith
Finance Director

**TOWN OF PANTEGO, TEXAS
LIST OF PRINCIPAL OFFICIALS
SEPTEMBER 30, 2022**

GOVERNING BODY

Elected Officials

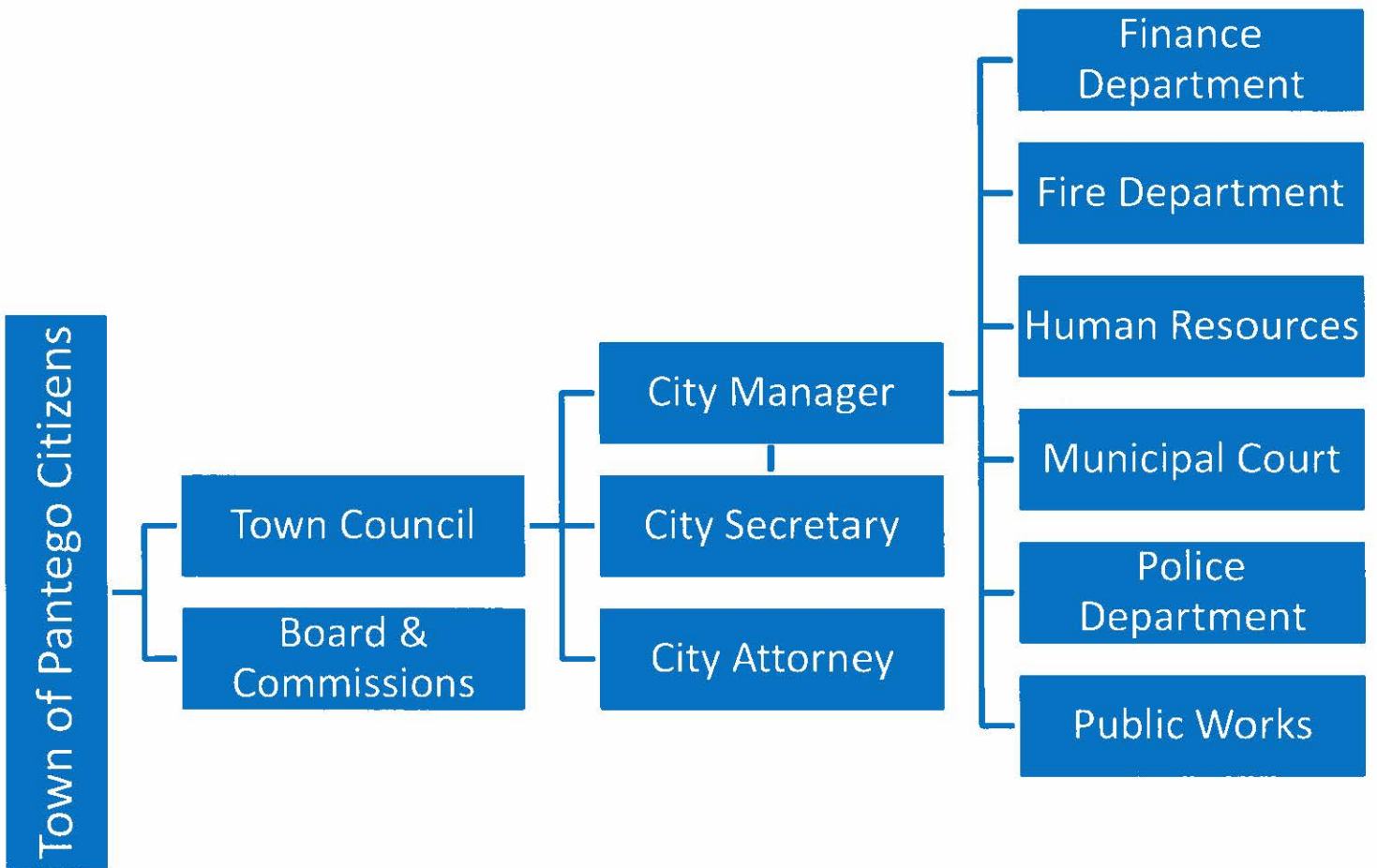
Mayor	Russell Brewster
Councilmember/Mayor Pro-Tem	Jeff Brown
Councilmember	Gregg Kidd
Councilmember	Tyler Loe
Councilmember	Mike Duncan
Councilmember	Tori Roemmich

ADMINISTRATION

City Officials

City Manager	Joe Ashton
City Secretary	Leslie Galloway
Finance Director	Sean Smith
Public Works Director	Bob Neal
Chief of Police	Jon Coulter
Fire Chief	Randy Fulton
Municipal Court Administrator	Thressa Householder
Legal Counsel	Taylor, Olson, Adkins, Sralla & Elam, LLP







Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Pantego
Texas**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

September 30, 2021

Christopher P. Morill

Executive Director/CEO



Financial Section

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Pantego, Texas

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pantego, Texas, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Pantego, Texas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pantego, Texas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Pantego, Texas' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

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

A handwritten signature in black ink that reads "Kellie Ann & Company, PC". The signature is written in a cursive, flowing style.

March 30, 2023



Management's Discussion and Analysis

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TOWN OF PANTEGO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED SEPTEMBER 30, 2022

This section of the Town of Pantego (the "Town") annual financial report presents our discussion of the Town's financial performance during the fiscal year ended September 30, 2022. The management's discussion and analysis are supplemental to, and should be considered, along with the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflow of resources of the Town of Pantego exceeded its liabilities and deferred inflow of resources at the close of the most recent fiscal year by \$12,311,089 (net position) compared to \$11,404,951 for the prior year. Of this amount, \$2,120,176 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$906,138. The Town's governmental activities net position decreased by \$1,312,552 and the business-type activities net position increased by \$2,218,690.
- As of the close of the current fiscal year, the Town of Pantego's governmental funds reported combined ending fund balances of \$3,695,673 which is a decrease of \$1,996,495 from the prior year.
- As of the close of the current fiscal year, unassigned fund balance for the general fund was \$1,250,677 which is 102 days or 28% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements - Government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The statement of net position presents information on all the Town's assets, deferred resource outflows, liabilities, and deferred resource inflows, with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

TOWN OF PANTEGO, TEXAS
Management's Discussion and Analysis

In the Statement of Net Position and the Statement of Activities we divide the Town into two (2) kinds of activities:

- Governmental Activities: Most of the Town's basic services are reported here, including police, fire, street maintenance, municipal court, and general administration. Property tax, sales tax, charges for services, franchise fees, and fines and forfeitures provide the majority of the funding for these activities.
- Business-type Activities: The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's water and sewer system are reported here.

The government-wide financial statements include not only the Town itself (known as the primary government), but also a legally separate Economic Development Corporation for which the Town is financially accountable. The Pantego Economic Development Corporation (P.E.D.C.) accounts for the local sales tax used to stimulate the local economy, development, and redevelopment. Financial information for this component unit is reported separately from the financial information presented for the primary government. Additional information on the component unit can be found in Note 1 in the notes to the basic financial statements.

The government-wide financial statements can be found in Exhibits A-1 and A-2 of this report.

Fund Financial Statements - The fund financial statements provide detailed information about the most significant funds – not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants. The Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants. All the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

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

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

TOWN OF PANTEGO, TEXAS
Management's Discussion and Analysis

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Equipment Replacement Fund, 2019 CO Capital Projects Fund, and Street Improvements Fund which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Town adopts annual appropriated budgets for the general fund, special revenue funds, and debt service funds. Project length budgets are adopted for the capital projects funds. A budgetary comparison schedule has been provided for all annual budgeted funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits A-3 through A-6 of this report.

Proprietary Funds – Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Services for which the Town charges customers a fee are generally reported in proprietary funds. The Town uses an enterprise fund, the Water and Sewer Fund, to account for its operations. The proprietary fund financial statements provide information on the Town's utility (water and sewer) system, which is considered to be a major fund of the Town. The basic proprietary fund financial statements can be found on Exhibits A-7 through A-9 of this report.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress funding its obligation to provide pension and OPEB benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

TOWN OF PANTEGO, TEXAS
Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$12,312,967 as of September 30, 2022. Below is a summary of the Town's Statement of Net Position.

CONDENSED STATEMENT OF NET POSITION
At September 30, 2022

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 5,059,708	\$ 7,027,592	\$ 1,302,695	\$ 1,676,598	\$ 6,362,403	\$ 8,704,190
Capital assets	5,962,978	5,610,138	5,241,311	2,804,844	11,204,289	8,414,982
Total assets	11,022,686	12,637,730	6,544,006	4,481,442	17,566,692	17,119,172
Deferred outflow of resources	573,781	709,895	69,759	173,456	643,540	883,351
Long-term liabilities	3,246,116	4,131,363	36,701	294,696	3,282,817	4,426,059
Other liabilities	948,521	901,174	213,036	160,184	1,161,557	1,061,358
Total liabilities	4,194,637	5,032,537	249,737	454,880	4,444,374	5,487,417
Deferred inflow of resources	1,297,269	897,975	157,500	212,180	1,454,769	1,110,155
Net Position:						
Net investment in capital assets	3,248,056	4,781,793	5,241,311	2,804,844	8,489,367	7,586,637
Restricted	1,701,546	1,515,045	-	-	1,701,546	1,515,045
Unrestricted	1,154,959	1,120,275	965,217	1,182,994	2,120,176	2,303,269
Total net position	\$ 6,104,561	\$ 7,417,113	\$ 6,206,528	\$ 3,987,838	\$ 12,311,089	\$ 11,404,951

The largest portion of the Town's net position \$8,489,367 or 68.9% reflects its net investment in capital assets (e.g., land, buildings, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The Town uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, \$2,308,391 or 18.7% represents resources that are subject to external restriction on how they may have been used. The remaining balance of unrestricted net position \$1,515,209 or 12.3% may be used to meet the government's ongoing obligation to citizens and creditors.

TOWN OF PANTEGO, TEXAS
Management's Discussion and Analysis

The following table provides a summary of the Town's operations for the year ended September 30, 2022.

