NEW ISSUE	**OFFICIAL STATEMENT**	**S&P: "AA-"**
BOOK-ENTRY-ONLY	**August 13, 2019**	**(See "RATING" herein.)**

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

<u>THE CERTIFICATES HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.</u>

$6,720,000
CITY OF KENEDY, TEXAS
(A political subdivision of the State of Texas located in Karnes County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2019

Dated: August 1, 2019 (interest to accrue from the Delivery Date) **Due: May 1, as shown on inside cover**

The $6,720,000 City of Kenedy, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2019 (the "Certificates") are being issued by the City of Kenedy, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance adopted by the City Council on August 13, 2019 (the "Ordinance"). See "THE CERTIFICATES – Authority for Issuance".

The Certificates constitute direct and general obligations of the City payable from ad valorem taxes levied annually against all taxable property therein, within the limits prescribed by law. Additionally, the Certificates are secured with a pledge of the "Surplus Revenues", if any, of the City's waterworks and sewer system (see "THE CERTIFICATES - Security and Source of Payment" and "THE CERTIFICATES – Tax Rate Limitations" herein).

Interest on the Certificates will accrue from the Delivery Date (defined below) and will be payable May 1 and November 1 of each year, commencing May 1, 2020, until maturity or prior redemption. Interest on the Certificates will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Principal of the Certificates will be payable by the paying agent/registrar (the "Paying Agent/Registrar"), initially U.S. Bank National Association, Houston, Texas, to Cede & Co., as nominee of DTC. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer relating to the Certificates. DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interest in the Certificates. See "BOOK-ENTRY-ONLY SYSTEM" herein. So long as the Certificates are in Book-Entry-Only form, and DTC is the securities depository therefor, Cede & Co., as nominee for DTC, will be the registered owner of the Certificates and references herein to registered owners shall mean Cede & Co. and not the beneficial owners of the Certificates.

Proceeds from the sale of the Certificates will be used for (i) construction, acquisition, and equipping of a sports activity complex (the "Project"), and (ii) paying all or a portion of the legal, fiscal and engineering fees in connection with the Project and the costs of issuance related to the Certificates.

SEE MATURITY SCHEDULE ON INSIDE COVER

The Certificates are offered when, as and if issued and subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the initial purchaser thereof (the "Underwriter") by its counsel, Winstead PC, San Antonio, Texas. The Certificates are expected to be available for initial delivery to the Underwriter through the services of DTC on or about September 10, 2019 (the "Delivery Date").

FROST BANK

Base CUSIP: 488818

MATURITY SCHEDULE

$6,720,000
CITY OF KENEDY, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2019

Maturity Date (5/1)	**Principal Amount**	**Interest Rate**	**Yield**	**CUSIP No Suffix** [1]
2020	$315,000	4.00%	1.22%	FC4
2021	230,000	4.00	1.26	FD2
2022	240,000	4.00	1.29	FE0
2023	250,000	4.00	1.32	FF7
2024	260,000	4.00	1.41	FG5
2025	270,000	4.00	1.47	FH3
2026	280,000	4.00	1.57	FJ9
2027	295,000	4.00	1.63	FK6
2028	305,000	4.00	1.71	FL4
2029	315,000	4.00	1.78[2]	FM2
2030	330,000	4.00	1.86[2]	FN0
2031	345,000	4.00	1.91[2]	FP5
2032	355,000	4.00	1.94[2]	FQ3
2033	370,000	4.00	1.99[2]	FR1
2034	385,000	4.00	2.04[2]	FS9
2035	400,000	4.00	2.10[2]	FT7
2036	420,000	4.00	2.18[2]	FU4
2037	435,000	4.00	2.24[2]	FV2
2038	450,000	4.00	2.28[2]	FW0
2039	470,000	4.00	2.32[2]	FX8

(Interest to accrue from the Delivery Date)

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after May 1, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on May 1, 2028 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption”).

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[1] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriter, the City nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.
[2] Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on May 1, 2028, the first optional call date for the Certificates, at a redemption price of par plus accrued interest to the date of redemption.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a promise or guarantee of the Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE CERTIFICATES DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER 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 JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The City	The City of Kenedy, Texas is the largest commercial center of Karnes County. The City is located at the intersection of U.S. Highway 181 and State Highways 72 and 239 and is 35 miles southeast of San Antonio.
The Certificates	$6,720,000 Combination Tax and Revenue Certificates of Obligation, Series 2019, dated August 1, 2019, maturing as described on the inside cover page of this Official Statement.
Security for the Certificates	The Certificates are payable from a continuing and direct annual ad valorem tax levied against all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Certificates. The Certificates will be additionally secured by a pledge of the "Surplus Revenues", if any, of the City's waterworks and sewer system, as provided in the ordinance authorizing the Certificates.
Redemption Provisions of the Certificates	The City reserves the right, at its sole option, to redeem Certificates having stated maturities on or after May 1, 2029, in whole or in part thereof, in principal amounts of $5,000 or any integral multiple thereof, on May 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. (See "THE CERTIFICATES – Optional Redemption" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of delivery thereof, subject to matters discussed herein under "TAX MATTERS". (See "TAX MATTERS' and Appendix D - "Form of Opinion of Bond Counsel" herein.)
Qualified Tax-Exempt Obligations	The City has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations")
Use of Proceeds	Proceeds from the sale of the Certificates will be used for (i) construction, acquisition, and equipping of a sports activity complex (the "Project"), and (ii) paying all or a portion of the legal, fiscal and engineering fees in connection with the Project and the costs of issuance related to the Certificates.
Authority for Issuance	The Certificates are issued pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance adopted by the City Council on August 13, 2019 authorizing the issuance of the Certificates (the "Ordinance"). (See "THE CERTIFICATES – Authority for Issuance.")
Ratings	S&P Global Ratings ("S&P") has assigned a rating of "AA-" to the Certificates. An explanation of the significance of such rating may be obtained from said rating agency. (See "RATING" herein.)
Payment Record	The City has never defaulted on the payment of its bonded indebtedness.
Future Bond Issues	The City does not anticipate the issuance of additional tax debt during the next 12 months.
Delivery	When issued, anticipated on or about September 10, 2019.

CITY OF KENEDY, TEXAS
303 West Main Street
Kenedy, Texas 78119

ELECTED OFFICIALS

CITY COUNCIL

Name	Term Expires (May)	Occupation
Mayor James Sutton Mayor	2021	Business Owner
Cindy Saenz Council Member, District 1	2020	Community Volunteer
Brenda Cano Council Member, District 2	2021	Nurse
Brandon Briones Council Member, District 3	2020	Prison Guard
Justin Meyer Council Member, District 4	2021	Administrative Assistant
Leslie Wynn Council Member, District 5	2020	Business Owner

APPOINTED OFFICIALS

Name	Position	Years with the City
Vacant(1)	City Manager	__
Ms. Amanda Hines	City Secretary	2

(1) Ms. Barbara Shaw has announced her resignation, effective August 16, 2019. City Council expects to appoint an interim City Manager in the near future.

BOND COUNSEL AND ADVISORS

Bond Counsel
McCall Parkhurst & Horton L.L.P.
700 N. St. Mary's
Suite 1525
San Antonio, Texas 78205

Certified Public Accountants
Beyer & Co.
442 West Oaklawn
P.O. Box 366
Pleasanton, Texas 78064

Financial Advisor
RBC Capital Markets, LLC
303 Pearl Parkway,
Suite 220
San Antonio, Texas 78219

TABLE OF CONTENTS

The Cover Page, Table of Contents, and Appendices attached hereto are part of the Official Statement

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OFFICIAL STATEMENT
relating to

$6,720,000
CITY OF KENEDY, TEXAS
(A political subdivision of the State of Texas located in Karnes County)
Combination Tax and Revenue Certificates of Obligation, Series 2019

INTRODUCTORY STATEMENT

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

There follows in this Official Statement a description of the City of Kenedy, Texas Combination Tax and Revenue Certificates of Obligation, Series 2019 (the "Certificates") and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City and, during the offering period, from the Financial Advisor, upon payment of reasonable copying, handling, and delivery charges. Certain capitalized terms used in this Official Statement have meanings assigned to them in the "Ordinance" (defined below) to be adopted by the City Council, except as otherwise indicated herein.

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

THE CERTIFICATES

General Description

The Certificates will be dated August 1, 2019 (the "Dated Date"), and will be issued in fully-registered form, in denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Certificates will accrue from the date of initial delivery thereof and interest will be paid semiannually on May 1 and November 1 of each year, commencing May 1, 2020, until maturity or prior redemption. Interest on the Certificates will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Certificates will mature on the dates and in the amounts as set forth on the inside cover page hereof.

Principal and interest for the Certificates will be paid by U.S. Bank National Association, Houston, Texas (the "Paying Agent/Registrar"). Subject to the requirements associated with the use of the Book-Entry-Only System (see "BOOK-ENTRY-ONLY SYSTEM" herein), interest will be paid by check dated as of the interest payment date and mailed first class, postage paid, on or before each interest payment date by the Paying Agent/Registrar to the registered owners (the "Owners") appearing on the registration books of the Paying Agent/Registrar on the Record Date (herein defined), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of such Owner. Principal will be paid to the Owners at maturity or redemption upon presentation and surrender of the Certificates to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorize to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The City will initially use the Book-Entry Only System of The Depository Trust Company ("DTC"), New York, New York, in regard to the issuance, payment and transfer of the Certificates. Such system will affect the timing and method of payment of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein).

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance adopted by the City Council on August 13, 2019 (the "Ordinance").

Purpose

Proceeds from the sale of the Certificates will be used for (i) construction, acquisition, and equipping of a sports activity complex (the "Project"), and (ii) paying all or a portion of the legal, fiscal and engineering fees in connection with the Project and the costs of issuance related to the Certificates.

Legality

The Certificates are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel (see "LEGAL MATTERS" herein).

Security and Source of Payment

Tax Pledge . . . The Certificates constitute direct obligations of the City payable from an annual ad valorem tax levied against all taxable property within the City, within the limits prescribed by law (see "TAX RATE LIMITATIONS" below).

Pledge of Surplus Revenues. . . Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are additionally secured with a pledge of "Surplus Revenues" derived from the City's combined waterworks and sewer system (the "System"). The term "Surplus Revenues" is described in the Ordinance as the revenues of the System remaining after (a) payment of all amounts constituting operation and maintenance expenses of the System, and (b) payment of all debt service, reserve, and other requirements and amounts required to be paid under all ordinances heretofore or hereafter authorizing (i) all bonds, and (ii) all other obligations not on a parity with the Certificates which are payable from and secured by any System revenues, and (c) payment of all amounts payable from any System revenues pursuant to contracts heretofore or hereafter entered into by the City in accordance with law.

Even though the City has pledged the Surplus Revenues of the System to further secure the Certificates, the City does not expect that any Net Revenues from such System will actually be utilized to pay the debt service requirements on the Certificates. Instead, the City expects to use funds provided by the Kenedy Economic Development Corporation (the "Kenedy EDC"), which is a nonprofit economic development corporation created by the City and operating pursuant to Chapters 501 and 505 of the Texas Local Government Code, to pay all debt service on the Certificates in accordance with a Project Funding Agreement between the City and the Kenedy EDC. See "Table 1 - Valuation, Exemptions and Tax Supported Debt" (particularly footnote (2) thereunder) and "Table 9" under the column "Less: Self-Supporting Debt" for information on the City's self-supporting general obligation debt.

Tax Rate Limitations

The City operates as a Type A general law municipality under the Constitution and laws of the State of Texas. Article XI, Section 4 of the Constitution of the State of Texas provides that the ad valorem taxes levied by a general law municipality for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed $1.50 for each $100 of assessed valuation of taxable property.

There is no constitutional or statutory limitation within the $1.50 rate for interest and sinking fund purposes; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.00 of the foregoing $1.50 maximum tax rate calculated at 90% collection. The issuance of the Certificates does not violate the constitutional restriction or the Texas Attorney General's administrative policy. See also "PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS."

Optional Redemption

The City reserves the right, at its sole option, to redeem Certificates having stated maturities on or after May 1, 2029, in whole or in part thereof, in principal amounts of $5,000 or any integral multiple thereof, on May 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Notice of Redemption for the Certificates

Not less than 30 days prior to a redemption date for the Certificates, the City 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. The notice with respect to an optional redemption of Certificates may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the City retains the right to rescind such notice at any time prior to the scheduled redemption date if the City delivers a certificate of an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption will be of no effect if such moneys are not so deposited or if the notice is so rescinded. 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 CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Certificates and such redemption will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Certificates for redemption.