CHANGES IN NET POSITION
At September 30, 2022

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program Revenues:						
Charges for services	\$ 680,780	\$ 786,724	\$ 1,548,821	\$ 1,416,976	\$ 2,229,601	\$ 2,203,700
Operating grants and contributions	22,750	32,994	-	-	22,750	32,994
Capital grants and contributions	313,320	312,885	-	-	313,320	312,885
General Revenues:						
Taxes:						
Property taxes	1,534,994	1,532,378	-	-	1,534,994	1,532,378
Sales tax	2,282,299	2,122,672	-	-	2,282,299	2,122,672
Franchise tax	290,788	263,064	-	-	290,788	263,064
Investment earnings	26,591	4,569	8,679	1,157	35,270	5,726
Other	90,958	55,442	435	3,370	91,393	58,812
Gain on retirement of Capital Assets	8,460	-	-	-	8,460	-
Total Revenues	5,250,940	5,110,728	1,557,935	1,421,503	6,808,875	6,532,231
Expenses						
General and administrative	571,428	575,663	-	-	571,428	575,663
Public Works	836,830	732,024	-	-	836,830	732,024
Community Development	31,800	29,432	-	-	31,800	29,432
Police	1,544,166	1,484,524	-	-	1,544,166	1,484,524
Fire	1,444,702	1,331,682	-	-	1,444,702	1,331,682
Municipal Court	372,200	336,347	-	-	372,200	336,347
Other	12,893	10,899	-	-	12,893	10,899
Interest and fiscal agent charges	73,283	74,758	-	-	73,283	74,758
Water and sewer	-	-	1,015,435	1,196,847	1,015,435	1,196,847
Total Expenses	4,887,302	4,575,329	1,015,435	1,196,847	5,902,737	5,772,176
Increase (decrease in net position before transfers)	363,638	535,399	542,500	224,656	906,138	760,055
Transfers	(1,676,190)	(127,487)	1,676,190	127,487	-	-
Increase (decrease) in net position	(1,312,552)	407,912	2,218,690	352,143	906,138	760,055
Net position - beginning	7,417,113	7,009,201	3,987,838	3,635,695	11,404,951	10,644,896
Prior Period Adjustment					-	-
Net position - ending	\$ 6,104,561	\$ 7,417,113	\$ 6,206,528	\$ 3,987,838	\$ 12,311,089	\$ 11,404,951

TOWN OF PANTEGO, TEXAS
Management's Discussion and Analysis

Governmental Activities – Governmental activities decreased the Town's net position by \$1,312,552 in the current year compared to a \$407,912 increase in the prior year. Total governmental activities revenues increased by \$140,212 (2.7%) primarily due to an increase in Sales Tax, and Property Tax. Expenditures for the 2022 Fiscal Year increased by \$311,973 (6.8%) over the prior fiscal year.

Business-type Activities – Business-type activities increased the Town's net position by \$2,218,690 in the current year compared to an increase in net position of \$352,143 in the prior year. Total revenues increased by \$136,432 9.6%. Expenses decreased \$181,412 (15.2%) over the prior fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,695,673. Approximately 33.8% or \$1,248,341 of this total constitutes unassigned fund balance, which is available for spending at the government's discretion. A fund balance of \$7,692 is considered non-spendable because it has been used for prepaid items and inventory. A total of \$2,439,640, approximately 66%, is restricted, committed, and assigned due to external limitations on its use, such as by debt covenants, legal, Town Council restrictions, or intention of grantors, donors, or trustees.

The General fund is the chief operating fund of the Town. At the end of the fiscal year, the unassigned fund balance of the General fund was \$1,248,341. It is useful to compare unassigned fund balance to total fund expenditures as a measure of liquidity. Unassigned fund balance represents approximately 28% or 102 days of total general fund expenditures. The ending fund balance in the general fund decreased by \$618,053 compared to a \$266,753 increase in the prior year, primarily due to increased expenditures and inter-fund transfers.

The ending balance in the 2019 CO Capital Projects Fund decreased by \$1,694,784 due to the completion of the projects funded by this fund.

Proprietary Funds – The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer fund, which combined comprises the Water and Sewer Operating, Construction and Water Infrastructure funds, at the end of the fiscal year amounted to \$965,217. The Water and Sewer fund is considered a major fund of the Town. Other factors concerning the finances of this fund are addressed in the discussion of the Town's business-type activities.

TOWN OF PANTEGO, TEXAS
Management's Discussion and Analysis

General Fund Budgetary Highlights – General Fund revenues were above budgeted projections by \$230,207 and expenditures were \$705,846 less than the budgeted amount.

The following schedule presents a summary of General Fund revenues and expenditures for the fiscal year ended September 30, 2022, and the amount and percentage increase and decrease in relation to the prior fiscal year.

Summary of General Fund Revenues

Revenues	Fiscal Year 2022	Percent of Total	Increase (Decrease) from prior year	Percentage Increase/ (Decrease)
Property tax	\$ 1,359,001	31.3%	\$ 7,722	0.6%
Sales tax	1,904,228	43.9%	133,128	7.5%
Franchise tax	282,204	6.5%	9,248	3.4%
Fines and forfeitures	432,795	10.0%	(111,581)	-20.5%
Licenses and permits	88,590	2.0%	25,184	39.7%
Ambulance service	116,182	2.7%	14,907	14.7%
Intergovernmental	22,750	0.5%	(10,244)	-31.0%
Charges for services	18,602	0.4%	(76)	-0.4%
Investment earnings	7,786	0.2%	7,038	940.9%
Miscellaneous	105,254	2.4%	34,427	48.6%
Total	<u>\$ 4,337,392</u>	<u>100.0%</u>	<u>\$ 109,753</u>	<u>2.6%</u>

Overall, General Fund revenues increased by \$109,753 or 2.6% over the prior fiscal year.

TOWN OF PANTEGO, TEXAS
Management's Discussion and Analysis

Summary of General Fund Expenditures

Expenditures	Fiscal Year 2022	Percent of Total	Increase (Decrease) from prior year	Percentage Increase/ (Decrease)
General and administrative	\$ 583,275	13.1%	\$ 60,528	11.6%
Public Works	347,835	7.8%	87,005	33.4%
Community development	12,202	0.3%	4,799	64.8%
Police	1,751,308	39.2%	103,093	6.3%
Fire	1,385,729	31.0%	77,869	6.0%
Municipal Court	376,586	8.4%	30,484	8.8%
Community Relations	10,867	0.2%	705	6.9%
Capital Outlay	-	0.0%	-	0.0%
Total	\$ 4,467,802	100.0%	\$ 364,483	8.9%

General Fund expenditures increased by \$364,483, or 8.9% compared to the prior year. The increase is due to an increase in personnel costs for overtime as many departments were short staffed, as well as inflationary pressures on many items.

CAPITAL ASSETS

The Town's net investment in capital assets for its governmental and business-type activities as of September 30, 2022, amounts to \$8,489,367. Major capital asset purchases and projects completed during the fiscal year included the following:

Governmental activities:

- Nora Drive Storm Drain \$604,967

Business-type activities:

- Pioneer Parkway Waterline Improvement Project \$1,659,610
- Country Club Sanitary Sewer Project \$70,549
- Peachtree Kidd Sewer Line \$342,905

TOWN OF PANTEGO, TEXAS
Management's Discussion and Analysis

**CAPITAL ASSETS
(NET OF DEPRECIATION)
At Year End**

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 211,263	\$ 211,263	\$ 61,971	\$ 61,971	\$ 273,234	\$ 273,234
Construction in progress	18,628	24,365	820,965	502,043	839,593	526,408
Buildings	742,624	704,076	-	-	742,624	704,076
Improvements	1,081,136	1,218,397	4,358,375	2,240,830	5,439,511	3,459,227
Machinery and equipment	1,138,351	1,265,940	-	-	1,138,351	1,265,940
Leased Equipment	211,601	-	-	-	211,601	-
Infrastructure	2,559,375	2,186,095	-	-	2,559,375	2,186,095
Total	\$ 5,962,978	\$ 5,610,136	\$ 5,241,311	\$ 2,804,844	\$ 11,204,289	\$ 8,414,980

Additional information on the Town's capital assets can be found in Note III.F. in the notes to the basic financial statements.

LONG TERM DEBT

At the end of the current fiscal year, the Town had a total of \$2,518,478 in outstanding bonded debt. This debt is secured by a combination of property taxes and a limited pledge of other revenues. This debt was issued for major infrastructure improvements. The Town also has entered into lease obligations for Town vehicles. The current remaining liability is \$195,906.

**OUTSTANDING DEBT
At Year End**

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Certificates of Obligation	\$ 2,465,000	\$ 2,565,000	\$ -	\$ -	\$ 2,465,000	\$ 2,565,000
Premium	77,448	82,714	-	-	77,448	82,714
Discount	(23,970)	(25,423)	-	-	(23,970)	(25,423)
Lease Obligations	195,906	-	-	-	195,906	-
Total	\$ 2,714,384	\$ 2,622,291	\$ -	\$ -	\$ 2,714,384	\$ 2,622,291

Additional information on the Town's outstanding debt can be found in Note III.H. in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Although the nationwide economic forecast for the future continues to be uncertain, the Town continues to remain in a stable position. The Town experienced an increase of 7.5% in sales tax revenue compared to the prior fiscal year. Other areas did experience minor decreases, but the Town was very conservative in comprising its Budget for the coming Fiscal Year. The Town's efforts towards economic development, attracting new retail businesses and redeveloping existing properties, continue to be a major focus now and for years to come.

The Town's property tax rate was increased to \$0.476 per \$100 taxable value for fiscal year 2023 from \$0.42 per \$100 in fiscal year 2022. In Fiscal Year 2022, General Fund Revenues were budgeted to increase 20.6% compared to Fiscal Year 2022 Revenues. Expenditures for Fiscal Year 2023 were Budgeted to increase 15.4% versus Fiscal Year 2022 expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances. Questions concerning any of the information provided in this report or requests for additional information may be obtained by contacting the Town of Pantego, Attn: Finance Department, 1614 South Bowen Rd, Pantego, Texas 76013. This information can also be accessed on the Town of Pantego's website at www.townofpantego.com.



Basic Financial Statements

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TOWN OF PANTEGO, TEXASSTATEMENT OF NET POSITION
SEPTEMBER 30, 2022

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
<i>Cash and Cash Equivalents</i>	\$ 3,656,341	\$ 648,661	\$ 4,305,002	\$ 989,661
<i>Receivables, net:</i>				
<i>Property tax</i>	58,454	--	58,454	--
<i>Sales tax</i>	394,402	--	394,402	131,467
<i>Franchise tax</i>	159,069	--	159,069	--
<i>Fines receivable</i>	734,046	--	734,046	--
<i>Accounts</i>	24,381	407,835	432,216	--
<i>Other</i>	22,801	--	22,801	--
<i>Internal balances</i>	--	--	--	--
<i>Due from other governments</i>	2,522	--	2,522	--
<i>Loans receivable</i>	--	--	--	3,985
<i>Inventory</i>	5,670	125,043	130,713	7,228
<i>Prepaid items</i>	2,022	--	2,022	--
<i>Restricted Assets:</i>				
<i>Cash and cash equivalents</i>	--	121,156	121,156	--
<i>Capital Assets (net of accumulated depreciation):</i>				
<i>Land</i>	211,263	61,971	273,234	--
<i>Construction in progress</i>	18,628	820,965	839,593	--
<i>Buildings</i>	742,624	--	742,624	--
<i>Improvements other than buildings</i>	1,081,136	4,358,375	5,439,511	--
<i>Machinery and equipment</i>	1,138,351	--	1,138,351	--
<i>Leased vehicles and equipment (intangible assets)</i>	211,601	--	211,601	--
<i>Infrastructure</i>	2,559,375	--	2,559,375	245,116
Total Assets	11,022,686	6,544,006	17,566,692	1,377,457
DEFERRED OUTFLOWS OF RESOURCES:				
<i>Employee pensions</i>	540,787	65,748	606,535	--
<i>Other post employment benefits</i>	32,994	4,011	37,005	--
Total Outflows of Resources	573,781	69,759	643,540	--
LIABILITIES:				
<i>Accounts payable</i>	124,442	91,880	216,322	37,076
<i>Accrued payroll liabilities</i>	137,382	--	137,382	--
<i>Other liabilities</i>	551,313	--	551,313	--
<i>Accrued interest payable</i>	9,048	--	9,048	--
<i>Customer deposits payable</i>	--	121,156	121,156	--
<i>Due to other governments</i>	126,336	--	126,336	--
<i>Noncurrent Liabilities-</i>				
<i>Due within one year</i>	374,185	--	374,185	--
<i>Due in more than one year</i>	2,871,931	36,701	2,908,632	--
Total Liabilities	4,194,637	249,737	4,444,374	37,076
DEFERRED INFLOWS OF RESOURCES:				
<i>Employee pensions</i>	1,274,965	154,970	1,429,935	--
<i>Other post employment benefits</i>	22,304	2,530	24,834	--
Total Inflows of Resources	1,297,269	157,500	1,454,769	--
NET POSITION:				
<i>Net Investment in Capital Assets</i>	3,248,056	5,241,311	8,489,367	245,116
<i>Restricted For:</i>				
<i>Debt Service</i>	17,802	--	17,802	--
<i>Capital Projects</i>	1,683,744	--	1,683,744	--
<i>Unrestricted</i>	1,154,959	965,217	2,120,176	1,095,265
Total Net Position	\$ 6,104,561	\$ 6,206,528	\$ 12,311,089	\$ 1,340,381

The accompanying notes are an integral part of this statement.

TOWN OF PANTEGO, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	\$ 571,428	\$ --	\$ 14,011	\$ 313,320
Public works	836,830	--	--	--
Community development	31,800	95,076	--	--
Police	1,544,166	451,274	8,739	--
Fire	1,444,702	109,572	--	--
Municipal court	372,200	24,858	--	--
Community relations	12,893	--	--	--
Interest and fiscal agent charges	73,283	--	--	--
Total Governmental Activities	<u>4,887,302</u>	<u>680,780</u>	<u>22,750</u>	<u>313,320</u>
Business-type Activities:				
Water and Sewer	1,015,435	1,548,821	--	--
Total Business-type Activities	<u>1,015,435</u>	<u>1,548,821</u>	<u>--</u>	<u>--</u>
Total Primary Government	<u>\$ 5,902,737</u>	<u>\$ 2,229,601</u>	<u>\$ 22,750</u>	<u>\$ 313,320</u>
COMPONENT UNITS:				
Pantego Economic Development Corporation	\$ 597,226	\$ --	\$ --	\$ --
Total Component Units	<u>\$ 597,226</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

General Revenues:

Taxes:

Property Taxes

Sales Taxes

Franchise Taxes

Unrestricted Investment Earnings

Miscellaneous Revenue

Gain (loss) on disposal of capital assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$ (244,097)		\$ (244,097)	
(836,830)		(836,830)	
63,276		63,276	
(1,084,153)		(1,084,153)	
(1,335,130)		(1,335,130)	
(347,342)		(347,342)	
(12,893)		(12,893)	
(73,283)		(73,283)	
<u>(3,870,452)</u>		<u>(3,870,452)</u>	
--	\$ 533,386	533,386	
--	533,386	533,386	
<u>(3,870,452)</u>	<u>533,386</u>	<u>(3,337,066)</u>	
			\$ (597,226)
			<u>(597,226)</u>
1,534,994	--	1,534,994	--
2,282,299	--	2,282,299	756,144
290,788	--	290,788	--
26,591	8,679	35,270	8,636
90,958	435	91,393	4,779
8,460	--	8,460	--
<u>(1,676,190)</u>	<u>1,676,190</u>	<u>--</u>	<u>--</u>
<u>2,557,900</u>	<u>1,685,304</u>	<u>4,243,204</u>	<u>769,559</u>
<u>(1,312,552)</u>	<u>2,218,690</u>	<u>906,138</u>	<u>172,333</u>
<u>7,417,113</u>	<u>3,987,838</u>	<u>11,404,951</u>	<u>1,168,048</u>
<u>\$ 6,104,561</u>	<u>\$ 6,206,528</u>	<u>\$ 12,311,089</u>	<u>\$ 1,340,381</u>

TOWN OF PANTEGO, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

	General Fund	Equipment Replacement Fund
ASSETS:		
Assets:		
<i>Cash and Cash Equivalents</i>	\$ 1,277,564	\$ 989,373
Receivables, net:		
<i>Property tax</i>	46,057	--
<i>Sales tax</i>	328,668	--
<i>Franchise tax</i>	159,069	--
<i>Fines</i>	734,046	--
<i>Accounts</i>	24,381	--
<i>Other</i>	22,801	--
Due from other governments	2,522	--
Inventory	5,670	--
Prepaid assets	2,022	--
Total Assets	<u>\$ 2,602,800</u>	<u>\$ 989,373</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities:		
<i>Accounts payable</i>	\$ 123,882	\$ --
<i>Accrued payroll liabilities</i>	137,382	--
<i>Due to other governments</i>	126,336	--
<i>Other liabilities</i>	546,790	--
Total Liabilities:	<u>934,390</u>	<u>--</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue	412,377	--
Total Deferred Inflows of Resources	<u>412,377</u>	<u>--</u>
FUND BALANCES		
Nonspendable:		
Inventory	5,670	--
Prepaid items	2,022	--
Restricted:		
Debt service	--	--
Municipal court	--	--
Street improvements	--	--
Animal control services	--	--
Other purposes	--	--
Committed		
Capital projects	--	989,373
Assigned		
Unassigned	1,248,341	--
Total fund balances	<u>1,256,033</u>	<u>989,373</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,602,800</u>	<u>\$ 989,373</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-3

2019 CO Drainage Capital Projects	Street Improvements Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 538,295	\$ 851,108	\$ 3,656,340
--	--	12,397	58,454
--	65,734	--	394,402
--	--	--	159,069
--	--	--	734,046
--	--	--	24,381
--	--	--	22,801
--	--	--	2,522
--	--	--	5,670
--	--	--	2,022
<u>\$ --</u>	<u>\$ 604,029</u>	<u>\$ 863,505</u>	<u>\$ 5,059,707</u>
\$ --	\$ 560	\$ --	\$ 124,442
--	--	--	137,382
--	--	--	126,336
<u>--</u>	<u>--</u>	<u>4,523</u>	<u>551,313</u>
<u>--</u>	<u>560</u>	<u>4,523</u>	<u>939,473</u>
--	--	12,184	424,561
<u>--</u>	<u>--</u>	<u>12,184</u>	<u>424,561</u>
--	--	--	5,670
--	--	--	2,022
--	--	5,936	5,936
--	--	140,006	140,006
--	603,469	--	603,469
--	--	72,218	72,218
--	--	628,638	628,638
--	--	--	989,373
<u>--</u>	<u>--</u>	<u>--</u>	<u>1,248,341</u>
<u>--</u>	<u>603,469</u>	<u>846,798</u>	<u>3,695,673</u>
<u>\$ --</u>	<u>\$ 604,029</u>	<u>\$ 863,505</u>	<u>\$ 5,059,707</u>

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TOWN OF PANTEGO, TEXAS
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2022**

Total fund balances - governmental funds balance sheet	\$ 3,695,673
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	5,962,978
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	55,872
Payables for bond principal which are not due in the current period are not reported in the funds.	(2,465,000)
Payables for right-to-use leases which are not due in the current period are not reported in the funds.	(195,906)
Payables for debt interest which are not due in the current period are not reported in the funds.	(9,048)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(229,322)
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	201,429
Franchise taxes receivable unavailable to pay for current period expenditures are not accrued in the funds.	142,562
Ambulance receivables unavailable to pay for current period expenditures are deferred in the funds.	24,381
Recognition of the Town's proportionate share of the net pension liability is not reported in the funds.	(120,095)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(1,274,647)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	540,787
Bond premiums are amortized in the SNA but not in the funds.	(54,016)
Recognition of the Town's proportionate share of the net OPEB liability is not reported in the funds.	(181,777)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	(22,304)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	32,992
Net position of governmental activities - Statement of Net Position	\$ <u>6,104,561</u>

The accompanying notes are an integral part of this statement.

TOWN OF PANTEGO, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2022

	General Fund	Equipment Replacement Fund
Revenue:		
Taxes:		
Property	\$ 1,359,001	\$ --
Sales	1,904,228	--
Franchise	282,204	--
Fines and forfeitures	432,795	--
Licenses and Permits	88,590	--
Ambulance service	116,182	--
Intergovernmental	22,750	--
Charges for services	18,602	--
Investment Earnings	7,786	7,786
Miscellaneous	105,254	--
Total revenues	<u>4,337,392</u>	<u>7,786</u>
Expenditures:		
Current:		
General and administrative	583,275	--
Public works	347,835	32,430
Community development	12,202	--
Police	1,751,308	211,559
Fire	1,385,729	53,793
Municipal Court	376,586	--
Community relations	10,867	--
Capital outlay	--	--
Debt Service:		
Principal	--	--
Interest and Fiscal Charges	--	12,256
Total Expenditures	<u>4,467,802</u>	<u>310,038</u>
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	<u>(130,410)</u>	<u>(302,252)</u>
Other Financing Sources (Uses):		
Transfers In	--	496,103
Transfers Out	(496,103)	--
Leases	--	204,167
Sale of Capital Assets	8,460	--
Total Other Financing Sources (Uses)	<u>(487,643)</u>	<u>700,270</u>
Net Change in Fund Balances	<u>(618,053)</u>	<u>398,018</u>
Fund Balances - Beginning	1,874,086	591,355
Fund Balances - Ending	<u>\$ 1,256,033</u>	<u>\$ 989,373</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-5