Defeasance of Certificates

The Ordinance provides for the defeasance of the Certificates when the payment of the principal of the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. Thereafter, the City will have no further responsibility with respect to amounts available to such paying agent, or other authorized escrow agent, for the payment of such defeased Certificates, including any insufficiency therein caused by the failure of such paying agent, or other authorized escrow agent, to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and, (d) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Certificates. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

Amendments

The City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Certificates affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, (2) extend any waiver of default to subsequent defaults, or in any other way modify the terms of payment of the principal of or interest on the Certificates, (3) give any preference to any Certificate over any other Certificate, or (4) reduce the aggregate principal amount of Certificates required for consent to any amendment, addition, or waiver.

Record Date

The date for determining the person to whom the interest is payable on the Certificates on any interest payment date means the fifteenth (15th) day of the month next preceding the date that each interest payment is due (the "Record Date").

Special Record Date for Interest Payment

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which must be 15 days after the Special Record Date) will 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.

Limitation on Transfer of Certificates

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

Mutilated, Destroyed, Lost, or 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 in substitution for a Certificate which has been destroyed, stolen or lost, such new Certificate will be delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfying to them that such Certificate has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Certificate must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

Payment Record

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

SOURCES AND USES OF CERTIFICATE PROCEEDS

The following table shows the estimated sources and uses of the proceeds of the Certificates:

Sources:		
	Principal Amount of the Certificates	$6,720,000.00
	Original Issue Premium on the Certificates	918,661.70
	Total Sources of Funds	**$7,638,661.70**
Uses:		
	Deposit to Construction Fund	$7,500,000.00
	Costs of Issuance, Underwriter's Discount and excess proceeds	138,661.70
	Total Uses of Funds	**$7,638,661.70**

ENFORCEMENT OF REMEDIES

The Ordinance establishes specific events of default with respect to the Certificates. If the City (i) defaults in the payment of the principal, premium, if any, or interest on the Certificates, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund, or (iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the failure to perform which materially, adversely affects the rights of the holders including but not limited to their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for 30 days after the City has received written notice of such defaults, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions.

The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the Certificateholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

In *Tooke*, the Court noted the enactment in 2005 of sections 271.151- 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 in certain circumstances." The Local Government Immunity Waiver Act covers municipalities and relates to contracts entered into by municipalities for providing goods or services to municipalities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

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

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.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificateholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

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 City, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 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 ("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, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities

Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated industries. 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 an S&P Global Ratings rating of "AA+". The DTC Rules applicable to its 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 the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Information concerning DTC and DTC's 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 City, the Financial Advisor or the Underwriter.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Certificates is U.S. Bank National Association, Houston, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Certificates. If the Paying Agent/Registrar is replaced by the City, the Paying Agent/Registrar, promptly upon the appointment of its successor, is required to deliver the registration records to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank, or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Certificates, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Certificates affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Paying Agent/Registrar.

Future Registration

In the event the use of the "Book-Entry-Only System" for the Certificates should be discontinued, printed physical Certificates will be delivered to the registered owners of the Certificates and thereafter such Certificates may be transferred, registered and assigned on the registration books only upon their presentation and surrender to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect to such registration and transfer. The 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 designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the owner's request, risk and expense. 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 owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of $5,000 of principal amount for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) interest-bearing banking deposits, other than those described by clause (7), if (A) the funds invested in the banking deposits are invested through (i) a broker with a main office or branch office in this State that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution as described in clause (8)(A), above, arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) 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 (D) the investing City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits or; (ii) where the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) 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 (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker- dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), and require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (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 (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, and that complies with SEC Rule 2a-7; and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

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

Additional Provisions

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an 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 said ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy; (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization (i) is dependent on an analysis of the makeup of the City's entire portfolio, (ii) requires an interpretation of subjective investment standards, or (iii) 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 City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves or funds held for debt service in such mutual funds; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

See Table 12 in Appendix A for a description of the City's investments as of September 30, 2018.

AD VALOREM PROPERTY TAXATION

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

Valuation of Taxable Property

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

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

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "AD VALOREM PROPERTY TAXATION – City's Rights in the Event of Tax Delinquencies."

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See "APPENDIX A - Table 1" for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

Local Option Freeze for the Elderly and Disabled

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. See "APPENDIX A - Table 1" for the reduction in taxable valuation, if any, attributable to the freeze on taxes for the elderly and disabled.

Personal Property

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

Freeport Exemptions

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

Other Exempt Property

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

Tax Increment Financing Zones

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

Tax Abatement Agreements

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

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

City's Rights in the Event of Tax Delinquencies

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

Delinquent Tax Provision

Property within the City is assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1 of each year. Taxes become due upon receipt of the tax statement, usually October of the same year, and become delinquent on February 1 of the following year. Split payments are not permitted, except that taxpayers over 65 and taxpayers qualifying for the disabled person exemption are allowed to pay taxes on their residential homestead in four equal payments before February 1, April1, June 1 and August 1. Discounts are not allowed.

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Penalty	Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to incur the penalty as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% of the delinquent taxes, penalties, and interest collected may be added. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action 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.

Municipal Sales Tax

The City has adopted the provisions of V.A.T.C.S. Texas Tax Code § 321.001 et seq., which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. The proceeds are credited to the General Fund and may not legally be pledged to payment of the Certificates or any other debt of the City. Collections and enforcements are effected through the offices of the State Comptroller of Public Accounts, who monthly remits the proceeds of the tax, after deduction of a 2% service fee, to the City. The Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (1/2%) sales 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 tax is approved and levied, the ad valorem property tax levy must be reduced by the estimated amount of the sales tax revenues to be generated in the current year. Subject to the approval of a majority of the voters in a local option election, state law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues.

State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6¼%).

City Application of Property Tax Code

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $10,000.

The City has not granted an additional exemption of 20% of the market value of residence homesteads.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

See "APPENDIX A - Table 1" for a listing of the amounts of the exemptions described above.

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

The City does not tax nonbusiness personal property.

The City does not permit split payments, except for taxpayers over 65 or disabled, as specified herein, and discounts are not allowed.

The City does not tax freeport property.

The City has adopted a tax abatement policy with respect to certain areas within the City.

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

On November 4, 1997, City voters approved an additional one half cent sales tax to fund its Section 4B sales tax corporation. The additional one half cent became effective in January, 1998.

In July 2011, the City Council approved an ordinance creating a tax increment reinvestment zone encompassing approximately 169 acres of property within the City. The zone was created to reimburse the developer for public infrastructure costs related to a proposed mixed-use development located on approximately 166 acres of land near the downtown area of the City which was expected to include single family and multifamily residential units, retail development, office/warehouse development, hotel/motel development, day care and other uses. The zone has a stated termination date of December 31, 2035, but may terminate earlier under certain circumstances. Four other political subdivisions which overlap such property (i.e., the Escondido Watershed Authority, Karnes County, the Karnes County Hospital District and the San Antonio River Authority) also participate in the zone. The zone had an assessed valuation of zero dollars when it was created since the land was held by a public entity; accordingly, all increases in the assessed valuation of property in the zone constitute the tax increment that will benefit the zone. The City has agreed to contribute 90% of its ad valorem tax revenues generated in the zone into the Tax Increment Fund established by the City for the benefit of the zone. Currently, no development has occurred in the zone.

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.

“effective 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).

“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).

“rollback 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 1.08, plus the debt service tax rate.

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

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

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

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

For the 2019 tax year, the procedures in this paragraph apply. After the assessor submits the appraisal roll, a designated officer or employee of the City is required to calculate its “rollback tax rate” and “effective tax rate”. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, and may not adopt a tax rate that exceeds the lower of its “rollback tax rate” or “effective tax rate” (as such terms are defined below) until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. The Property Tax Code provides that if the adopted tax rate exceeds the rollback tax rate, qualified voters of the city, by petition, may require that an election be held to determine whether or not to reduce the adopted tax rate to the rollback tax rate. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-effective tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

Effective January 1, 2020, the terms rollback tax rate and effective tax rate will be replaced, respectively, with the terms “voter-approval tax rate” and “no-new-revenue tax rate”. Beginning with the 2020 tax year, the procedures in this paragraph and the following paragraphs apply. A city must annually calculate its “voter-approval tax rate” and “no-new-revenue tax rate” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

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

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

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

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

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

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

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

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

Issuer and Taxpayer Remedies

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

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

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

PENSION PLANS AND DEFERRED COMPENSATION PLANS

Pension and Retirement Fund

All qualified employees of the City are members of the Texas Municipal Retirement System. Covered employees of the City contribute 5% of gross covered salary. The City's contribution is determined annually by actuarial study as a percent of gross covered payroll. For the calendar year 2018, the rate was 5.00%. For additional information, refer to the notes to the Combined Financial Statements for the year ended September 30, 2018, in Appendix C herein.

TAX MATTERS

Opinion

On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (i) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (ii) 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 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 D - Form of Opinion of Bond Counsel).

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

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the 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 the issuance of the Certificates. The opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and reliance on the aforementioned information, representations, and covenants. Bond Counsel's opinion is not a guarantee of a result. 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 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 City with respect to the Certificates or the property financed with the proceeds of the Certificates. No assurances can be given as to whether or not 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 City as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering such initial owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below. In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

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

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

Collateral Federal Income Tax Consequences

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

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

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

Future and Proposed Legislation

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(b) of the Code provides, in pertinent part, that interest paid or incurred by a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b)(3) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a "financial institution" allocable to tax-exempt obligations, other than " private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than $10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City has designated the Certificates as "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Code. In furtherance of that designation, the City will covenant to take such action that will assure, or to refrain from such action that will adversely affect, the treatment of the Certificates as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds $10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of $10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the $10,000,000 limitation and the Certificates would not be "qualified tax-exempt obligations."**

LITIGATION

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

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments 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 of Texas. Section 271.051, Texas Local Government Code, further provides that the Certificates, when approved by the Attorney General of Texas, are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, trustees, and guardians and sinking funds of municipalities, counties, school districts, or other political corporations or subdivisions of the State, and are eligible to secure deposits of public funds of the State or a municipality, county, school district, or other political corporation or subdivision of the State. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "RATING" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The 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.

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

LEGAL MATTERS

The City will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Certificates are a valid and legally binding general obligations of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding general obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. In its capacity as Bond Counsel, such firm has reviewed the information relating to the Certificates and the Ordinance contained in this Official Statement under the captions "THE CERTIFICATES" (except under the subcaption "Payment Record"), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE,", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "LEGAL MATTERS", and "CONTINUING DISCLOSURE OF INFORMATION (except under the subcaption "Compliance with Prior Undertakings"), and such firm is of the opinion that the information contained under such captions is a fair and accurate summary of the information purported to be shown and is correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates, will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Winstead PC, San Antonio, Texas.

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

RATING

S&P Global Ratings ("S&P") has assigned a rating of "AA-" to the Certificates.

The rating of the Certificates by S&P reflects only the views of said company at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

AUTHENTICITY OF FINANCIAL INFORMATION

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

USE OF INFORMATION IN OFFICIAL STATEMENT

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at the initial offering prices to the public as shown on page ii, less an underwriting discount of $44,563.40. The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing the Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriter.

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

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as the Financial Advisor to the City in connection with the issuance of the Certificates. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Certificates. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

FORWARD LOOKING STATEMENTS

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified 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 Financial Information

The City will provide this updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in Appendix A of this Official Statement in Tables 1 through 7 and 9 through 19, and in Appendix C. The City will update and provide the information in Appendix A within six months after the end of each fiscal year, commencing in 2019. 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 City will provide audited financial statements within twelve months after the end of each fiscal year, commencing in 2019, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements of the type described above by the required time and will provide audited financial statements when and if such audited financial statements become available. Any financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the City may be required to employ from time to time pursuant to Texas law or regulation. The City's current fiscal year end is September 30.

Accordingly, it must make available updated financial and operating data by the end of March in each year and financial statements by the end of September in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change. The City will provide the updated information to the MSRB in an electronic format, which will be available to the general public without charge via the MSRB's Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Notice of Occurrence of Certain Events

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

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under the state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) the City intends the term "Financial Obligation" used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to mean 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) guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Notice of Failure to Timely File

The City also will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the provisions described above.

Availability of Information

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

Limitations and Amendments

The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Certificates may seek a writ of mandamus to compel the City to comply with its agreement. No default by the City with respect to its continuing disclosure agreement shall constitute a breach of or default under the Ordinance for purposes of any other provision of the Ordinance. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws. The City's undertakings and agreements are subject to appropriation of necessary funds and to applicable legal restrictions.