2019 CO Drainage Capital Projects	Street Improvements Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 176,252	\$ 1,535,253
--	378,071	--	2,282,299
--	--	--	282,204
--	--	24,858	457,653
--	--	--	88,590
--	--	--	116,182
--	--	313,320	336,070
--	--	--	18,602
265	3,916	6,838	26,591
--	--	--	105,254
<u>265</u>	<u>381,987</u>	<u>521,268</u>	<u>5,248,698</u>
--	--	--	583,275
--	137,712	--	517,977
--	--	--	12,202
--	--	--	1,962,867
--	--	10,507	1,450,029
--	--	22,030	398,616
--	--	2,026	12,893
604,967	--	51,098	656,065
--	--	100,000	100,000
--	--	75,450	87,706
<u>604,967</u>	<u>137,712</u>	<u>261,111</u>	<u>5,781,630</u>
<u>(604,702)</u>	<u>244,275</u>	<u>260,157</u>	<u>(532,932)</u>
57,914	--	3,628	557,645
--	--	(1,737,732)	(2,233,835)
--	--	--	204,167
--	--	--	8,460
<u>57,914</u>	<u>--</u>	<u>(1,734,104)</u>	<u>(1,463,563)</u>
(546,788)	244,275	(1,473,947)	(1,996,495)
546,788	359,194	2,320,745	5,692,168
<u>\$ --</u>	<u>\$ 603,469</u>	<u>\$ 846,798</u>	<u>\$ 3,695,673</u>

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TOWN OF PANTEGO, TEXAS

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022*

Net change in fund balances - total governmental funds \$ (1,996,495)

Amounts reported for governmental activities in the Statement of Activities
("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	1,047,678
The depreciation of capital assets used in governmental activities is not reported in the funds.	(689,099)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(261)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	100,000
Repayment of right-to-use lease principal is an expenditure in the funds but is not an expense in the SOA.	8,260
(Increase) decrease in accrued interest from beginning of period to end of period.	8,688
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(8,098)
Certain fine revenues are deferred in the funds. This is the change in these amounts this year.	6,599
Certain ambulance receivables are deferred in the funds. This is the change in these amounts this year.	(21,142)
Revenues in the SOA for franchise taxes not providing current financial resources are not reported in the funds.	8,584
Proceeds of right-to-use leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(204,167)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	421,322
OPEB expense relating to GASB 75 is recorded in the SOA but not in the funds.	5,579

Change in net position of governmental activities - Statement of Activities \$ (1,312,552)

The accompanying notes are an integral part of this statement.

TOWN OF PANTEGO, TEXAS**STATEMENT OF NET POSITION****ENTERPRISE FUNDS****SEPTEMBER 30, 2022**

	Enterprise Fund Water and Sewer Fund
ASSETS:	
Current Assets:	
<i>Cash and Cash Equivalents</i>	\$ 648,661
<i>Receivables (net of allowances for uncollectibles):</i>	
<i>Accounts</i>	407,835
<i>Inventories</i>	125,043
Restricted assets	
<i>Cash and Cash Equivalents</i>	121,156
Total Current Assets	<u>1,302,695</u>
Noncurrent Assets:	
<i>Land</i>	61,971
<i>Construction in Progress</i>	820,965
<i>Improvements Other Than Buildings</i>	7,987,493
<i>Less Accumulated Depreciation</i>	<u>(3,629,118)</u>
Total Noncurrent Assets	<u>5,241,311</u>
Total Assets	<u>6,544,006</u>
DEFERRED OUTFLOWS OF RESOURCES:	
<i>Employee pensions</i>	65,748
<i>Other post employment benefits</i>	4,011
Total Outflows of Resources	<u>69,759</u>
LIABILITIES:	
Current Liabilities:	
<i>Accounts payable</i>	91,880
Current Liabilities Payable from Restricted Assets:	
<i>Customer Deposits</i>	121,156
Total Current Liabilities	<u>213,036</u>
Noncurrent Liabilities:	
<i>Net Pension Liability</i>	14,601
<i>Net Opeb Liability</i>	22,100
Total Noncurrent Liabilities	<u>36,701</u>
Total Liabilities	<u>249,737</u>
DEFERRED INFLOWS OF RESOURCES:	
<i>Employee pensions</i>	154,970
<i>Other post employment benefits</i>	2,530
Total Inflows of Resources	<u>157,500</u>
NET POSITION:	
<i>Net Investment in Capital Assets</i>	5,241,311
<i>Unrestricted</i>	965,217
Total Net Position	<u>\$ 6,206,528</u>

The accompanying notes are an integral part of this statement.

TOWN OF PANTEGO, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Enterprise Fund Water and Sewer Fund
OPERATING REVENUES:	
Charges for Sales and Services:	
<i>Water sales</i>	\$ 620,211
<i>Sewer charges</i>	569,088
<i>Groundwater conversation fees</i>	22,931
<i>Infrastructure improvement fees</i>	309,366
<i>Late payment charges</i>	19,365
<i>Miscellaneous</i>	7,860
Total Operating Revenues	<u>1,548,821</u>
OPERATING EXPENSES:	
<i>Personnel</i>	226,010
<i>Utilities</i>	129,632
<i>Maintenance and repairs</i>	60,666
<i>Franchise fees</i>	53,013
<i>Other</i>	39,148
<i>Sewage treatment - other governments</i>	297,718
<i>Depreciation</i>	209,248
Total Operating Expenses	<u>1,015,435</u>
Operating Income	<u>533,386</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Investment earnings</i>	8,679
<i>Other income</i>	435
Total Non-operating Revenues (Expenses)	<u>9,114</u>
Income before Transfers	542,500
Transfers In	1,676,190
Transfers Out	<u>--</u>
Change in Net Position	2,218,690
Total Net Position - Beginning	3,987,838
Total Net Position - Ending	<u>\$ 6,206,528</u>

The accompanying notes are an integral part of this statement.

TOWN OF PANTEGO, TEXAS

STATEMENT OF CASH FLOWS

ENTERPRISE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Enterprise Water and Sewer Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,530,281
Cash Payments to Employees for Services	(434,988)
Cash Payments to Other Suppliers for Goods and Services	(591,257)
Net Cash Provided (Used) by Operating Activities	<u>504,036</u>
Cash Flows from Non-capital Financing Activities:	
Transfers From (To) Other Funds	1,676,190
Net Cash Provided (Used) by Non-capital Financing Activities	<u>1,676,190</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition or Construction of Capital Assets	(2,645,714)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(2,645,714)</u>
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	8,678
Net Cash Provided (Used) for Investing Activities	<u>8,678</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(456,810)
Cash and Cash Equivalents at Beginning of Year	1,226,627
Cash and Cash Equivalents at End of Year	<u>\$ 769,817</u>
Reported on Statement of Net Position:	
Unrestricted cash	\$ 648,661
Restricted cash	121,156
	<u>\$ 769,817</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ 533,386
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation	209,247
Other income	435
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(18,275)
Decrease (Increase) in Other Receivables	--
Decrease (Increase) in Inventories	(64,631)
Decrease (Increase) in Deferred Resource Outflows Pension	107,073
Decrease (Increase) in Deferred Resource Outflows OPEB	(3,376)
Increase (Decrease) in Accounts Payable	53,552
Increase (Decrease) in Customer Deposits	(700)
Increase (Decrease) in Net Pension Liability	(260,921)
Increase (Decrease) in Net OPEB Liability	2,926
Increase (Decrease) in Deferred Resource Inflows Pension	(55,193)
Increase (Decrease) in Deferred Resource Inflows OPEB	513
Total Adjustments	<u>(29,350)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 504,036</u>

The accompanying notes are an integral part of this statement.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Pantego, Texas (the "Town") was incorporated January 5, 1952, and operates under a Council-Manager form of government providing the following services as a duly incorporated general law city as authorized by the general laws of the State of Texas and subsequent Town ordinances: public safety (police, fire and ambulance), streets and bridges, sanitation, water and sewer, public improvements, planning and zoning, and general administrative services.

The accounting policies of the Town of Pantego, Texas, conform to generally accepted accounting principles issued by the Governmental Accounting Standards Board, which is the recognized financial accounting standard setting body of governmental entities. The notes to the financial statements are an integral part of the Town's financial statements.

As required by Generally Accepted Accounting Principles (GAAP), these financial statements present the Town and its component units, entities for which the Town is considered financially accountable or other organizations whose nature and significant relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Town is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Town.

The financial statements include one discretely presented component unit which has a September 30th year-end. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town.

Discretely Presented Component Unit

The Pantego Economic Development Corporation (PEDC) was created under the Development Corporation Act of 1979 and is governed by Section 4B of the Act. The PEDC is governed by a Board of Directors comprised of appointed members of Town Council and members appointed by the Town Council. Capital improvement projects undertaken by the PEDC are for the benefit of the Town. The PEDC may not issue debt without approval of the voters of the Town and the Town Council. The Town must approve changes to the PEDC's articles of incorporation, may unilaterally terminate the PEDC and has residual interest in the net position of the PEDC. The PEDC activities are reported herein as the PEDC Sales Tax Revenue Special Revenue Fund, PEDC Debt Service Fund, and PEDC Operating Fund. The PEDC is reported as a discretely presented component unit in the statement of net positions and statement of activities.

Flow of Revenue – PEDC – Sales tax is the significant source of revenue for PEDC. Sales tax receipts are initially recorded in the PEDC Sales Tax Revenue fund as sales tax revenue. Transfers are used to transfer cash to the PEDC Debt Service fund as needed to maintain a required reserve and to make debt service payments as they become due. Transfers are also used to transfer cash in excess of debt service needs to the PEDC Operating fund.

Governmental accounting standards require reasonable separation between the primary government and its discretely presented component units, both in the financial statements and in the related notes. Because discretely presented component units, although legally separate, have been and are operated as if each is part of the primary government, there are limited instances where special note reference or separation will be required. If no separate note reference or categorization is made, the user should assume that information presented is equally applicable.

B. Government-wide and Basic Financial Statements

The basic financial statements include both government-wide financial statements (based on the Town as a whole) and fund financial statements. The focus is on either the Town as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

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

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

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

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. 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 time 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. Available means collectible within the current period or soon enough thereafter to be used 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 are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property, franchise, sales and investment income (including unrealized gains and losses) are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Town reports the following major governmental funds:

The *General Fund* is the Town'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 *Street Improvement Fund* accounts for .25% (1/4 ¢) sales tax used for infrastructure maintenance and improvement.

The *2019 CO Drainage Capital Projects Fund* was created to account for expenditures to provide upgrades to the Town's drainage system. The Certificates of Obligation are currently being serviced by ad valorem taxes.

The Equipment Replacement Fund was created to accumulate funds to replace capital equipment.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

The Town reports the following major enterprise fund:

The *Water and Sewer Fund* is used to account for the provision of water and sewer services to residents of the Town. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, capital improvements, billing and collection.

Additionally, the Town reports the following fund types:

Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specified purposes (not including expendable trusts or major capital projects).