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

Compliance with Prior Undertakings

Except as provided below, during the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule

While the City timely filed with EMMA prior to March 31, 2019 the required tables that updated the financial information and operating data for fiscal year ended September 30, 2018, the audited financial statements for such fiscal year were not completed and filed until May 8, 2019. In an attempt to comply with its requirement to provide unaudited financial statements if audited financial statements were not completed within six months of the end of its fiscal year, the City filed on March 29, 2019 certain additional financial information, but it was not in a format normally viewed as an unaudited financial statement. The City has implemented procedures to ensure timely filing of all future financial information.

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

CITY OF KENEDY, TEXAS

/s/ James Sutton
Mayor
City of Kenedy, Texas

ATTEST:

/s/Amanda Hines
City Secretary
City of Kenedy, Texas

APPENDIX A

FINANCIAL INFORMATION REGARDING THE CITY OF KENEDY, TEXAS

FINANCIAL INFORMATION INFORMATION REGARDING
CITY OF KENEDY, TEXAS

Table 1-Valuations, Exemptions and Tax Supported Debt

2018/19 Total Assessed Valuation (Excluding Totally Exempt Property)		$ 219,048,474
Exemption	Total	
10% Cap Loss	$ 1,025,452	
Disabled Veterans	974,959	
Productivity Loss	887,862	
Other	1,596,627	
	$ 4,484,900	
2018/19 Net Taxable Assessed Valuation		$ 214,563,574

Note: the City's Preliminary Taxable Assessed Valuation for 2019/20 is $218,460,875.

City Funded Debt Payable from Ad Valorem Taxes (August 1, 2019)	
Tax and WW & SS Surplus Revenue Certificates of Obligation, Series 2009	$ 355,000
General Obligation Refunding Bonds, Series 2013	1,770,000
General Obligation Refunding Bonds, Series 2016	1,895,000
Combination Tax and Revenue Certificates of Obligation, Series 2016	1,800,000
The Certificates	6,720,000
Total Indebtedness Payable from Ad Valorem Taxes	$ 12,540,000
Less: Estimated Self Supporting General Obligation Debt	
Tax and WW & SS Surplus Revenue Certificates of Obligation, Series 2009[(1)]	$ 355,000
General Obligation Refunding Bonds, Series 2013[(1)]	904,647
General Obligation Refunding Bonds, Series 2016[(1)]	1,895,000
Combination Tax and Revenue Certificates of Obligation, Series 2016[(1)]	1,800,000
The Certificates[(2)]	6,720,000
Total Self-Supporting General Obligation Debt	$ 11,674,647
Total Net General Obligation Debt	$ 865,353

[(1)] General obligation debt in the amounts shown for which repayment is provided from revenues of the City's waterworks and sewer system. (See Tables 9 and 13 for information relating to the amount of general obligation debt service which is considered "self-supporting" and the historical net revenues of the City's waterworks and sewer system available to pay debt service.) It is the City's current policy to provide these payments from the waterworks and sewer system revenues.
[(2)] The debt service for the Certificates is supported from transfers from the City's economic development corporation known as the Kenedy Economic Development Corporation (the "Kenedy EDC"), which receives the proceeds from a ½ of 1% sales tax levied by the City since 1998 for the benefit of the Kenedy EDC pursuant to Chapters 501 and 505 of the Texas Local Government Code.

Direct Debt Ratios

Ratio of Total Indebtedness Payable from Ad Valorem Taxes to 2018/19 Taxable Assessed Valuation	5.84%
Ratio of Total Net General Obligation Debt to 2018/19 Taxable Assessed Valuation	0.40%

Estimated Population	3,337
Per Capita Net Taxable Assessed Valuation	$ 64,298
Per Capita Total IndebtednessPayable from Ad Valorem Taxes	$ 3,758
Per Capita Net General Obligation Debt	$ 259

Table 2 - Other Obligations

Operating and Capital Leases

Fiscal Year Ended 09/30	Total Requirements
2019	$ 55,781
2020	35,662
2021	35,662
2022	14,845
Total Minimum Lease Payments	$ 141,950

Source: City's Comprehensive Annual Financial Report for the year ended September 30, 2018.

Table 3 - Taxable Assessed Valuation by Category [(1)]

	Taxable Appraised Value for Fiscal Year Ended September 30,								
	2019[(2)]			2018[(2)]			2017[(2)]		
Category		**Value**	**% of Total**		**Value**	**% of Total**		**Value**	**% of Total**
Real, Residential, Single Family	$	65,317,087	29.82%	$	66,526,947	32.57%	$	69,844,309	31.89%
Real Residential, Multi-Family		3,946,193	1.80%		4,088,992	2.00%		4,321,505	1.97%
Real, Vacant Lots/Tracts		3,433,490	1.57%		3,528,985	1.73%		2,865,498	1.31%
Real, Acreage (Land Only)		912,214	0.42%		914,946	0.45%		834,552	0.38%
Real, Farm and Ranch Improvements		1,229,972	0.56%		1,246,640	0.61%		1,232,903	0.56%
Real, Commercial and Industrial		62,247,876	28.42%		59,987,066	29.37%		60,295,068	27.53%
Oil and Gas		28,195,920	12.87%		14,087,820	6.90%		10,478,230	4.78%
Real, Tangible Personal, Utilities		5,684,180	2.59%		6,114,520	2.99%		4,951,580	2.26%
Tangible Personal, Commercial and Industrial		44,634,116	20.38%		44,339,501	21.71%		60,890,863	27.80%
Mobile Homes, Other		3,447,426	1.57%		3,396,089	1.66%		3,290,401	1.50%
Total Appraised Value Before Exemptions	$	219,048,474	100.00%	$	204,231,506	100.00%	$	219,004,909	100.00%
Less: Total Exemptions/ Reductions		4,484,900			6,339,331			10,049,847	
Net Taxable Assessed Value	$	214,563,574		$	197,892,175		$	208,955,062	

	Taxable Appraised Value for Year Ended September 30,					
	2016[(2)]			2015[(2)]		
Category		**Value**	**% of Total**		**Value**	**% of Total**
Real, Residential, Single Family	$	74,142,521	27.15%	$	68,992,242	35.34%
Real Residential, Multi-Family		4,376,982	1.60%		2,317,221	1.19%
Real, Vacant Lots/Tracts		2,983,446	1.09%		3,126,886	1.60%
Real, Acreage (Land Only)		838,852	0.31%		780,776	0.40%
Real, Farm and Ranch Improvements		1,286,319	0.47%		918,294	0.47%
Real, Commercial and Industrial		77,355,134	28.33%		50,930,546	26.09%
Oil and Gas		47,324,300	17.33%		5,651,464	2.89%
Real, Tangible Personal, Utilities		4,059,420	1.49%		3,399,860	1.74%
Tangible Personal, Commercial and Industrial		57,589,835	21.09%		56,107,750	28.74%
Mobile Homes, Other		3,115,909	1.14%		3,021,277	1.55%
Total Appraised Value Before Exemptions	$	273,072,718	100.00%	$	195,246,316	100.00%
Less: Total Exemptions/ Reductions		37,313,568			16,306,001	
Net Taxable Assessed Value	$	235,759,150		$	178,940,315	

(1) Obtained from property tax reports provided by the Karnes County Appraisal District and the State of Texas Comptroller of Public Accounts.
(2) A portion of the City's assessed valuation growth consists of oil and natural gas mineral interests related to the Eagle Ford Shale. Because drilling activity is dependent upon the prices of volatile commodities, the City's tax base may grow or constrict in any particular year as a result of fluctuations in mineral values.

Table 4 - Valuation and Tax Supported Debt History

Fiscal Year Ended 9/30	Net Taxable Assessed Valuation	Bonded Debt History	Ratio of Debt to Assessed Valuation
2010	$ 88,038,613	$ 8,080,000	9.18%
2011	92,224,289	7,470,000	8.10%
2012	104,081,813	6,835,000	6.57%
2013(1)	130,679,801	6,350,000	4.86%
2014(1)	157,647,650	5,965,000	3.78%
2015(1)	178,940,315	5,570,000	3.11%
2016(1)	235,759,150	5,160,000	2.19%
2017(1)	208,955,062	6,900,000	3.30%
2018(1)	197,892,175	6,365,000	3.22%
2019(1)	214,563,574	12,540,000	5.84%

(1) A portion of the City's assessed valuation growth consists of oil and natural gas mineral interests related to the Eagle Ford Shale. Because drilling activity is dependent upon the prices of volatile commodities, the City's tax base may grow or constrict in any particular year as a result of fluctuations in mineral values.

Table 5 - Tax Rate, Levy and Collection History

Tax Year	Assessed Valuation	Total Tax Rate	Maintenance and Operations	Interest and Sinking Fund	Tax Levy	Total Tax Collection %	Fiscal Year Ended
2008	$ 81,726,429	$0.4892	$0.2620	$0.2272	$ 399,806	98.30%	09/30/2009
2009	88,038,613	$0.4514	$0.2418	$0.2096	397,406	102.31%	09/30/2010
2010	92,224,289	$0.4389	$0.2440	$0.1949	404,772	101.39%	09/30/2011
2011	104,081,813	$0.4124	$0.2417	$0.1707	429,233	103.07%	09/30/2012
2012(1)	130,679,801	$0.3500	$0.2104	$0.1396	457,379	105.15%	09/30/2013
2013(1)	157,647,650	$0.2951	$0.1808	$0.1143	465,218	107.24%	09/30/2014
2014(1)	178,940,315	$0.2925	$0.1741	$0.1184	523,318	106.57%	09/30/2015
2015(1)	235,759,150	$0.2259	$0.1427	$0.0831	532,483	106.66%	09/30/2016
2016(1)	208,955,062	$0.2798	$0.1741	$0.1057	584,656	97.62%	09/30/2017
2017(1)	197,892,175	$0.3025	$0.1531	$0.1494	598,654	99.99%	09/30/2018
2018(1)	214,563,574	$0.2794	$0.1464	$0.1329	599,461	(In Process of Collection)	09/30/2019

(1) A portion of the City's assessed valuation growth consists of oil and natural gas mineral interests related to the Eagle Ford Shale. Because drilling activity is dependent upon the prices of volatile commodities, the City's tax base may grow or constrict in any particular year as a result of fluctuations in mineral values.

Table 6 - City Sales Tax History

Fiscal Year Ending 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent Ad Valorem Tax Rate
2009	$ 696,330	174.167%	$0.8009
2010	775,581	195.161%	0.8281
2011	1,035,192	255.747%	1.0551
2012	1,636,422	381.243%	1.4779
2013	1,997,292	436.682%	1.4367
2014	2,228,890	479.106%	1.3290
2015	2,284,525	436.546%	1.2001
2016(1)	1,026,725	192.818%	0.4094
2017(1)	1,016,210	173.813%	0.4571
2018(1)	1,032,338	172.443%	0.4904

(1) The reduction in sales tax collections following the City's fiscal year ended September 30, 2015 is due primarily to reduced production activity in the surrounding Eagle Ford oil and gas shale fields.
Note: Collection figures shown do not include the 1/2 of 1% collected for by the Kenedy EDC.

Table 7 - Ten Largest Taxpayers

Name of Taxpayer	Nature of Property	2018/19 Assessed Valuation	Percent of Total
Statoil Texas Onshore Prop LLC	Oil and Gas	$ 19,968,300	9.31%
Ashland Specialty Ingredients	Chemical Products	16,134,280	7.52%
Newpark Drilling Fluids LLC	Oil and Gas	5,716,194	2.66%
AEP Texas Central Company	Utility	4,919,263	2.29%
Wal-Mart Stores Texas LLC	Retail Store	4,762,404	2.22%
Eagle Ford Housing Solutions	Lodging	3,883,880	1.81%
Basic Energy Servcices LP	Oil and Gas	3,656,270	1.70%
Rural III LLC	Oil and Gas	3,207,140	1.49%
Hemlata Hospitality LP	Lodging	3,181,000	1.48%
Wal-Mart Stores Texas LLC	Retail Store	3,087,333	1.44%
		$ 68,516,064	31.93%

Source: State of Texas Comptroller of Public Accounts.
Note: As shown in Table 7 above, the top ten taxpayers in the City currently account for approximately 32% of the City's tax base. Adverse developments in economic conditions could impact these taxpayers and the tax values in the City, resulting in less local tax revenues. If any major taxpayer were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process which can only occur annually, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever.

Table 8 - Estimated Overlapping Debt Statement

Taxing Body	Amount	As of	Percentage Overlaping	Amount Overlaping
Karnes County	$ -	08/01/2019	3.36%	$ -
Kenedy ISD	31,810,000	08/01/2019	17.64%	5,611,284
Total Overlapping Debt				5,611,284
City of Kenedy(1)	$ 865,353	08/01/2019	100.00%	$ 865,353
Total Net Direct and Overlapping Debt				**$ 6,476,637**

Ratio of Net Direct and Overlapping Debt to 2018/19 Taxable Assessed Valuation	3.02%
Per Capita net Direct and Overlapping Debt	$ 1,941

(1) Excludes self-supporting debt.