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects Funds account for resources to be used for the construction of capital assets, or for the acquisition of replacement equipment.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and wastewater fund and various other funds of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various funds concerned.

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

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources as they are needed.

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

1. **Cash and Cash Equivalents** – The Town pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments that are highly liquid with maturity within three months or less when purchased. Amounts invested in Tex-Pool public investment pools are considered cash and cash equivalents. Assets reported as cash and investments are considered cash and cash equivalents for the statement of cash flows.
2. **Receivables and Payables** – Interfund transactions result 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" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances" line of the government wide statement of net position.
3. **Unbilled Service** – Utility operating revenues (water and sewer) are billed on monthly cycles. The Town records estimated revenues for services delivered during the fiscal year, which will be billed during the next fiscal year. Accounts receivable in the water and sewer fund includes \$203,647 of earned but unbilled revenue.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

4. Inventory and prepaid items – Inventories consist of expendable supplies held for consumption. The inventory of supplies are recorded under the purchase method. Under the purchase method the inventory is first recorded as an expense when purchased and then adjusted at the end of the year to reflect the value of inventory to date. Inventories, which are expensed as they are consumed, are stated at cost. In the General Fund, certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the government wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.
5. Capital assets – Capital assets, which include land, buildings, improvements, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), purchased or acquired, are carried at historical cost or estimated historical cost if historical cost is not available. Donated capital assets, donated works of art and similar items, and any capital assets received in a service concession arrangement are reported at acquisition value, as of the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

The Town defines capital assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Intangible assets with definite lives are recorded at cost and amortized over the useful lives. Intangible assets with indefinite lives are recorded at cost and no amortization is taken.

Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings	5 – 50 years
Improvements other than buildings	3 – 30 years
Machinery, equipment and furniture	3 – 10 years
Water & sewer system infrastructure	5 – 50 years
Street and storm drainage infrastructure	10 – 40 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest accrued during the construction phase of capital assets of business-type activities is capitalized.

6. Compensated absences – It is the Town's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick benefits. No sick pay benefits are paid upon separation from service and therefore have not been accrued in the financial statements. All vacation pay benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and/or retirements.
7. 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 type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed.

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 issuance are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
9. Deferred outflows/inflows of resources – Deferred outflows and inflows of resources are reported in the statement of financial position as described below:

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

Deferred outflows of resources represent a consumption of net assets that applies to future periods, and deferred inflows of resources represent an acquisition of net assets that applies to future periods. The Town has two items which qualify for reporting in this category:

Deferred outflows of resources for employee pensions – Reported in the government wide financial statement of net position, these deferred outflows resulting primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period. This deferred outflow results from pension plan contributions made after the measurement date of the net pension liability. The deferred outflow of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year.

Deferred inflows of resources for other post employment benefits – Reported in the government wide financial statement of net position, these deferred outflows resulting primarily from differences between projected and actual earnings on opeb plan investments. These amounts will be amortized over a closed five year period.

Deferred inflows of resources represent an acquisition of net assets that applies to future periods. The Town has three items which qualify for reporting in this category:

Deferred inflows of resources for unavailable (deferred) revenues – Reported only in the governmental funds balance sheet for unavailable revenues from property taxes, franchise taxes, ambulance services and municipal court fines and forfeitures under the modified accrual basis of accounting. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

Deferred inflows of resources for employee pensions – Reported in the government wide financial statements of net position and in the statement of net position for proprietary funds. The employee pension related deferred inflow of resources will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Deferred inflows of resources for other poste employment benefits (opeb) – Reported in the government wide financial statements of net position and in the statement of net position for proprietary funds. The opeb deferred inflow of resources will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with these benefits pensions through the opeb plan.

10. Fund Balance – Governmental Funds – Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form (such as prepaids and inventory) or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments imposed or is imposed by law through constitutional provisions or enabling legislation. Legal enforceability means that the Town can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed – The committed fund balance classifications includes amounts that can be used only for the specific purposed imposed by formal action, a resolution of Town ordinance, of the Town Council. Those committed amounts cannot be used for any other purpose unless Town Council removes or changes the specified use by taking the same formal action it employed to previously commit those amounts.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. The Town Council has the authority to assign amounts for specific purposes.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Minimum Fund Balance Policy – It is the goal of the Town that unassigned fund balance of the General Fund should be at least 90 days (24.66%) of General Fund annual expenditures. In order to adhere to the principles of matching current revenues with current expenditures and minimizing property taxes, the Town will take action to reduce the fund balance, as stated in the Town's current financial policy, if the unassigned fund balance grows beyond 120 days of expenditures. As of September 30, 2022 the General Fund had approximately 102 days or 27.9% of annual expenditures in the unassigned fund balance.

- 11) **Net Position** – Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- 12) **Management's Use of Estimates** – The preparation of financial statements, in conformity with Generally Accepted Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred resource outflows, liabilities, deferred resource inflows, and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.
- 13) **Reclassifications** – Certain accounts and funds in the prior fiscal year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The Town follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Public hearings are conducted to obtain taxpayer comments.
2. Prior to October 1, the budget is legally enacted through passage of an ordinance.
3. The Town Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Council. Therefore the fund level is the legal level of control.
4. Formal budgetary integration is employed as a management control device during the year. The legally adopted budgets for the General Fund, Court House Security Special Revenue Fund, Court Technology Special Revenue Fund, Shamburger Special Revenue Fund, and the Debt Service 2019 CO Fund are adopted on a basis consistent with generally accepted accounting principles.
5. Budgeted amounts are as originally adopted or as amended by the Town Council. During 2022, individual amendments were not material in relation to the original appropriations. Any budgeted amounts appropriated at fiscal year-end and not spent automatically lapse.
6. Capital Project funds, as presented, are not budgeted since project length financial plans usually extend into two or more fiscal years, making comparisons for a single year statement confusing.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

B. Deficit fund equity

There were no fund deficits at September 30, 2022.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents

Substantially all operating cash and investments are maintained in consolidated cash and investment accounts. Investment income related to consolidated investments is allocated to the individual funds monthly based on the funds' pro-rata share of total cash and investments. Cash and investments as of September 30, 2022, are classified in the statement of net position as cash and cash equivalents and restricted cash and cash equivalents. Cash and cash equivalents as of September 30, 2022 consist of the following:

At September 30, 2022, the Town had the following investments which are considered cash equivalents:

	Fair Value	Weighted Average Maturity (Days)
Investment Type		
TexPool	\$4,604,048	45
Logic	\$69,414	45
Cash	<u>742,357</u>	
Total cash and cash equivalents	<u><u>\$5,415,819</u></u>	

Cash and cash equivalents are reported in the:

Statement of net position as follows:

Governmental activities unrestricted	\$3,656,341
Governmental activities restricted	--
Business-type activities unrestricted	648,661
Business-type activities restricted	<u>121,156</u>
Total Town	4,426,158
PEDC Discrete Component Unit	<u>989,661</u>
	<u><u>\$5,415,819</u></u>

B. Deposits

State statutes authorize the Town's cash to be deposited in demand deposits, time deposits, or certificates of deposit, and require that all deposits be fully collateralized or insured. The depository bank places approved pledged securities for safekeeping and trust with the Town's agent bank in an amount sufficient to protect the Town's funds on at day-to-day basis. At year end, the carrying amount of the Town's cash on hand and deposits was \$742,357. All of the bank balance of \$1,039,354 was covered by federal deposit insurance and collateralized by the pledging financial institution with marketable securities held by an agent in the bank's name.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Town will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Town's policy requires that all deposits with financial institutions must be collateralized to the extent not protected by the Federal Deposit Insurance Corporation ("FDIC") insurance. The PEDC deposits are secured by a separate pledge of securities and FDIC insurance. At September 30, 2022, the Town's deposits and those of the Pantego Economic Development Corporation were covered by FDIC insurance or by collateral held by the bank's agent in the Town's name.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Town to adopt, implement and publicize an investment policy. This policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities and (9) bid solicitation references for certificates of deposit. The Town's investment policy authorizes the Town to invest in obligations of the United States government and its agencies and instrumentalities, fully insured or collateralized certificates of deposit, repurchase agreements not to exceed 90 days to stated maturity, AAA-rated, SEC registered money market funds, AAA-rated Texas local government investment pools, and other interest bearing accounts at the Town's depository. During the year ended September 30, 2022, the Town did not own any types of securities other than those permitted by statute.

The Town invests idle funds in the Texas Local Government Investment Pools: TexPool, TexPool Prime, and Logic. These government investment pools operate in a manner consistent with the SEC's Rule 2A7 of the Investment Act of 1940. The Pools are required to maintain market value of its underlying investment portfolio within one half of one percent of the value of its shares.

Interest Rate Risk – Interest rate risk is the risk that changes in the market place will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In order to limit interest and market rate risk from changes in interest rates, the Town of Pantego's adopted Investment Policy sets the weighted average maturity (WAM) limit to one (1) year for operating funds and two (2) years for non-operating funds.

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating agency. A primary stated objective of the Town of Pantego's adopted Investment Policy is the safety of principal and avoidance of principal loss. The Town controls risk by limiting its investments to those instruments allowed by its investment policy.

Concentration Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. It is the policy of the Town of Pantego to diversify its investment portfolios. Whenever practical, assets held in the common investment portfolio shall be diversified to minimize the risk of loss resulting from one concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

Custodial Credit Risk – Investments - In order to control custody and safekeeping risk State law and the Town of Pantego's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the Town and held in the Town's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of U.S. Financial Institutions Resource and Recovery Enforcement Act ("FIRREA"). The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

C. Property Tax

The Town's property taxes are levied on October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the Town. Property taxes attach as an enforceable lien on property as of January 1 and are levied for appropriation for the fiscal year beginning October 1. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year. Taxes unpaid as of February 1 are subject to penalty and interest as provided by the Texas Property Tax Code.

Property taxes are accrued based on the period for which they are levied and available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay current liabilities. Taxes not expected to be collected within sixty days of the fiscal year-end are recorded as deferred revenues and are recognized when they become available. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue in the period to which they apply.

TOWN OF PANTEGO, TEXAS
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General property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The combined tax rate to finance general governmental services and debt service for the Town of Pantego for the year ended September 30, 2022 was \$0.4200 per \$100 of assessed valuation.