Table 9 - Tax Secured Debt Service Requirements

Fiscal Year Ended 9/30	Outstanding Debt Service Requirements	The Certificates Principal	Interest	Total	Less: Self-Supporting Debt	Total Tax Payed Debt Service Requirements
2019	$ 715,679				$ 561,492	$ 154,187
2020	722,199	$ 315,000	$ 172,480	$ 487,480	1,053,243	156,436
2021	717,369	230,000	256,200	486,200	1,047,427	156,142
2022	717,239	240,000	247,000	487,000	1,048,439	155,800
2023	725,181	250,000	237,400	487,400	1,054,727	157,854
2024	720,767	260,000	227,400	487,400	1,051,536	156,631
2025	711,122	270,000	217,000	487,000	1,042,774	155,348
2026	401,352	280,000	206,200	486,200	887,552	-
2027	397,570	295,000	195,000	490,000	887,570	-
2028	393,588	305,000	183,200	488,200	881,788	-
2029	399,500	315,000	171,000	486,000	885,500	-
2030	145,000	330,000	158,400	488,400	633,400	-
2031	145,600	345,000	145,200	490,200	635,800	-
2032	146,000	355,000	131,400	486,400	632,400	-
2033	146,200	370,000	117,200	487,200	633,400	-
2034	146,200	385,000	102,400	487,400	633,600	-
2035	146,000	400,000	87,000	487,000	633,000	-
2036	145,600	420,000	71,000	491,000	636,600	-
2037	-	435,000	54,200	489,200	489,200	-
2038	-	450,000	36,800	486,800	486,800	-
2039	-	470,000	18,800	488,800	488,800	-
	$ 7,642,166	**$ 6,720,000**	**$ 3,035,280**	**$ 9,755,280**	**$ 15,743,556**	**$ 938,211**

Authorized but Unissued General Obligation Bonds:

The City has no authorized but unissued general obligation bonds.

Table 10 - Tax Adequacy for Tax Secured Bonds

2018/19 Taxable Assessed Valuation	$ 214,563,574
Estimated Maximum Debt Service for the Fiscal Year Ending September 30, 2023	$ 157,854 (1)
Indicated Interest and Sinking Fund Tax Rate	$ 0.13295
Indicated Interest and Sinking Fund Tax Levy	$ 285,256
Estimated 95% Tax Collections	$ 270,993

(1) Excludes self-supporting debt.

Table 11 - General Fund Revenues and Expenditures

	Fiscal Year Ended September 30				
	2018	**2017**	**2016**	**2015**	**2014**
Revenues:					
Taxes	$ 1,835,297	$ 1,785,405	$ 1,795,818	$ 2,294,654	$ 3,346,253
Licenses and Permits	20,229	15,362	22,673	52,754	199,745
Charges for Services	1,894,165	1,214,293	1,214,907	1,233,279	1,262,961
Fines and Forfeits	228,503	191,428	174,238	253,705	299,915
Interest	44,560	5,386	6,596	9,599	7,874
Miscellaneous	506,350	375,294	396,462	169,410	308,180
Total Revenues	**$ 4,529,104**	**$ 3,587,168**	**$ 3,610,694**	**$ 4,013,401**	**$ 5,424,928**
Expenditures:					
General Administration	$ 1,272,242	$ 1,201,896	$ 1,035,859	$ 1,186,169	$ 1,164,924
Public Safety	1,637,994	1,599,374	1,646,921	1,387,586	1,312,061
Public Transportation	434,733	410,066	412,632	428,274	415,134
Culture and Recreation	271,218	257,450	186,330	222,421	200,913
Debt Service	105,070	121,380	95,984	84,940	97,766
Capital Outlay/Other	16,136	-	-	-	-
Total Expenditures	**$ 3,737,393**	**$ 3,590,166**	**$ 3,377,726**	**$ 3,309,390**	**$ 3,190,798**
Excess/(Deficiency) of Revenues Over Expenditures	$ 791,711	$ (2,998)	$ 232,968	$ 704,011	$ 2,234,130
Other Financing Sources	121,000	192,307	177,530	-	26,962
Other Financing (Uses)	(300,494)	(201,462)	(211,927)	(180,000)	(156,000)
Beginning Fund Balance	5,537,595	5,549,748	5,351,177	6,227,425	4,122,333
Prior Period Adjustment	-	-	-	(1,400,259)	-
Ending Fund Balance - September 30	**$ 6,149,812**	**$ 5,537,595**	**$ 5,549,748**	**$ 5,351,177**	**$ 6,227,425**

Source: City's Comprehensive Annual Financial Reports for the years ended 2014-2018.

Table 12 - Current Investments (as of September 30, 2018)

Investment Description	Total Invested	Percent
Cash and Money Market	$ 16,544,039	78.39%
TexPool	4,561,776	21.61%
	$ 21,105,815	100.00%

Source: City's Comprehensive Annual Financial Report for the year ended September 30, 2018.

Table 13 - Waterwork and Sewer System Operating Statement

	Fiscal Year Ended				
	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14
Revenues	$ 8,818,683	$ 4,819,249	$ 4,698,798	$ 5,150,746	$ 4,241,299
Expenses (Less Depreciation)	3,617,572	3,308,010	3,282,763	3,238,245	3,867,183
Net Revenue Available for Debt Service	$ 5,201,111	$ 1,511,239	$ 1,416,035	$ 1,912,501	$ 374,116

Source: City's Comprehensive Annual Financial Reports for the fiscal years ended 2014-2018.

Table 14 - Residential Water Rates

	Effective November 21, 2017		
	Gallons	Rates Inside City Limits	Rates Oustide City Limits
First	2,000	$ 12.00	$ 42.00
Next	2,001	4.00/k	8.00/k
Next	6,001	7.00/k	11.00/k
Over	12,000	10.00/k	14.00/k

Effective November 21, 2017			
	Meter Size Equivalency		
Meter Size	Equivalency Charge	Min. Inside City Limits	Min. Outside City Limits
5/8"x3/4"	1.0	$ 12.00	$ 42.00
1"	2.5	50.00	105.00
1 1/2"	5.0	100.00	210.00
2"	8.0	160.00	336.00
3"	16.0	320.00	672.00
4"	25.0	500.00	1,050.00
6"	50.0	1,000.00	2,100.00

Table 15 - Residential Sewer Rates

	Effective November 21, 2017		
	Gallons	Rates Inside City Limits	Rates Oustide City Limits
First	2,000	$ 20.00	$ 34.00
Next	2,001	4.00/k	5.00/k
Next	6,001	5.00/k	6.00/k
Over	12,000	6.00/k	7.00/k

Table 16 - Commercial Water Rates

	Effective November 21, 2017		
	Gallons	Rates Inside City Limits	Rates Oustide City Limits
First	2,000	$ 40.00	$ 74.00
Next	2,001	7.00/k	11.00/k
Next	6,001	10.00/k	14.00/k
Over	12,000	13.00/k	17.00/k

Effective November 21, 2017			
	Meter Size Equivalency		
Meter Size	Equivalency Charge	Min. Inside City Limits	Min. Outside City Limits
5/8"x3/4"	1.0	$ 40.00	$ 74.00
1"	2.5	100.00	185.00
1 1/2"	5.0	200.00	370.00
2"	8.0	320.00	592.00
3"	16.0	640.00	1,184.00
4"	25.0	1,000.00	1,850.00
6"	50.0	2,000.00	3,700.00

Table 17 - Commercial Sewer Rates

	Effective November 21, 2017		
	Gallons	Rates Inside City Limits	Rates Oustide City Limits
First	2,000	$ 40.00	$ 72.00
Next	2,001	5.00/k	6.00/k
Next	6,001	6.00/k	6.50/k
Over	12,000	7.00/k	7.00/k

Table 18 - Historical Customer Count

Year	Water Customers	Sewer Customers
2014	2,205	1,941
2015	2,185	1,941
2016	2,173	1,938
2017	2,149	1,931
2018	1,709	1,415

Table 19 - Ten Largest Water Customers (Based on Gallons Consumed)

Customer	Type of Industry	Average Monthly Water Usage
Texas Department of Corrections	Prison Facility	21,739,833
Ashland Aqualon	Chemical Products	1,700,592
Town Oaks	Apartments	215,342
Kenedy ISD	School District	191,425
Wal-Mart	Retailer	173,183
HEB	Grocery Store	149,558
Hampton Inn	Hotel	149,442
Holiday Inn Express	Hotel	126,117
HEB	Grocery Store	109,425
Studio 6	Hotel	103,842
		24,658,758

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF KENEDY AND KARNES COUNTY, TEXAS

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GENERAL INFORMATION REGARDING THE CITY OF KENEDY AND KARNES COUNTY, TEXAS

General Description

The City of Kenedy, Texas is the largest commercial center of Karnes County. The City is located at the intersection of U.S. Highway 181 and State Highways 72 and 239 and is 35 miles southeast of San Antonio.

The City is governed by a Mayor, elected at-large, and five council members elected by place. All are elected for two-year, staggered terms. The City Secretary is responsible for the day-to-day administration of the City and reports to the City Council. The Tax Assessor–Collector is responsible for collecting ad valorem taxes, certain State and City fees, and other taxes.

Population

City of Kenedy	Year	Karnes County
3,296	2010	14,824
3,487	2000	15,466
3,763	1990	12,455

Economy

The City of Kenedy is a leading Texas commercial flax market. Grain storage facilities and cotton gins in the City serve area farmers.

The economy of Karnes County is based on mineral production, manufacturing and agriculture. The Texas Almanac designates dairy cattle, swine, sorghum and wheat as principal sources of agricultural income. According to the 2000 United States Census, 74.2% of the citizens of the County owned their home. The median value of owner-occupied housing was $41,600. According to the Texas Department of Economic Development, there are approximately 1,050 farms in the County. The average farm covers approximately 397 acres.

Historical Employment Data, Karnes County

Area	2019[1]	2018	2017	2016	2015
Labor Force	7,180	6,845	6,453	6,279	6,432
Employed	7,000	6,652	6,229	5,973	6,160
Unemployed	180	193	224	306	272
Unemployment Rate	2.5%	2.8%	3.5%	4.9%	4.2%

Source: Texas Workforce Commission.
[1] As of June 2019.

Comparative Unemployment Rates

	2019[1]	2018	2017	2016	2015
Karnes County	2.5%	2.8%	3.5%	4.9%	4.2%
State of Texas	3.6%	3.9%	4.3%	4.6%	4.5%
United States of America	3.8%	3.9%	4.4%	4.9%	5.3%

Source: Texas Workforce Commission.
[1] As of June 2019.

Climate

The average daily temperature in January is 64 degrees Fahrenheit, while the average daily temperature in July is 97 degrees Fahrenheit. Typical rainfall is 33.2 inches per year. Elevation within the county ranges from 300 to 600 feet above sea level. The average growing season in Karnes County is 281 days, with the first freeze occurring on December 2.

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APPENDIX C

EXCERPTS FROM THE
CITY OF KENEDY, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2018

The information contained in this APPENDIX consists of excerpts from the City of Kenedy, Texas Annual Financial Report for the Year Ended September 30, 2018, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

CITY OF KENEDY, TEXAS

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
September 30, 2018

City of Kenedy, Texas
Annual Financial Report
For the Fiscal Year Ended September 30, 2018

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FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Kenedy, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kenedy, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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 City of Kenedy, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Employee Retirement System Information, and the OPEB system information on pages 3–12, 78-79, and 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wayne R. Beyer

BEYER & COMPANY
Certified Public Accountants
April 6, 2019

Management's Discussion and Analysis

As management of the City of Kenedy, Texas, we offer readers of the City of Kenedy, Texas' financial statements this narrative overview and analysis of the financial activities of the City of Kenedy, Texas for the fiscal year ended September 30, 2018.

Financial Highlights

- The assets of the City of Kenedy, Texas exceeded its liabilities at the close of the most recent fiscal year by $44,414,800 (Net Position). Of this amount, $12,602,592 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net position increased by $7,191,945. This increase is attributable to an increase of both oil and gas lease income and royalties of $1,171,185 and charges for services of $4,729,957; and careful budget management.

- As of the close of the current fiscal year, the City of Kenedy, Texas' governmental funds reported combined ending fund balances of $17,017,541. Approximately 36% of this total amount, $6,092,297, is available for spending at the government's discretion (unassigned fund balance).

- At the end of the current fiscal year, unassigned fund balance for the general fund was $6,092,297, or 163 percent of total general fund expenditures.

- The City of Kenedy, Texas' total debt decreased by $889,912 (11.13 percent) during the current fiscal year. The key factor in this decrease was the payment of Bonds of $535,000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Kenedy, Texas' basic financial statements. The City of Kenedy, Texas' 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 supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents information on all of the City of Kenedy, Texas' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Kenedy, Texas 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 of related 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., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Kenedy, Texas that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Kenedy, Texas include general administration, public safety, public transportation, and culture and recreation. The business-type activities of the City of Kenedy, Texas include the Utility fund.

The government-wide financial statements include only the City of Kenedy, Texas itself (known as the primary government).

The government-wide financial statements can be found on pages 13-14 of this report.

The government-wide financial statements include not only the City of Kenedy (the primary government) but also the legally separate Tax Increment Reinvestment Zone 2 (the component unit). Financial information for the Tax Increment Reinvestment Zone 2 is reported separately from the financial information reported for the City of Kenedy.

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

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

The City of Kenedy, Texas maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the grant fund, the Kenedy 4-B corporation fund, the capital improvements fund, the paving fund, and the hotel occupancy fund.

The City of Kenedy, Texas adopts an annual appropriated budget for its general fund and debt service fund. A budgetary comparison statement has been provided for the general fund and the debt service fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary funds: The City of Kenedy, Texas maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Kenedy, Texas uses enterprise funds to account for its Utility activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility fund which is considered to be a major fund of the City of Kenedy, Texas.

The basic proprietary fund financial statements can be found on pages 21-25 of this report.

Notes to the 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 financial statements can be found on pages 26-77 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Kenedy, Texas' progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 78-80 of this report.

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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 City of Kenedy, Texas, assets exceeded liabilities by $44,414,800 at the close of the most recent fiscal year.

A portion of the City of Kenedy, Texas' net position (47 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Kenedy, Texas uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Kenedy, Texas' 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.

CITY OF KENEDY, TEXAS
NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	$6,685,838	$6,162,699	$6,713,601	$3,639,172	$13,399,439	$9,801,871
Restricted Assets	10,561,913	11,656,556	1,531,466	1,824,711	12,093,379	13,481,267
Capital Assets:	9,305,605	7,048,802	16,799,020	14,893,774	26,104,625	21,942,576
Total Assets	26,553,356	24,868,057	25,044,087	20,357,657	51,597,443	45,225,714
Total Deferred Outflows of Resources	148,941	177,608	277,833	305,678	426,774	483,286
Long-Term Liabilities	1,389,583	1,752,106	5,719,677	6,240,717	7,109,260	7,992,823
Other Liabilities (Payable from Restricted Assets)	0	0	93,251	93,425	93,251	93,425
Other Liabilities	53,394	143,785	157,653	255,886	211,047	399,671
Total Liabilities	1,442,977	1,895,891	5,970,581	6,590,028	7,413,558	8,485,919
Total Deferred Inflows of Resources	120,097	137	75,762	89	195,859	226
Invested in Capital Assets, Net of Related Debt	8,195,968	5,717,659	12,746,011	10,670,938	20,941,979	16,388,597
Restricted	10,867,729	11,987,004	2,500	29,500	10,870,229	12,016,504
Unrestricted	6,075,526	5,444,974	6,527,066	3,372,780	12,602,592	8,817,754
Total Net Position	$25,139,223	$23,149,637	$19,275,577	$14,073,218	$44,414,800	$37,222,855

An additional portion of the City of Kenedy, Texas' net position (24 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position ($12,602,592) may be used to meet the governments on going obligations to citizens and creditors. At the end of the current fiscal year, the City of Kenedy, Texas reported a positive balance in the governmental activities and a positive balance in the business-type activities. For the prior fiscal year, the City of Kenedy, Texas reported positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type.

The government's total net position increased by $7,191,945. This increase is attributable to an increase of both oil and gas lease income and royalties of $1,171,185 and charges for services of $4,729,957; and careful budget management.

Governmental activities:

Governmental activities increased the City of Kenedy, Texas' net position by $1,989,586, thereby accounting for 28 percent of the total growth in the net position of the City of Kenedy, Texas. This increase is attributable to an increase of oil and gas lease income and royalties of $1,171,185 and charges for services of $730,371 and careful budget management.

CITY OF KENEDY, TEXAS
CHANGE IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	$2,143,147	$1,412,776	$8,814,015	$4,814,429	$10,957,162	$6,227,205
Operating Grants and Contributions	0	0			0	0
Capital Grants and Contributions	274,584	49,158	0	0	274,584	49,158
General Revenues:						
Maintenance and Operations Taxes	598,584	566,819			598,584	566,819
Sales Taxes	1,546,167	1,519,874			1,546,167	1,519,874
Franchise Taxes	188,172	192,147			188,172	192,147
Other Taxes (Occupancy - $571,427)	589,495	431,399			589,495	431,399
Licenses and Permits	20,229	15,362			20,229	15,362
Unrestricted Investment Earnings	106,713	48,554	4,668	4,820	111,381	53,374
Oil and Gas Lease Income and Royalties	2,387,131	1,215,946	0	0	2,387,131	1,215,946
Miscellaneous	496,786	351,863			496,786	351,863
Total Revenue	8,351,008	5,803,898	8,818,683	4,819,249	17,169,691	10,623,147
Expenses:						
General Administration	2,219,362	1,474,426			2,219,362	1,474,426
Public Safety	1,752,721	1,658,726			1,752,721	1,658,726
Public Works	1,774	109,504			1,774	109,504
Public Transportation	760,302	837,722			760,302	837,722
Culture and Recreation	756,426	309,597			756,426	309,597
Interest and Fiscal Charges	38,341	43,533			38,341	43,533
Utility			4,448,820	4,445,330	4,448,820	4,445,330
Total Expenses	5,528,926	4,433,508	4,448,820	4,445,330	9,977,746	8,878,838
Increase in Net Position Before	2,822,082	1,370,390	4,369,863	373,919	7,191,945	1,744,309
Transfers and Special Items						
Transfers	(832,496)	(509,321)	832,496	509,321	0	0
Increase in Net Position	1,989,586	861,069	5,202,359	883,240	7,191,945	1,744,309
Net Position at 09/30/2017 - Restated	23,149,637	22,288,568	14,073,218	13,189,978	37,222,855	35,478,546
Net Position at 09/30/2018	$25,139,223	$23,149,637	$19,275,577	$14,073,218	$44,414,800	$37,222,855

Expenses and Program Revenues - Governmental Activities

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Government Activities:				
General Administration	$2,219,362	$1,894,165	$0	$0
Public Safety	1,752,721	248,982		
Public Works	1,774			274,584
Public Transportation	760,302			
Culture and Recreation	756,426			
Interest and Fiscal Charges	38,341			
Total Government Activities	$5,528,926	$2,143,147	$0	$274,584

Revenues by Source - Governmental Activities

	REVENUES	%
Charges for Services	$2,143,147	26%
Capital Grants and Contributions	274,584	3%
Maintenance and Operations Taxes	598,584	7%
Sales Taxes	1,546,167	19%
Franchise Taxes	188,172	2%
Other Taxes	589,495	7%
Licenses and Permits	20,229	0%
Unrestricted Investment Earnings	106,713	1%
Oil and Gas Lease Income	2,387,131	29%
Miscellaneous	496,786	6%
	$8,351,008	100%

For the most part, increases and decreases in expenses in the Governmental Activities closely paralleled inflation and growth or decline in the demand for services.

Business-type activities:

Business-type activities increased the City of Kenedy, Texas' net position by $5,202,359 thereby accounting for 72 percent of the total growth in the net position of the City of Kenedy, Texas. This increase is attributable to an increase of charges for services of $3,999,986; and careful budget management.

Expenses and Program Revenues - Business Activities

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions
Business-Type Activities:			
Utility	$4,448,820	$8,814,015	$0
Total Business-Type Activities	$4,448,820	$8,814,015	$0

Revenues by Source - Business-Type Activities

	REVENUES	%
Charges for Services	$8,814,015	100%
Unrestricted Investment Earnings	4,668	0%
	$8,818,683	100%

Financial Analysis of the Government's Funds

As noted earlier, the City of Kenedy, Texas uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds:

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

As of the end of the current fiscal year, the City of Kenedy, Texas' governmental funds reported combined ending fund balances of $17,017,541, a decrease of $504,557 in comparison with the prior year. Approximately 36 percent of this total amount $6,092,297 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted or committed to indicate that it is not available for new spending.

The general fund is the chief operating fund of the City of Kenedy, Texas. At the end of the current fiscal year, unassigned fund balance of the general fund was $6,092,297, while total fund balance was $6,149,812. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 163 percent of total general fund expenditures, while total fund balance represents 165 percent of that same amount.

The fund balance of the City of Kenedy, Texas' general fund increased by $612,217 during the current fiscal year. Key factors in this increase are as follows: This increase is attributable to an increase of charges for services of $679,872; and careful budget management.

The following governmental funds contained no fund balance to expenditure ratio comparisons because they are either debt service funds, special revenue funds or capital project fund and such analysis would be illusory.

The grant fund had a net increase of $36,615. This increase is immaterial.

The debt service fund had a net increase of $44,201 during the year. This increase is a result of transfers in of $201,506 outpacing debt expenditures of $158,027 by $43,479.

The paving fund had a net increase of $124,224 during the year. This increase is due to a transfer in from other funds of $396,000.

The Kenedy 4-B corporation fund had a net increase of $1,274,604 during the year. This increase is due to oil and gas royalties of $1,408,090.

The capital improvement fund had a net decrease of $2,029,612 during the year. This decrease is a result of various construction projects during the year.

The hotel occupancy tax fund had a net decrease of $566,806 during the year. This decrease is due to various construction projects during the year.

Proprietary funds:

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

Unrestricted net position of the Utility fund at the end of the year amounted to $6,527,066. The increase in net position was $5,202,359. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Kenedy, Texas' business-type activities.

General Fund and Debt Service Fund Budgetary Highlights:

The difference between the original budget and the final amended budget of the General Fund was an increase of $97,456. This increase is consistent throughout the departments. Total expenditures of $3,737,393 were less than the amended budgeted expenditures of $4,031,585 by $291,192.

The difference between the original budget and the final amended budget of the Debt Service was an increase of $1,500. This increase is immaterial. Total expenditures of $158,027 were less than the amended budgeted expenditures of $158,828 by $801.

Capital Asset and Debt Administration

Capital assets:

The City of Kenedy, Texas' investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to $26,104,625 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Kenedy, Texas' investment in capital assets for the current fiscal year was 19 percent (a 32 percent increase for governmental activities and a 13 percent increase for business-type activities).

CITY OF KENEDY, TEXAS
CAPITAL ASSETS (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$447,192	$136,000	$196,274	$196,274	$643,466	$332,274
Construction in Progress	2,261,730	563,904	2,063,474	1,163,067	4,325,204	1,726,971
Building and Improvements	4,909,661	4,846,429	289,966	261,126	5,199,627	5,107,555
Machinery Equipment	347,226	411,885	610,417	579,497	957,643	991,382
Infrastructure	1,339,796	1,090,584	13,638,889	12,693,810	14,978,685	13,784,394
Total	$9,305,605	$7,048,802	$16,799,020	$14,893,774	$26,104,625	$21,942,576

Major capital asset events during the current fiscal year included the following:

. The City had major street and drainage improvements, airport improvements, water facility improvements, and park improvement projects during the year.

Additional information on the City of Kenedy, Texas' capital assets can be found in note IV C on pages 39-40 of this report.

Long-term debt:

At the end of the current fiscal year, the City of Kenedy, Texas had the following bonded debt.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year
Governmental Activities:						
Bonds Payable	$1,129,359		$132,003	$997,356	$132,003	$865,353
	1,129,359	0	132,003	997,356	132,003	865,353
Business-Type Activities:						
Bonds Payable	5,770,641		402,997	5,367,644	412,997	4,954,647
	5,770,641	0	402,997	5,367,644	412,997	4,954,647
Grand Total	$6,900,000	$0	$535,000	$6,365,000	$545,000	$5,820,000

The total bonded debt decreased by $535,000 during the year.

Additional information on the City of Kenedy, Texas' long-term debt can be found in note IV F on pages 42-44 of this report.

Economic Factors:

The Eagle Ford Oil and Gas Shale have brought in new businesses which have increased the sales taxes, oil and gas royalties, and charges for services significantly.