D. Receivables and Deferred Revenues

All receivables are shown net of allowance for uncollectible accounts. The allowances for uncollectible accounts are based upon historical experience. Property tax and municipal court allowance for uncollectible accounts are equal to approximately 60% and 75% of the outstanding balance at September 30, and the ambulance allowance consists of accounts aged more than 120 days. The allowance for the water and sewer accounts receivable is equal to the accounts receivable that are aged ninety days or more as of September 30.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Receivables and deferred revenue as of September 30, 2022 for the government's individual major funds, and non-major funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	General	Street Improvement	Other Governmental	Total Governmental	Water & Sewer	Component Unit
Property tax	\$115,144	\$ --	\$30,992	\$146,136	\$ --	\$ --
Allowance	(69,087)	--	(18,595)	(87,682)	--	--
	<u>\$46,057</u>	<u>\$ --</u>	<u>\$12,397</u>	<u>\$58,454</u>	<u>\$ --</u>	<u>\$ --</u>
Sales tax	<u>\$328,668</u>	<u>\$65,734</u>	<u>\$ --</u>	<u>\$394,402</u>	<u>\$ --</u>	<u>\$131,467</u>
Franchise tax	<u>\$159,069</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$159,069</u>	<u>\$ --</u>	<u>\$ --</u>
Fines	\$868,331	\$ --	\$ --	\$868,331	\$ --	\$ --
Allowance	(134,285)	--	--	(134,285)	--	--
	<u>\$734,046</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$734,046</u>	<u>\$ --</u>	<u>\$ --</u>
Accounts	\$248,016	\$ --	\$ --	\$248,016	\$440,865	\$ --
Allowance	(223,635)	--	--	(223,635)	(33,030)	--
	<u>\$24,381</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$24,381</u>	<u>\$407,835</u>	<u>\$ --</u>
Other	\$26,335	\$ --	\$ --	\$26,335	\$ --	\$ --
Allowance	(3,534)	--	--	(3,534)	--	--
	<u>\$22,801</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$22,801</u>	<u>\$ --</u>	<u>\$ --</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	\$44,006	\$ --
Franchise taxes (General Fund)	142,562	--
Fines receivable (General Fund)	201,429	--
Ambulance (General Fund)	24,381	--
Delinquent property taxes receivable (Debt Service Fund)	12,184	--
Total deferred/unearned revenue for governmental funds	<u>\$424,562</u>	<u>\$ --</u>

The Pantego Economic Development Corporation (PEDC) component unit provides loans towards assisting businesses with improvements to the borrower's property. Notes receivable for the year ended September 30, 2022 are as follows:

\$22,756 loan dated February 1, 2019, at 3% payable in equal monthly installments of \$506 over four (4) years beginning March 1, 2019, secured by furniture, fixtures and equipment of the borrower.	\$3,985
\$20,000 loan dated June 1, 2017, at 3% payable in equal monthly installments of \$442.69 over three (3) years beginning June 1, 2017, secured by the furniture, fixtures and equipment of the borrower.	11,544
Total notes receivable	15,529
Less allowance	(11,544)
Net loans receivable	<u>\$3,985</u>

As of September 30, 2022, \$11,544 of PEDC loans were past due. Management believes the past due balances are collectible.

E. Interfund Receivables, Payables and Transfers

Inter-fund transfers are reported in the governmental activities and proprietary fund financial statements.

In the government-wide statements, inter-fund transfers are eliminated within the governmental activities column and business-type column, as appropriate.

Fund	Transfers In	Transfers Out
Major Governmental Funds		
General Fund	\$ --	\$496,103
2019 CO Drainage Capital Projects	\$57,914	
Equipment Replacement Fund	\$496,103	
2019 CO Capital Projects	--	1,696,881
Nonmajor Governmental Funds		
Debt Service Fund		3,628
Debt Service 2019 CO	3,628	
Corona Virus State and Local Recovery	--	37,223
Enterprise Fund	1,676,190	--
Totals	<u>\$2,233,835</u>	<u>\$2,233,835</u>

Transfers are primarily used to (1) move revenues collected in the special revenue funds to finance various programs in accordance with budgetary authorizations, (2) move receipts restricted for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) transfer additional funds, (4) contribute toward the cost of capital projects, and (5) other operational purposes.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

F. Capital Assets

Capital asset activity for the year ended September 30, 2022:

Primary Government

	Balance 9/30/21	Additions	Retirements	Transfers	Inventory Adjustment	Balance 9/30/22
GOVERNMENTAL ACTIVITIES:						
Capital assets, not being depreciated:						
Land	\$211,263	\$ --	\$ --	\$ --	\$ --	\$211,263
Construction in progress	24,365	13,651	--	--	(19,388)	18,628
	<u>235,628</u>	<u>13,651</u>	<u>--</u>	<u>--</u>	<u>(19,388)</u>	<u>229,891</u>
Capital assets, being depreciated:						
Buildings	2,121,993	95,420	--	--	--	2,217,413
Improvements other than buildings	2,459,566	--	--	--	--	2,459,566
Machinery and equipment	3,881,076	109,278	(65,860)	--	--	3,924,494
Leased equipment	--	221,102	--	--	--	221,102
Infrastructure	10,536,085	621,878	--	--	--	11,157,963
Total capital assets being depreciated	<u>18,998,720</u>	<u>1,047,678</u>	<u>(65,860)</u>	<u>--</u>	<u>--</u>	<u>19,980,538</u>
Less accumulated depreciation for:						
Buildings and improvements	(1,417,917)	(56,872)	--	--	--	(1,474,789)
Improvements other than buildings	(1,241,169)	(137,261)	--	--	--	(1,378,430)
Machinery and equipment	(2,615,136)	(236,867)	65,860	--	--	(2,786,143)
Leased equipment	--	(9,501)	--	--	--	(9,501)
Infrastructure	(8,349,990)	(248,598)	--	--	--	(8,598,588)
Total accumulated depreciation	<u>(13,624,212)</u>	<u>(689,099)</u>	<u>65,860</u>	<u>--</u>	<u>--</u>	<u>(14,247,451)</u>
Net capital assets being depreciated	<u>5,374,508</u>	<u>358,579</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,733,087</u>
Governmental activities capital	<u>\$5,610,136</u>	<u>\$372,230</u>	<u>\$ --</u>	<u>\$ --</u>	<u>(\$19,388)</u>	<u>\$5,962,978</u>

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

	Balance 9/30/21	Additions	Retirements	Transfers	Inventory Adjustments	Balance 9/30/22
BUSINESS-TYPE ACTIVITIES:						
Capital assets, not being depreciated:						
Land	\$61,971	\$ --	\$ --	\$ --	\$ --	\$61,971
Construction in progress	502,043	318,922	--	--	--	820,965
Total capital assets not being	564,014	318,922	--	--	--	882,936
Capital assets, being depreciated:						
Improvements other than buildings	5,805,106	2,326,792	(144,405)	--	--	7,987,493
Total capital assets being depreciated	5,805,106	2,326,792	(144,405)	--	--	7,987,493
Less accumulated depreciation for:						
Improvements other than buildings	(3,564,276)	(209,247)	144,405	--	--	(3,629,118)
Total accumulated depreciation	(3,564,276)	(209,247)	144,405	--	--	(3,629,118)
Capital assets being depreciated, net	2,240,830	2,117,545	--	--	--	4,358,375
Business type activities capital assets,	\$2,804,844	\$2,436,467	\$ --	\$ --	\$ --	\$5,241,311

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

Governmental activities:

General government	\$37,597
Public works	401,063
Community development	19,598
Police	82,267
Fire	145,623
Municipal court	2,951
Total depreciation expense - governmental activities	<u>\$689,099</u>

Business-type activities:

Water and sewer	<u>\$209,247</u>
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TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

The Pantego Economic Development Corporation (PEDC) occasionally funds public infrastructure improvements. When the construction is completed the capital assets are contributed to the governmental or business-type activities. The following is a summary of changes in the component unit capital assets during the fiscal year ended September 30, 2022:

	Balance 9/30/21	Additions	Retirements	Completed Construction	Balance 9/30/22
COMPONENT UNIT:					
Capital assets, not being depreciated:					
Construction in progress	\$ --	\$ --	\$ --	--	\$ --
Total capital assets not being depreciated	--	--	--	--	--
Capital assets, being depreciated:					
Improvements other than buildings	342,700	17,720	--	--	360,420
Accumulated depreciation	(78,160)	(37,144)	--	--	(115,304)
Capital assets, being depreciated net	264,540	(19,424)	--	--	245,116
Component unit capital assets	\$264,540	(\$19,424)	\$ --	\$ --	\$245,116

G. Construction commitments

The Town has active construction projects as of September 30, 2022, consisting of a court relocation project and various water system improvements.

Project	Spent to Date	Remaining Commitment
Court Relocation Project	\$18,628	\$73,349
Total governmental funds	18,628	73,349
Water transition rate study	27,246	--
Arlington Water Transition Study	55,577	--
New well and reserve osmosis system	37,223	--
Chloramine transition study	31,588	--
North south 16" water line replacement	669,331	32,650
Water and Sewer Fund	820,965	32,650
	\$839,593	\$105,999

The street and water improvements are being financed by operations and bond proceeds.

H. Long-term Debt and Obligations

The Town of Pantego and the PEDC component unit have issued general obligation bonds, certificates of obligation bonds and sales tax revenue bonds to provide funds for the acquisition and construction of major capital facilities. The general obligation refunding bonds and certificates of obligation bonds are paid by the debt service fund, the G.O. Bonds Interest and Sinking Debt Service Fund, and the sales tax revenue bonds are paid by the PEDC Debt Service Fund.

All taxes levied and collected for and on account of said bonds are pledged to the Debt Service Fund in amounts authorized by the Town Council. The ordinances authorizing the issuance of the General Obligation Refunding Bonds and the Combination Tax and Limited Pledge Revenue Certificates of Obligation require that the Town's ad valorem tax revenues be enough to generate net revenues sufficient to provide for the payment

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

of the debt service requirements of the bonds issued. At September 30, 2022, this requirement had been met. As of September 30, 2022, the Town had no authorized but unissued bonds.