Requests for Information

This financial report is designed to provide a general overview of the City of Kenedy, Texas' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department, 303 W. Main, Kenedy, Texas, 78119.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF KENEDY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Tax Incre. Rein. Zone 2
ASSETS				
Cash and Cash Equivalents	$6,387,949	$5,980,263	$12,368,212	$1,007
Receivables (Net of Allowance for Uncollectibles)	297,889	733,338	1,031,227	
Restricted Assets:				
Cash and Cash Equivalents	10,041,213	1,531,466	11,572,679	
Receivables (Net of Allowance for Uncollectibles)	520,700		520,700	
Capital Assets Not Being Depreciated:				
Land	447,192	196,274	643,466	
Construction in Progress	2,261,730	2,063,474	4,325,204	
Total Capital Assets Being Depreciated, Net				
Building and Improvements	4,909,661	289,966	5,199,627	
Machinery and Equipment	347,226	610,417	957,643	
Infrastructure	1,339,796	13,638,889	14,978,685	
Total Assets	$26,553,356	$25,044,087	$51,597,443	$1,007
DEFERRED OUTFLOWS OF RESOURCES				
GASB 68				
Contributions (after 12/31/17)	88,525	55,845	144,370	
GASB 75				
Changes in assumptions and other inputs	2,502	1,488	3,990	
Deferred Charge on Refunding	57,914	220,500	278,414	
Total Deferred Outflows of Resources	148,941	277,833	426,774	0
LIABILITIES:				
Accounts Payable	$77,310	$0	$77,310	
Due to Other Funds	(80,282)	80,282	0	
Accrued Interest Payable	9,243	43,194	52,437	
Accrued Wages Payable	47,123	34,177	81,300	
Consumer Meter Deposit		93,251	93,251	
Noncurrent Liabilities:				
Due Within One Year	212,285	473,974	686,259	
Due in More Than One Year	1,177,298	5,245,703	6,423,001	
Total Liabilities	1,442,977	5,970,581	7,413,558	0
DEFERRED INFLOWS OF RESOURCES				
GASB 68				
Difference in expected and actual experience	42,348	26,715	69,063	
Difference in projected and actual earnings	77,749	49,047	126,796	
Total Deferred Inflows of Resources	120,097	75,762	195,859	0
NET POSITION				
Invested in Capital Assets, Net of Related Debt	8,195,968	12,746,011	20,941,979	
Restricted				
Construction	2,063,037		2,063,037	
Debt Service	723,603	2,500	726,103	
Economic Development	3,869,835		3,869,835	1,007
Hotel/Motel Tax	2,482,110		2,482,110	
Street Repair	1,729,144		1,729,144	
Unrestricted	6,075,526	6,527,066	12,602,592	
Total Net Position	$25,139,223	$19,275,577	$44,414,800	$1,007

The accompanying notes are an integral part of this statement.

CITY OF KENEDY, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in: Governmental Activities	Net (Expense) Revenue and Changes in: Business-Type Activities	Total Primary Government Net (Expense) Revenue and Changes in Total	Component Unit Tax Incre. Rein. Zone 2
Primary Government								
Government Activities:								
General Administration	$2,219,362	$1,894,165	$0	$0	($325,197)		($325,197)	($44,980)
Public Safety	1,752,721	248,982			(1,503,739)		(1,503,739)	
Public Works	1,774			274,584	272,810		272,810	
Public Transportation	760,302				(760,302)		(760,302)	
Culture and Recreation	756,426				(756,426)		(756,426)	
Interest and Fiscal Charges	38,341				(38,341)		(38,341)	
Total Government Activities	5,528,926	2,143,147	0	274,584	(3,111,195)	0	(3,111,195)	(44,980)
Business-Type Activities:								
Utility	4,448,820	8,814,015				4,365,195	4,365,195	
Total Business-Type Activities	4,448,820	8,814,015	0	0		4,365,195	4,365,195	
Total Primary Government	$9,977,746	$10,957,162	$0	$274,584	(3,111,195)	4,365,195	1,254,000	(44,980)
General Revenues								
Property Taxes, Levies for General Purposes					598,584		598,584	
Sales Taxes					1,546,167		1,546,167	
Franchise Taxes					188,172		188,172	
Other Taxes (Occupancy - $571,427)					589,495		589,495	
Licenses and Permits					20,229		20,229	
Unrestricted Investment Earnings					106,713	4,668	111,381	8
Oil and Gas Lease Income and Royalties					2,387,131		2,387,131	
Miscellaneous					496,786		496,786	43,478
Transfers					(832,496)	832,496	0	
Total General Revenues and Transfers					5,100,781	837,164	5,937,945	43,486
Change in Net Position					1,989,586	5,202,359	7,191,945	(1,494)
Net Position - Beginning - Restated					23,149,637	14,073,218	37,222,855	2,501
Net Position - Ending					$25,139,223	$19,275,577	$44,414,800	$1,007

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF KENEDY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	General Fund	Grant Fund	Debt Service Fund	Paving Fund	Kenedy 4-B Corporation	Capital Improvement Fund	Hotel Occupancy Tax	Total Governmental Funds
ASSETS								
Cash and Cash Equivalents	$6,445,810	$0	$0	$0	$0	$0	$0	$6,445,810
Receivables (Net of Allowance								
for Uncollectibles)	207,890							207,890
Due from Other Funds	384,357							384,357
Restricted Assets:								
Cash and Cash Equivalents	57,515		456,145	1,910,227	3,708,696	1,566,062	2,342,568	10,041,213
Receivables (Net of Allowance								
for Uncollectibles)		37,952			161,139	245,211	76,398	520,700
Due from Other Funds		87,836	267,458			191,873	63,144	610,311
Total Assets	$7,095,572	$125,788	$723,603	$1,910,227	$3,869,835	$2,003,146	$2,482,110	$18,210,281
LIABILITIES AND FUND BALANCES:								
Accounts Payable	$69,274	$8,036						$77,310
Bank Overdraft		57,861						57,861
Due to Other Funds	733,303			181,083				914,386
Accrued Wages Payable	47,123							47,123
Total Liabilities	849,700	65,897	0	181,083	0	0	0	1,096,680
DEFERRED INFLOWS OF RESOURCES								
Deferred Property Taxes	96,060							96,060
Fund Balances:								
Restricted								
Construction		59,891				2,003,146		2,063,037
Debt Service			723,603					723,603
Economic Development					3,869,835			3,869,835
Hotel/Motel Tax							2,482,110	2,482,110
Street Repair				1,729,144				1,729,144
Committed								
Public Housing	14,181							14,181
Public Safety - Fire	43,334							43,334
Unassigned	6,092,297							6,092,297
Total Fund Balance	6,149,812	59,891	723,603	1,729,144	3,869,835	2,003,146	2,482,110	17,017,541
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$7,095,572	$125,788	$723,603	$1,910,227	$3,869,835	$2,003,146	$2,482,110	$18,210,281

The accompanying notes are an integral part of this statement.

CITY OF KENEDY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

Total Fund Balances - Governmental Funds Balance Sheet	
Amounts reported for governmental activities in the statement of net position ("SNA") are different because:	$17,017,541
Capital assets used in governmental activities are not reported in the funds.	9,305,605
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	96,060
Deferred charge on refunding are expenditures in the funds but are recorded as assets in the governmental activities.	57,914
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	60,929
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,398,826)
Net Position of Governmental Activities - Statement of Net Position	$25,139,223

The accompanying notes are an integral part of this statement.

CITY OF KENEDY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Grant Fund	Debt Service Fund	Paving Fund	Kenedy 4-B Corporation	Capital Improvement Fund	Hotel Occupancy Tax	Total Governmental Funds
REVENUES								
Taxes								
Property	$596,719	$0	$0	$0	$0	$0	$0	$596,719
Sales	1,032,338				513,829			1,546,167
Franchise	188,172							188,172
Other	18,068						571,427	589,495
Licenses and Permits	20,229							20,229
Intergovernmental	9,869	264,715						274,584
Charges for Services	1,894,165							1,894,165
Fines and Forfeitures	228,503							228,503
Interest	44,560		417	1,865	35,047	2,790	22,034	106,713
Oil and Gas Lease Income and Royalties					1,408,090	979,041		2,387,131
Miscellaneous	496,481		305					496,786
Total Revenues	4,529,104	264,715	722	1,865	1,956,966	981,831	593,461	8,328,664
EXPENDITURES								
Current:								
General Administration	1,272,242	228,100				108,189	645,957	2,254,488
Public Safety	1,637,994							1,637,994
Public Transportation	434,733				300,000			734,733
Culture and Recreation	271,218				236,320			507,538
Capital Projects -								
Capital Outlay and Other	16,136			273,641	50,042	1,748,746	514,310	2,602,875
Debt Service								
Principal Retirement	95,852		132,003					227,855
Interest and Fiscal Charges	9,218		26,024					35,242
Total Expenditures	3,737,393	228,100	158,027	273,641	586,362	1,856,935	1,160,267	8,000,725
Excess (Deficiency) of Revenues Over (Under) Expenditures	791,711	36,615	(157,305)	(271,776)	1,370,604	(875,104)	(566,806)	327,939
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	121,000		201,506	396,000				718,506
Operating Transfers Out	(300,494)				(96,000)	(1,154,508)		(1,551,002)
Total Other Financing Sources (Uses)	(179,494)	0	201,506	396,000	(96,000)	(1,154,508)	0	(832,496)
Net Changes in Fund Balances	612,217	36,615	44,201	124,224	1,274,604	(2,029,612)	(566,806)	(504,557)
Fund Balances - Beginning	5,537,595	23,276	679,402	1,604,920	2,595,231	4,032,758	3,048,916	17,522,098
Fund Balances - Ending	$6,149,812	$59,891	$723,603	$1,729,144	$3,869,835	$2,003,146	$2,482,110	$17,017,541

The accompanying notes are an integral part of this statement.

CITY OF KENEDY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2018

Net Changes in Fund Balances - Total Governmental Funds	($504,557)
Amounts reported for governmental activities in the statement of net position ("SNA") are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,256,803
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	20,479
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	1,865
GASB 68	
Contribution. This is the change in these amounts this year.	(582)
Difference in expected and actual experience. This is the change in these amounts this year.	(64,661)
Dif. in proj. and actual earnings on pension plan investments. This is the change in these amounts this year.	(77,612)
GASB 75	
Deferred Outflow of Resources-Changes in assumptions and other inputs. This is the change in these amounts this year.	2,502
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	221,506
(Increase) decrease in compensated absences from beginning of period to end of period.	(4,185)
(Decrease) increase in loss on refunding from beginning of period to end of period.	(8,274)
(Decrease) increase in bond issuance premium from beginning of period to end of period.	4,075
(Increase) decrease in accrued interest from beginning of period to end of period.	1,100
(Increase) decrease in OPEB liability from beginning of period to end of period.	(7,475)
(Increase) decrease in net pension liability from beginning of period to end of period.	148,602
Change in Net Position of Governmental Activities - Statement of Activities	$1,989,586

The accompanying notes are an integral part of this statement.

CITY OF KENEDY, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Budgetary	Variance with Final Budget - Positive
	Original	Final	Basis	(Negative)
REVENUES				
Taxes				
Property	$569,750	$569,750	$596,719	$26,969
Sales	1,043,136	1,043,136	1,032,338	(10,798)
Franchise	200,490	200,490	188,172	(12,318)
Other	8,500	8,500	18,068	9,568
Intergovernmental	13,000	13,000	9,869	(3,131)
Licenses and Permits	17,800	17,800	20,229	2,429
Charges for Services	1,952,000	1,902,000	1,894,165	(7,835)
Fines and Forfeitures	193,850	193,850	228,503	34,653
Interest	12,000	12,000	44,560	32,560
Miscellaneous	293,215	293,215	496,481	203,266
Total Revenues	4,303,741	4,253,741	4,529,104	275,363
EXPENDITURES				
Current:				
General Administration				
General Administration	1,333,466	1,366,306	1,272,242	94,064
Public Safety				
Animal Control	99,296	99,709	89,159	10,550
Code Compliance	204,451	211,944	171,386	40,558
Community Development	164,633	164,879	87,652	77,227
Emergency Management	5,200	5,200	8,752	(3,552)
Fire Department	64,720	64,720	67,444	(2,724)
Municipal Court	189,130	183,456	175,091	8,365
Police Department	1,078,381	1,099,307	1,038,510	60,797
Public Transportation				
Streets	443,917	461,316	434,733	26,583
Culture and Recreation				
Airport	52,300	52,300	55,372	(3,072)
Library	7,100	7,100	35,211	(28,111)
Parks	193,943	217,756	196,771	20,985
Debt Service				
Principal Retirement	95,852	95,852	95,852	0
Interest Retirement	1,740	1,740	9,218	(7,478)
Total Expenditures	3,934,129	4,031,585	3,737,393	294,192
Excess (Deficiency) of Revenues Over (Under) Expenditures	369,612	222,156	791,711	569,555
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	110,000	121,000	121,000	0
Operating Transfers Out	(297,000)	(297,000)	(300,494)	(3,494)
Total Other Financing Sources (Uses)	(187,000)	(176,000)	(179,494)	(3,494)
Net Changes in Fund Balances	182,612	46,156	612,217	566,061
Fund Balances - Beginning	5,537,595	5,537,595	5,537,595	
Fund Balances - Ending	$5,720,207	$5,583,751	$6,149,812	$566,061

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

CITY OF KENEDY, TEXAS
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES				
Interest	$0	$0	$417	$417
Miscellaneous	0	0	305	305
Total Revenues	0	0	722	722
EXPENDITURES				
Debt Service				
Principal Retirement	132,003	132,003	132,003	0
Interest Retirement	25,325	26,825	26,024	801
Total Expenditures	157,328	158,828	158,027	801
Excess (Deficiency) of Revenues Over (Under) Expenditures	(157,328)	(158,828)	(157,305)	1,523
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	147,328	158,828	201,506	42,678
Operating Transfers Out				0
Total Other Financing Sources (Uses)	147,328	158,828	201,506	42,678
Net Changes in Fund Balances	(10,000)	0	44,201	44,201
Fund Balances - Beginning	679,402	679,402	679,402	
Fund Balances - Ending	$669,402	$679,402	$723,603	$44,201

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

CITY OF KENEDY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
ASSETS			
Current Assets			
Cash and Cash Equivalents	$5,980,263	$3,234,158	$5,980,263
Accounts Receivables (Net of Allowance for Uncollectibles)	733,338	405,014	733,338
Total Current Assets	6,713,601	3,639,172	6,713,601
Noncurrent Assets			
Restricted Assets:			
Cash and Cash Equivalents - Debt Service	2,500	29,500	2,500
Cash and Cash Equivalents - Construction	1,528,966	1,795,211	1,528,966
Total Restricted Assets	1,531,466	1,824,711	1,531,466
Capital Assets			
Land	196,274	196,274	196,274
Buildings and Improvements	1,025,526	971,554	1,025,526
Machinery and Equipment	3,095,316	2,963,435	3,095,316
Distribution System	22,500,728	21,032,504	22,500,728
Construction in Progress	2,063,474	1,163,067	2,063,474
Total Capital Assets	28,881,318	26,326,834	28,881,318
Less Accumulated Depreciation	(12,082,298)	(11,433,060)	(12,082,298)
Total Capital Assets (Net of Accumulated Depreciation)	16,799,020	14,893,774	16,799,020
Total Noncurrent Assets	18,330,486	16,718,485	18,330,486
DEFERRED OUTFLOWS OF RESOURCES			
GASB 68			
Deferred Outflow of Resources-Contributions (after 12/31/16)		58,323	0
Deferred Outflow of Resources-Contributions (after 12/31/17)	55,845		55,845
Difference in expected and actual experience		14,605	0
Difference in projected and actual earnings			0
GASB 75			
Changes in assumptions and other inputs	1,488		1,488
Deferred Charge on Refunding	220,500	232,750	220,500
Total Deferred Outflow of Resources	277,833	305,678	277,833
TOTAL ASSETS	$25,321,920	$20,663,335	$25,321,920

(continued)

(continued)

LIABILITIES, FUND EQUITY	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
AND OTHER CREDITS			
Liabilities			
Current Liabilities (Payable from Current Assets)			
Accounts Payable	$0	$813	$0
Due to Other Funds	80,282	178,215	80,282
Compensated Absences	17,892	13,561	17,892
Accrued Wages Payable	34,177	27,406	34,177
Accrued Interest Payable	43,194	49,452	43,194
Capital Lease Payable - Current	43,085	86,472	43,085
Bonds - Current	412,997	402,997	412,997
Total Current Liabilities	631,627	758,916	631,627
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	93,251	93,425	93,251
Total Current Liabilities Payable from Restricted Assets	93,251	93,425	93,251
Noncurrent Liabilities			
Capital Lease Payable	34,529	13,950	34,529
Bonds Payable (Net of Deferred Amount on Refunding)	5,091,364	5,514,628	5,091,364
Net Pension Liability	99,293	193,037	99,293
GASB 75 Payable	20,517	16,072	20,517
Total Noncurrent Liabilities	5,245,703	5,737,687	5,245,703
Total Liabilities	5,970,581	6,590,028	5,970,581
DEFERRED INFLOWS OF RESOURCES			
GASB 68			
Difference in expected and actual experience	26,715		26,715
Difference in projected and actual earnings	49,047	89	49,047
Total Deferred Inflows of Resources	75,762	89	75,762
Invested in Capital Assets, Net of Related Debt	12,746,011	10,670,938	12,746,011
Restricted for:			
Debt Service - Expendable	2,500	29,500	2,500
Unrestricted	6,527,066	3,372,780	6,527,066
Total Net Position	$19,275,577	$14,073,218	$19,275,577

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

CITY OF KENEDY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
OPERATING REVENUES:			
Charges for Services - Water	$5,565,036	$2,647,017	$5,565,036
Charges for Services - Sewer	3,158,195	2,088,397	3,158,195
Miscellaneous	90,784	79,015	90,784
Total Operating Revenues	8,814,015	4,814,429	8,814,015
OPERATING EXPENSES:			
Personal Services	988,025	1,164,641	988,025
Supplies	5,311	7,867	5,311
Other Services and Charges	2,624,236	2,135,502	2,624,236
Depreciation	671,587	622,192	671,587
Total Operating Expenses	4,289,159	3,930,202	4,289,159
Operating Income (Loss)	4,524,856	884,227	4,524,856
NON-OPERATING REVENUES (EXPENSES):			
Interest Income	4,668	4,820	4,668
Interest and Fiscal Charges	(159,661)	(121,853)	(159,661)
Total Non-Operating Revenues (Expenses)	(154,993)	(117,033)	(154,993)
Income Before Transfers	4,369,863	767,194	4,369,863
Abandoned Water Wells		(237,835)	0
Bond Issuance Costs		(155,440)	0
Transfers Out	832,496	509,321	832,496
Change in Net Position	5,202,359	883,240	5,202,359
Total Net Position - Beginning - Restated	14,073,218	13,189,978	14,073,218
Total Net Position - Ending	$19,275,577	$14,073,218	$19,275,577

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

CITY OF KENEDY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
Cash Flows from Operating Activities			
Receipts from Customers and Users	$8,485,517	$4,804,825	$8,485,517
Payments to Suppliers	(2,624,368)	(2,040,190)	(2,624,368)
Payments to Employees	(1,072,887)	(1,409,718)	(1,072,887)
Net Cash Provided (Used) by Operating Activities	4,788,262	1,354,917	4,788,262
Cash Flows from Non-Capital and Related Financing Activities			
Transfers Out	832,496	509,321	832,496
Subsidy from Federal Grant	0	(237,835)	0
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	832,496	271,486	832,496
Cash Flows from Capital and Related Financing Activities			
Principal Payment on Revenue Bonds, Notes and Capital Leases	(533,210)	(391,307)	(533,210)
Bond Issuance Costs	0	(155,440)	0
Proceeds from Capital debt	97,138	1,996,838	97,138
Interest and Fiscal Charges	(159,661)	(121,853)	(159,661)
Purchases of Capital Assets	(2,576,833)	(1,543,861)	(2,576,833)
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,172,566)	(215,623)	(3,172,566)
Cash Flows from Investing Activities			
Interest Received	4,668	4,820	4,668
Net Cash Provided (Used) by Investment Activities	4,668	4,820	4,668
Net Increase (Decrease) in Cash Equivalents	2,452,860	1,415,600	2,452,860
Cash and Cash Equivalents at Beginning of Year	5,058,869	3,643,269	5,058,869
Cash and Cash Equivalents at End of Year	$7,511,729	$5,058,869	$7,511,729
Unrestricted Assets:			
Cash and Cash Equivalents	$5,980,263	$3,234,158	$5,980,263
Restricted Assets:			
Cash and Cash Equivalents	1,531,466	29,500	1,531,466
Total	$7,511,729	$3,263,658	$7,511,729

(continued)

(continued)

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	$4,524,856	$884,227	$4,524,856
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	671,587	622,192	671,587
Changes in Current Items			
Decrease (Increase) in Accounts Receivable	(328,324)	(5,305)	(328,324)
GASB 68			
Decrease (Increase) Deferred Outflow of Resources-Contributions	2,478	(8,098)	2,478
Increase (Decrease) Deferred Outflow-Diff. in expected and actual exp.	41,320	30,179	41,320
Increase (Decrease) Deferred Outflow-Diff. in projected and actual earnings on pension plan investments	48,958	47,039	48,958
GASB 75			
Decrease (Increase) Changes in assumptions and other inputs	(1,488)		(1,488)
Decrease (Increase) Deferred Outflow-Deferred Charge on Refunding	12,250	89,787	12,250
Increase (Decrease) in Accounts Payable	(813)	21,541	(813)
Increase (Decrease) in Due to Other Funds	(97,933)	(342,448)	(97,933)
Increase (Decrease) in Compensated Absences	4,331	5,275	4,331
Increase (Decrease) in Accrued Wages Payable	6,771	(4,584)	6,771
Increase (Decrease) in Accrued Interest Payable	(6,258)	(8,149)	(6,258)
Increase (Decrease) in Consumer Meter Deposits	(174)	(4,299)	(174)
Increase (Decrease) in Net pension Liability	(93,744)	27,560	(93,744)
Increase (Decrease) in GASB 75 payable	4,445		4,445
Net Cash Provided (Used) by Operating Activities	$4,788,262	$1,354,917	$4,788,262
Noncash Investing, Capital, and Financing Activities:			
Borrowing from Capital Debt	$97,138	$0	$97,138
	$97,138	$0	$97,138

Note: The above funds are all enterprise funds.

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

I. Summary of significant accounting policies

A. Reporting entity/ Basis of Accounting/Measurement Focus

The City of Kenedy, Texas, was incorporated by an election. The City operates under a General Law type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Kenedy, Texas, (the City) conform to generally accepted accounting principles. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

B. Government-wide and fund financial statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, those transactions between governmental and business-type activities have not been eliminated. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the Net Position and changes in Net Position presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The City’s deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales taxes, and franchise taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The government reports the following major governmental funds:

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

The grant fund is used to administer all grants of the City and to administer the 2004 Certificate of Obligation bond proceeds.

The debt service fund is used to administer the payment of the Series 2003 Refunding Bonds and the 2004 Certificates of Obligation Bonds.

The Kenedy paving fund is used to collect monies to be used for paving City streets.

The Kenedy 4-B Corporation is used to collect sales tax monies to promote new business activity in the City.

The capital improvement fund is used to collect oil and gas revenues to be used for infrastructure improvements.

The hotel occupancy tax fund is used to collect hotel occupancy tax revenues to be used for general City projects.

D. Proprietary fund financial statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

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

The government reports the following major proprietary funds:

The utility fund accounts for the activities of the government's water and sewer operations.

E. Blended Component Units

The Kenedy 4B Corporation is governed by a board appointed by the City Council. Although they are legally separate from the City, the Kenedy 4B Corporation is reported as if they are a part of the primary government because their primary purpose is to provide services to the citizens of the City. It is reported as a special revenue fund of the City. Separate financial statements are not prepared for the blended component unit.

F. Discretely Presented Component Units

The component unit’s column in the combined financial statements includes the financial data of the City’s one component unit. It is reported in a separate column to emphasize that it legally separate from the City. The component unit did not issue a separate audited financial statement.

The Tax Increment Reinvestment Zone 2 was organized as a non-profit corporation. The board of the corporation is made up as follows: one appointee from each of Karnes County, the City, Esc. Watershed District, Karnes County Hospital District, and SARA. The Corporation is charged with the collection of ad valorem tax monies from each member entity and the following remitting such monies to Silverback Homes, a developer of 169 acres of mix use property. The Corporation is presented as a governmental fund type. Its accounting policies are identical to the City’s policies.

G. Assets, liabilities, and Net Position or equity

1. Deposits and investments

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

State statutes authorize the government to invest in obligations of the U.S. Treasury. Investments for the government are reported at fair value.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at September 30, 2018, the trade accounts receivable allowance in excess of 60 days is equal to 50 percent of outstanding trade accounts receivable at September 30, 2018, the trade accounts receivable allowance in excess of 90 days is equal to 100 percent of outstanding trade accounts receivable at September 30, 2018. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2018, and 10 percent of delinquent outstanding property taxes at September 30, 2018.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and prepaid items

Inventories are considered immaterial and, therefore, there were no inventory items at September 30, 2018.

There were no prepaid items at September 30, 2018.

4. Restricted assets

The restricted assets in the funds at September 30, 2018 were $2,418,966 for advancement of the City, $1,811,273 for construction, $1,910,227 for street maintenance and repair, $3,965,302 for future projects, and $456,145 for debt service in the governmental activities, and restricted Net Position were $2,500 for debt service and $1,531,466 for construction in the business-type activities.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Major capital asset events during the current fiscal year included the following: The City had major street improvements and drainage improvements, airport improvements, water facility improvements, and park improvement projects during the year.