General Obligation Debt Outstanding as of September 30, 2022, is as follows:

Description	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance 9/30/22
Governmental Activities					
Certificates of Obligation Bonds:					
Tax and Revenue, Series 2019	\$2,735,000	2019	2040	3.00%	<u>\$2,465,000</u>
Total Certificates of Obligation					<u>2,465,000</u>
Total Governmental Activities General Obligation Debt					<u><u>\$2,465,000</u></u>

Annual debt service requirements to maturity for general debt:

Year	Governmental Activities		Total
	Principal	Interest	
2023	\$105,000	\$72,375	\$177,375
2024	110,000	69,150	179,150
2025	110,000	65,850	175,850
2026	115,000	62,475	177,475
2027	120,000	58,950	178,950
2028-2032	645,000	238,575	883,575
2033-2037	750,000	134,250	884,250
2038-2040	510,000	23,250	533,250
Total	<u>\$2,465,000</u>	<u>\$724,875</u>	<u>\$3,189,875</u>

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

I. CHANGES IN LONG-TERM LIABILITIES

During the year ended September 30, 2022, the following changes occurred in liabilities reported in the general long-term debt:

	Balance 9/30/21	Additions	Retirements	Balance 9/30/22	Due Within One Year
Governmental activities:					
Certificates of obligation	\$2,565,000	\$ --	(\$100,000)	\$2,465,000	\$105,000
Premium	\$82,174	--	(4,726)	77,448	4,726
Discount	(\$25,423)	--	1,453	(23,970)	(1,453)
	<u>2,621,751</u>	<u>--</u>	<u>(103,273)</u>	<u>2,518,478</u>	<u>108,273</u>
Leases	--	204,166	(8,260)	195,906	36,590
Net pension liability	1,123,065	--	(1,002,970)	120,095	--
Net OPEB liability	164,783	16,994	--	181,777	--
Compensated absences	<u>221,224</u>	<u>229,322</u>	<u>(221,224)</u>	<u>229,322</u>	<u>229,322</u>
Governmental activity Long-Term Liabilities	<u><u>\$4,130,823</u></u>	<u><u>\$450,482</u></u>	<u><u>(\$1,335,727)</u></u>	<u><u>\$3,245,578</u></u>	<u><u>\$374,185</u></u>
Business-type activities:					
Net pension liability	\$275,522	\$ --	(\$260,921)	\$14,601	\$ --
Net OPEB liability	<u>19,174</u>	<u>2,926</u>	<u>--</u>	<u>22,100</u>	<u>--</u>
Total business activities Long-Term Debt	<u><u>\$294,696</u></u>	<u><u>\$2,926</u></u>	<u><u>(\$260,921)</u></u>	<u><u>\$36,701</u></u>	<u><u>\$ --</u></u>
Component Unit:					
Sales tax revenue bonds	<u>\$190,000</u>	<u>\$ --</u>	<u>(\$190,000)</u>	<u>\$ --</u>	<u>\$ --</u>
Total component unit Long-Term Debt	<u><u>\$190,000</u></u>	<u><u>\$ --</u></u>	<u><u>(\$190,000)</u></u>	<u><u>\$ --</u></u>	<u><u>\$ --</u></u>

For the governmental activities, claims and judgments, compensated absences, pension, and OPEB liabilities are generally liquidated by the general fund.

Authorized and Unissued Debt

The Town has no authorized but unissued debt at September 30, 2022.

Arbitrage payable - The Tax Reform Act of 1986 requires that the excess interest earned on tax exempt bond proceeds over interest cost must be remitted to the federal government. The arbitrage liability is payable to the federal government every five years; however, the Town calculates and records its arbitrage liability annually. The arbitrage liability is recorded as a liability in the government-wide and proprietary fund financial statements, as applicable, on the accrual basis of accounting. At September 30, 2022, the Town had no arbitrage liability.

J. Sewer Contracts

The Town has contracts with the City of Fort Worth and City of Arlington for the treatment of wastewater. The contracts require the Town to pay varying amounts based on the costs associated with the wastewater treated. Charges for wastewater treatment during fiscal year 2022 were \$146,250 for Fort Worth and \$151,468 for Arlington.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

K. Risk management

The Town is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Town had 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 ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The Town pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category has its own level of reinsurance. The Town continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

L. Contingent Liabilities and Commitments

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

M. Retirement Commitments

1. Plan Description

The Town participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.com.

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

2. Benefits

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Town, 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 Town-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment 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.

Employees covered by benefit terms.

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

Inactive employees (or their beneficiaries) currently receiving benefits	63
Inactive employees entitled to but not yet receiving benefits	94
Active employees	45
	<hr/>
	202
	<hr/>

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Town matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Town. Under the state law governing TMRS, the contribution rate for each Town 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 Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 15.86% and 15.70% in calendar years 2021 and 2022, respectively. The Town's contributions to TMRS for the year ended September 30, 2022, were \$459,319 and were equal to the required contributions.

4 Net Pension Liability

The Town's Net Pension Liability (NPL) was measured as of December 31, 2021, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

Actuarial assumptions:

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

Inflation	2.50% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum 15 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, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2021 are summarized in the following table:

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

Asset Class	Target	Long-term Expected
	Allocation	Real Rate of Return (Arithmetic)
Global Equity	35.00%	7.50%
Core Fixed Income	6.00%	2.00%
Non-Core fixed income	20.00%	5.68%
Other Public and Private Markets	12.00%	7.22%
Real estate	12.00%	6.85%
Hedge Funds	5.00%	5.35%
Private equity	10.00%	10.00%
	<u>100.00%</u>	

Discount Rate

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

Changes in the net pension liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	[a]	[b]	[c]
Balance at 12/31/20	\$17,310,150	\$15,911,564	\$1,398,586
Changes for the year:			
Service cost	512,760	--	512,760
Interest	1,154,962	--	1,154,962
Change of benefit terms	--	--	--
Difference between expected and actual experience	(227,276)	--	(227,276)
Changes of assumptions	--	--	--
Contributions - employer	--	444,879	(444,879)
Contributions - employees	--	196,352	(196,352)
Net investment income	--	2,072,638	(2,072,638)
Benefit payments including refunds of employee contributions	(911,967)	(911,967)	--
Amortization of prior year assets	--	--	--
Administrative expense	--	(9,598)	9,598
Other changes	--	66	(66)
Net changes	528,479	1,792,370	(1,263,891)
Balance at 12/31/21	\$17,838,629	\$17,703,934	\$134,695

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

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

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Total Pension Liability	\$20,433,291	\$17,838,629	\$15,739,947
Plan Fiduciary Net Position	17,703,934	17,703,934	17,703,934
Net Pension Liability/(Asset)	\$2,729,357	\$134,695	(\$1,963,987)

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.tmr.com.

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

For the year ended September 30, 2022, the Town recognized pension expense of \$593,765. At September 30, 2022, the Town reported deferred outflows and inflows of resources related to pensions from the following sources. Contributions made after the measurement date of the net pension liability but before the end of the employer's or governmental nonemployer contributing entity's reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than in the current fiscal period.

	Total		Amount			
	Remaining (Inflow) Outflow of Resources	Date Established	Original Recognition Period	Amount Recognized in Expense 12/31/21	Balance of Deferred (Inflows) 12/31/21	Balance of Deferred (Inflows)/Outflows 12/31/2021
Due to liabilities:						
Difference in expected & actual experience						
(actuarial (gains) or losses)	(\$227,276)	12/31/21	1.8200	(\$124,877)	(\$102,399)	\$ --
	(111,657)	12/31/20	1.0000	(111,657)	--	--
Difference in assumption changes						
(actuarial (gains) or losses)	--	12/31/2019	0.0000	--	--	--
				(236,534)	(102,399)	--
Due to assets:						
Difference in projected & actual earnings on						
pension plan reserves (actuarial (gains)/losses)	(998,607)	12/31/21	5.0000	(199,722)	(798,885)	
	(99,577)	12/31/20	4.0000	(24,894)	(74,683)	
	(680,475)	12/31/19	4.0000	(226,825)	(453,650)	--
	538,632	12/31/18	3.0000	269,317	--	269,315
	(175,107)	12/31/17	2.0000	(175,107)	--	--
Employer contributions made subsequent to measurement date				--	--	337,220
				(357,231)	(1,327,218)	606,535
				(\$593,765)	(\$1,429,617)	\$606,535

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

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

Deferred Inflows/outflows to Be Recognized in Future Years

<u>Year ended December</u>	
2022	(\$284,525)
2023	(451,441)
2024	(224,617)
2025	(199,719)
2026	--
	<u><u>(\$1,160,302)</u></u>

N. Other Postemployment Benefits

1. Plan Description

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. The Town may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan with benefit payments treated as being equal to the employer's yearly contribution for retirees.

2. Benefits Provided

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

*Employees covered by benefit terms**

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

Inactive employees (or their beneficiaries) currently receiving benefits	26
Inactive employees entitled to but not yet receiving benefits	12
Active employees	45
	<u>83</u>

* Membership counts for inactive employees currently receiving or entitled to but not yet receiving benefits will differ from GASB 68 as they include only those eligible for a SDBF benefit (i.e. excludes beneficiaries, non-vested terminations due a refund, etc.)

3. Total OPEB Liability

The Town's total OPEB liability of \$203,877 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

Actuarial assumptions –

The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.5% to 11.5% including inflation
Discount rate	1.84%
Retirees' share of benefit related costs	\$0

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

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.

Changes in the Total OPEB Liability

Changes in the Total OPEB Liability

	Increase (Decrease)
	OPEB
	Liability
Balance at 12/31/20	\$183,957
Changes for the year:	
Service cost	14,025
Interest	3,794
Change of benefit terms	--
Effect of economic/demographic gains or losses	(2,464)
Changes of assumptions	7,090
Amortization of prior year assets	--
Benefit payments	(2,525)
Net changes	19,920
Balance at 12/31/21	\$203,877

** 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.

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

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

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

The following presents the total OPEB liability of the Town, calculated using the discount rate of 1.84%, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (0.84%) or 1 percentage point higher (2.84%) than the current rate:

	1% Decrease 0.84%	Current Discount Rate 1.84%	1% Increase 2.84%
Total OPEB Liability	<u>\$257,253</u>	<u>\$203,877</u>	<u>\$164,541</u>

Deferred Outflows of Resources and Deferred Inflows of Resources, by year, to be recognized in Future OPEB Expense (excluding Town-provided contributions made subsequent to the measurement date).

Contributions made after the measurement date of the net OPEB liability but before the end of the employer's contributing entity's reporting period will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period rather than in the current fiscal period.

	Total Remaining (Inflow) or Outflow of Resources	Date Established	Original Recognition Period	Amount Recognized in 12/31/21 Expense	Balance of Deferred (Inflows) 12/31/21	Balance of Deferred (Inflows)/Outflows 12/31/2021
Due to liabilities:						
Difference in expected and actual experience						
(actuarial (gains) or losses)	(\$2,464)	12/31/21	4,6400	(\$532)	(\$1,932)	\$ --
	(5,070)	12/31/20	3,7800	(1,341)	(3,729)	
	(6,076)	12/31/19	2,9100	(2,088)	(3,988)	
	(4,367)	12/31/18	2,0600	(2,119)	(2,248)	--
				(6,080)	(11,897)	--
Difference in assumption changes						
(actuarial (gains) or losses)	7,090	12/31/21	4,6400	1,529	--	5,561
	21,751	12/31/20	3,7800	5,754		15,997
	16,211	12/31/19	2,9100	5,571		10,640
	(3,841)	12/31/18	2,6000	(1,864)	(1,977)	--
	2,305	12/31/17	1,0600	2,176	--	129
				13,166	(1,977)	32,327
Employer contributions made subsequent to measurement date				--	--	4,678
				--	--	4,678
				\$7,086	(\$13,874)	\$64,654

TOWN OF PANTEGO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2022

Deferred Inflows/outflows to Be Recognized in Future Years

<u>Year ended December</u>	
2022	\$5,039
2023	8,337
2024	4,439
2025	638
2026	--
	<hr/>
	\$18,453
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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

TOWN OF PANTEGO, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes:				
Property	\$ 1,339,654	\$ 1,339,654	\$ 1,359,001	\$ 19,347
Sales	1,718,400	1,718,400	1,904,228	185,828
Franchise	275,356	275,356	282,204	6,848
Fines and forfeitures	565,575	565,575	432,795	(132,780)
Licenses and Permits	66,800	66,800	88,590	21,790
Ambulance service	100,000	100,000	116,182	16,182
Intergovernmental	4,000	4,000	22,750	18,750
Charges for services	18,500	18,500	18,602	102
Investment Earnings	1,500	1,500	7,786	6,286
Miscellaneous	17,400	17,400	105,254	87,854
Total revenues	<u>4,107,185</u>	<u>4,107,185</u>	<u>4,337,392</u>	<u>230,207</u>
Expenditures:				
Current:				
General and administrative	889,391	889,391	583,275	306,116
Public works	849,081	849,081	347,835	501,246
Community development	12,000	12,000	12,202	(202)
Police	1,644,470	1,644,470	1,751,308	(106,838)
Fire	1,364,831	1,364,831	1,385,729	(20,898)
Municipal Court	404,685	404,685	376,586	28,099
Community relations	9,190	9,190	10,867	(1,677)
Total Expenditures	<u>5,173,648</u>	<u>5,173,648</u>	<u>4,467,802</u>	<u>705,846</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(1,066,463)</u>	<u>(1,066,463)</u>	<u>(130,410)</u>	<u>936,053</u>
Other Financing Sources (Uses):				
Transfers In	802,896	802,896	--	(802,896)
Transfers Out	--	--	(496,103)	496,103
Sale of Capital Assets	--	--	8,460	(8,460)
Total Other Financing Sources (Uses)	<u>802,896</u>	<u>802,896</u>	<u>(487,643)</u>	<u>1,290,539</u>
Net Change in Fund Balances	(263,567)	(263,567)	(618,053)	(354,486)
Fund Balances - Beginning	<u>1,874,086</u>	<u>1,874,086</u>	<u>1,874,086</u>	<u>--</u>
Fund Balances - Ending	<u>\$ 1,610,519</u>	<u>\$ 1,610,519</u>	<u>\$ 1,256,033</u>	<u>\$ (354,486)</u>

TOWN OF PANTEGO, TEXAS
**SCHEDULE OF CHANGES IN THE TOWN'S
 NET PENSION LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 LAST TEN PLAN YEARS ***

	December 31,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Total pension liability:										
Service cost	\$ 512,760	\$ 492,183	\$ 512,881	\$ 481,596	\$ 462,387	\$ 421,798	\$ 362,190	\$ 294,270	\$ --	\$ --
Interest	1,154,962	1,119,646	1,091,193	1,047,898	1,016,821	980,866	963,211	935,669	--	--
Changes of benefit terms	--	--	--	--	--	--	--	--	--	--
Differences between expected and actual experience	(227,276)	(234,358)	(404,716)	21,520	(90,676)	(104,215)	(57,274)	(103,022)	--	--
Changes of assumptions	--	--	54,251	--	--	--	252,911	--	--	--
Benefit payments, including refunds of employee contributions	(911,967)	(817,146)	(826,320)	(1,024,180)	(851,307)	(720,846)	(838,452)	(696,398)	--	--
Net change in total pension liability	528,479	560,325	427,289	526,834	537,225	577,603	682,586	430,519	--	--
Total pension liability - beginning	17,310,150	16,749,825	16,322,536	15,795,702	15,258,477	14,680,874	13,998,288	13,567,769	--	--
Total pension liability - ending	\$ 17,838,629	\$ 17,310,150	\$ 16,749,825	\$ 16,322,536	\$ 15,795,702	\$ 15,258,477	\$ 14,680,874	\$ 13,998,288	\$ --	\$ --
Plan fiduciary net position:										
Contributions - employer	\$ 444,879	\$ 475,832	\$ 509,097	\$ 482,422	\$ 473,050	\$ 388,070	\$ 329,956	\$ 301,148	\$ --	\$ --
Contributions - employee	196,352	193,991	203,755	187,705	180,118	163,941	148,438	144,634	--	--
Net investment income	2,072,638	1,132,516	2,014,633	(413,685)	1,707,200	791,051	17,797	666,569	--	--
Benefit payments, including refunds of employee contributions	(911,967)	(817,146)	(826,320)	(1,024,180)	(851,307)	(720,846)	(838,452)	(696,398)	--	--
Administrative expense	(9,598)	(7,335)	(11,395)	(8,001)	(8,850)	(8,936)	(10,841)	(6,960)	--	--
Other	66	(286)	(342)	(418)	(449)	(481)	(535)	(572)	--	--
Net change in plan fiduciary net position	1,792,370	977,572	1,889,428	(776,157)	1,499,762	612,799	(353,637)	408,421	--	--
Plan fiduciary net position - beginning	15,911,564	14,933,991	13,044,563	13,820,720	12,320,958	11,708,159	12,061,796	11,653,375	--	--
Plan fiduciary net position - ending (b)	\$ 17,703,934	\$ 15,911,563	\$ 14,933,991	\$ 13,044,563	\$ 13,820,720	\$ 12,320,958	\$ 11,708,159	\$ 12,061,796	\$ --	\$ --
Town's net pension liability - ending (a) - (b)	\$ 134,695	\$ 1,398,587	\$ 1,815,834	\$ 3,277,973	\$ 1,974,982	\$ 2,937,519	\$ 2,972,715	\$ 1,936,492	\$ --	\$ --
Plan fiduciary net position as a percentage of the total pension liability	99.24%	91.92%	89.16%	79.92%	87.50%	80.75%	79.75%	86.17%	--	--
Covered payroll	\$ 2,805,033	\$ 2,771,302	\$ 2,910,790	\$ 2,681,493	\$ 2,573,108	\$ 2,342,020	\$ 2,066,197	\$ 2,066,197	\$ --	\$ --
Town's net pension liability as a percentage of covered payroll	4.80%	50.47%	62.38%	122.24%	76.75%	125.43%	143.87%	93.72%	--	--

Notes to Schedule:

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

TOWN OF PANTEGO, TEXAS
SCHEDULE OF TOWN CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

	Fiscal Year									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	\$ 459,320	\$ 457,837	\$ 477,916	\$ 479,475	\$ 482,843	\$ 461,370	\$ 338,187	\$ 310,220	--	\$ --
Contributions in relation to the actuarially determined contribution	(459,320)	(457,837)	(477,916)	(479,475)	(482,843)	(461,370)	(338,187)	(310,220)	--	--
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Covered payroll	\$ 2,917,543	\$ 2,820,155	\$ 2,768,463	\$ 2,725,177	\$ 2,665,742	\$ 2,572,371	\$ 2,215,684	\$ 2,034,826	--	\$ --
Contributions as a percentage of covered payroll	15.74%	16.23%	17.26%	17.59%	18.11%	17.94%	15.26%	15.25%	--	--

Notes to Schedule

Valuation date:

Notes Actuarially determined contribution rates are calculated as of December 31, and becomes effective in January, thirteen 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-years smoothed fair value; 12% soft corridor
Inflation	2.5%
Salary increases	3.5% to 11.5%, including inflation
Investment rate of return	6.75%
Retirement age	Experience-based tables of rates that are specific to the Town's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

TOWN OF PANTEGO, TEXAS
**SCHEDULE OF CHANGES IN THE TOWN'S
 TOTAL OPEB LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS ***

	Plan Year Ended December 31,									
	2021	2020	2019	2018	2017	2016	2014	2013	2012	2011
Total OPEB liability:										
Service cost	\$ 14,025	\$ 9,700	\$ 8,441	\$ 6,704	\$ 5,661	\$ --	\$ --	\$ --	\$ --	\$ --
Interest	3,794	4,244	4,630	4,447	4,315	--	--	--	--	--
Changes of benefit terms	--	--	--	--	--	--	--	--	--	--
Differences between expected and actual experience	(2,464)	(6,411)	(10,252)	(10,724)	--	--	--	--	--	--
Changes of assumptions or other inputs	7,090	27,505	27,353	(9,433)	11,009	--	--	--	--	--
Benefit payments	(2,525)	(1,909)	(1,455)	(1,341)	(1,257)	--	--	--	--	--
Net change in total OPEB liability	19,920	33,129	28,717	(10,347)	19,728	--	--	--	--	--
Total OPEB liability - beginning	183,157	150,028	121,311	131,658	111,930	--	--	--	--	--
Total OPEB liability - ending	<u>\$ 203,077</u>	<u>\$ 183,157</u>	<u>\$ 150,028</u>	<u>\$ 121,311</u>	<u>\$ 131,658</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Covered employee-payroll	\$ 2,805,033	\$ 2,771,302	\$ 2,910,790	\$ 2,681,493	\$ 2,573,108	\$ --	\$ --	\$ --	\$ --	\$ --
Total OPEB liability as a percentage of covered employee payroll	7.24%	6.61%	5.15%	4.52%	5.12%	--	--	--	--	--

Notes to Schedule:

There were no changes of benefit terms in 2021.

There are no assets accumulated in a trust which meet the criteria of the GASB to pay related benefits for the opeb plan.

There were no changes of assumptions in 2021. The following are the discount rates used in each period.

2021	1.84%
2020	2.00%
2019	2.75%
2018	3.71%
2017	3.31%
2016	NA
2015	NA
2014	NA
2013	NA
2012	NA

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

TOWN OF PANTEGO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2021

(Unaudited)

Information concerning the budget and budget calendar are detailed in footnote II.A. The General Fund budget is presented on a generally accepted accounting principles basis.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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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 Certificates, assuming no material changes in facts or law.

**TOWN OF PANTEGO, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2023
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$12,425,000**

AS BOND COUNSEL FOR THE TOWN OF PANTEGO, TEXAS (the “Issuer”) in connection with the issuance of the Combination Tax and Revenue Certificates of Obligation, Series 2023, described above (the “Certificates”), we have examined into the legality and validity of the Certificates, 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 Certificates. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Certificates (the “Ordinance”).

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates, including the executed Certificates.

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not “specified private activity bonds” and that, accordingly, interest on the Certificates will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the



property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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

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

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

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

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



of the Issuer as to the current outstanding indebtedness of and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

Respectfully,

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Financial Advisory Services
Provided By