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

Assets	*Years*
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds.

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 statement of fund net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

8. ***Fund Balances – Governmental Funds***

As of September 30, 2018, fund balances of the governmental funds are classified as follows:

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.

Unassigned — all other spendable amounts.

As of September 30, 2018, fund balances are composed of the following:

Fund Balances:	
Restricted	
Construction	$2,063,037
Debt Service	723,603
Economic Development	3,869,835
Hotel/Motel Tax	2,482,110
Street Repair	1,729,144
Committed	
Public Housing	14,181
Public Safety - Fire	43,334
Unassigned	6,092,297
Total Fund Balance	$17,017,541

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

In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 25 percent of the subsequent year's budgeted General Fund expenditures.

9. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

10. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government has three items that qualify for reporting in this category. They are amounts deferred under GASB 68, GASB 75, and deferred charges on refunding.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category. It is an amount deferred under GASB 68.

The City reports unearned revenue on its fund financial statements. Unearned revenues arise when potential revenue does not meet both the “measureable” and “available” criteria for recognition in the current period (fund financial statements). Unearned revenues also arise when resources are unearned by the City and received before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures (fund financial statements and government-wide financial statements). In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized. Pursuant to GASB 65 we have included deferred ad valorem taxes as deferred inflows in the fund financial statements.

11. Net position flow assumption

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

II. Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $1,398,826 difference are as follows:

Capital Lease Payable	$112,281
Bonds Payable	997,356
Accrued Interest Payable	9,243
Compensated Absences	41,296
Net Pension Liability	175,625
OPEB Liability	34,503
Bond Premium	28,522
	$1,398,826

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in Net Position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $9,305,605 difference are as follows:

Capital Assets Being Depreciated	$2,708,922
Capital Assets Being Depreciated	9,088,152
Accumulated Depreciation	(2,491,469)
Net Adjustment To Increase Net Changes in Fund balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	$9,305,605

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.") The details of this $96,060 difference are as follows:

Property Taxes Receivable	$104,177
Allowance for Doubtful Accounts	(8,117)
Net	$96,060

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds." The details of this $60,929 difference are as follows:

Fines and Fees Receivable	$374,210
Allowance for Doubtful Accounts	(284,211)
GASB 68	
Deferred Outflow of Resources-Contributions (after 12/31/17)	88,525
Difference in expected and actual experience	(42,348)
Difference in projected and actual earnings	(77,749)
GASB 75	
Changes in assumptions and other inputs	2,502
Net	$60,929

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in Net Position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $2,256,803 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	$2,291,159
Capital Outlay - Additions - Being Depreciated	441,888
Capital Outlay - Transfers - Net	(117,558)
Depreciation Expense	(358,686)
Net Adjustment To Increase Net Changes in Fund balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	$2,256,803

III. Stewardship, compliance, and accountability

A. Budgetary information

The Mayor has been authorized by the council to prepare the budget. He is assisted by the City Secretary. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the Mayor. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Secretary is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at September 30, 2018.

The budget for the general fund is included in the financial statements. There were no budgets presented for the Kenedy 4-B corporation, the grant fund, the capital improvements fund, the paving fund, and the hotel occupancy fund.

B. Excess of expenditures over appropriations

In the general fund, for the year ended September 30, 2018, Total expenditures of $3,737,393 were less than the amended budgeted expenditures of $4,031,585 by $294,192. In the debt service fund, for the year ended September 30, 2018, Total expenditures of $158,027 were less than the amended budgeted expenditures of $158,828 by $801.

C. Deficit fund equity

The City had no deficit fund balances as of September 30, 2018.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and 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 City to adopt, implement, and publicize an investment policy. That 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, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is not in total compliance with the act.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a depository and an investment policy. These policies address the following risks:

a. Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City was exposed to custodial credit risk because:
    1. Its deposits (not including the Kenedy 4B Corporation) were either fully covered by depository insurance and/or fully collatereralized. The total amount of cash in the bank at September 30, 2018 is $16,320,884 (not including the Kenedy 4B Corporation) while the total pledged securities are $16,424,654 and the FDIC insurance coverage is $250,000.
    2. The Kenedy 4B Corporation had a balance of $3,754,021 at September 30, 2018. This amount was not secured by any pledged investments.

b. The book balance of cash at September 30, 2018 was $16,544,039.

Interest rate risk: In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

Credit risk: State law limits investments in commercial paper and corporate bonds to the top two rating issued by nationally recognized statistical rating organizations (NRSROs). It is the government's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2018, the local investment pool Texpool (100% of portfolio) were rated AAAm by Standard and Poor's.

Concentration of credit risk: The City places no limit on the amount the City may invest in any one issuer. 100 percent of the City's investments are in an insured Texpool account.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2018, the City had $4,561,776 in investments in an insured TexPool account.

As of September 30, 2018, the government had the following investments:

Investment Type	Fair Value	Maturity (Years)	Weighted Average
TexPool Funds	$ 4,561,776	Less than 1 year	Less than 1 year

The City participates in one Local Government Investment Pool: TexPool. The City invests in TexPool to provide its liquidity needs. It is a local government investment pool established in conformity with the Inter-local Cooperation Act Chapter 791 of the Texas Government Code and the Public Investment Act Chapter 2256 of the Code. TexPool is 2(a) 7 like fund meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are adjusted daily and the fund seeks to maintain a constant net asset value of $1.00, although this cannot be guaranteed. The City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder short of a significant change in value. The TexPool fund is within the Governmental Activities.

B. Receivables

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

	General Fund	Grant Fund	Kenedy 4-B Corporation	Capital Improvement Fund	Hotel Occupancy Tax	Utility Fund	Total
Receivables							
Taxes	$104,177						$104,177
Accounts	122,405					978,740	1,101,145
Grants		37,952					37,952
Occupancy Tax					76,398		76,398
Franchise Tax	23,686						23,686
Royalties			161,139	245,211			406,350
Other	22,626					1,942	24,568
Fines	374,210						374,210
Gross Receivables	647,104	37,952	161,139	245,211	76,398	980,682	2,148,486
Less: Allowance for Uncollectibles	349,215					247,344	596,559
Net Total Receivables	$297,889	$37,952	$161,139	$245,211	$76,398	$733,338	$1,551,927

C. Capital asset activity for the year ended September 30, 2018 was as follows:

Governmental Activities: Capital assets not being depreciated:	Beginning Balances	Increases	Decreases	Ending Balances
Land	$136,000	$311,192		$447,192
Construction In Progress	563,904	1,979,967	282,141	2,261,730
Total capital assets not being depreciated:	699,904	2,291,159	282,141	2,708,922
Capital assets being depreciated:				
Building and Improvements	5,744,281	356,731	158,633	5,942,379
Machinery, Equipment and Vehicles	1,472,920	85,157	58,750	1,499,327
Infrastructure	1,364,305	282,141		1,646,446
Total capital assets being depreciated:	8,581,506	724,029	217,383	9,088,152
Less: Accumulated Depreciation for:				
Building and Improvements	897,852	175,941	41,075	1,032,718
Machinery, Equipment and Vehicles	1,061,035	149,816	58,750	1,152,101
Infrastructure	273,721	32,929		306,650
Total Accumulated Depreciation	2,232,608	358,686	99,825	2,491,469
Total Capital Assets Depreciated, Net	6,348,898	365,343	117,558	6,596,683
Governmental Activities capital assets, Net	$7,048,802	$2,656,502	$399,699	$9,305,605

Business-type Activities: Capital assets not being depreciated:	Beginning Balances	Increases	Decreases	Ending Balances
Land	$196,274			$196,274
Construction in Progress	1,163,067	1,916,976	1,016,569	2,063,474
Total capital assets not being depreciated:	1,359,341	1,916,976	1,016,569	2,259,748
Capital assets being depreciated:				
Building and Improvements	971,554	53,972		1,025,526
Machinery, Equipment and Vehicles	2,963,435	154,229	22,348	3,095,316
Distribution System	21,032,504	1,468,224		22,500,728
Total capital assets being depreciated:	24,967,493	1,676,425	22,348	26,621,570
Less: Accumulated Depreciation for:				
Building and Improvements	710,428	25,132		735,560
Machinery, Equipment and Vehicles	2,383,938	123,309	22,348	2,484,899
Distribution System	8,338,694	523,145		8,861,839
Total Accumulated Depreciation	11,433,060	671,586	22,348	12,082,298
Total Capital Assets Depreciated, Net	13,534,433	1,004,839	0	14,539,272
Business-type Activities capital assets, Net	$14,893,774	$2,921,815	$1,016,569	$16,799,020

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

Governmental Activities	
General Administration	$16,008
Public Safety	$119,321
Public Works	1,774
Public Transportation	53,785
Culture and Recreation	167,798
Total Depreciation Expense - Governmental Activities	$358,686

Business-Type Activities	
Utility	$671,586
Total Depreciation Expense - Business-Type Activities	$671,586

Construction commitments:

The City had major street improvements and drainage improvements, airport improvements, water facility improvements, and park improvement projects during the year.

D. Inter-fund receivables, payables, and transfers

Due to/from other funds at September 30, 2018 are as follows:

INTERFUND	AMOUNT	EXPLANATION	EXPECTED TO BE LIQUIDATED
DUE FROM UTILITY FUND TO GENERAL FUND	$384,357	FOR UTILITY OPERATIONS	WITHIN YEAR
DUE FROM PAVING FUND TO UTILITY FUND	(181,083)	FOR CONSTRUCTION	WITHIN YEAR
DUE FROM GENERAL FUND TO UTILITY FUND	(122,992)	FOR GENERAL OPERATIONS	WITHIN YEAR
	$80,282		

INTRAFUND			
DUE FROM GENERAL FUND TO CAPITAL IMPROVEMENT FUND	$191,873	FOR CONSTRUCTION	WITHIN YEAR
DUE FROM GENERAL FUND TO HOTEL OCCUPANCY TAX FUND	63,144	COMMUNITY DEVELOPMENT	WITHIN YEAR
DUE FROM GENERAL FUND TO GRANT FUND	87,836	CONSTRUCTION	WITHIN YEAR
DUE FROM GENERAL FUND TO I&S FUND	267,458	FOR DEBT SERVICE	WITHIN YEAR
	$610,311		

Transfers for the year ended September 30, 2018 are as follows:

	TRANSFER IN				
TRANSFER OUT	GENERAL FUND	DEBT SERVICE FUND	PAVING FUND	UTILITY FUND	TOTAL
GENERAL FUND				($300,494)	($300,494)
4B CORPORATION			96,000		96,000
CAPITAL IMPROVEMENT FUND				(1,154,508)	(1,154,508)
UTILITY FUND	25,000	201,506	300,000		526,506
TOTALS	$25,000	$201,506	$396,000	($1,455,002)	($832,496)

The transfers to the debt service fund are recurring and are for the payment of the City's debt service. The transfers to the paving were to assist in the costs of paving City streets and are recurring. All other transfers are non-recurring and were for operating costs.

E. Leases

Operating Leases

The government leases equipment under non-cancelable operating leases. Total costs for such leases were $6,184 for the year ended September 30, 2018. The future minimum lease payments for these leases are as follows:

Year Ending Sep. 30,	Amount
2019	$ 3,747
2020	$ 2,934
2021	$ 2,934
2022	$ 2,934
Total	$12,549

Rent expenditures were $0 for the year ended September 30, 2018. Rental income was $66,300 for the year ended September 30, 2018.

F. Long-term debt

Capital Leases

The government has entered into a lease agreement as lessee for financing the acquisition of a 2017 Ford F-150, a 2017 International Fire Truck, a 2015 American Mongoose Trailer, and 3 Ford Trucks. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The security pledged for the capital leases is the equipment financed.

The assets acquired through capital leases are as follows:

	Governmental Activities			Business-type Activities		
ASSET	2017 FORD F - 150 SUPER CAB	2017 INTER-NATIONAL FIRE TRUCK	TOTAL	THREE (3) FORD TRUCKS	2015 AMERICAN MONGOOSE TRAILER	TOTAL
COST	$25,197	$256,910	$282,107	$106,279	$36,838	$143,117
ACCUMULATED DEPRECIATION	(10,079)	(102,764)	(112,843)	(21,256)	(14,735)	(35,991)
NET ASSET	$15,118	$154,146	$169,264	$85,023	$22,103	$107,126

The above debts are serviced by the general fund and the utility fund.

The following for the above debt is a schedule of the future minimum lease payments and the present value of net minimum lease payments at September 30, 2018.

	Governmental Activities			Business-type Activities		
YEAR	2017 FORD F - 150 SUPER CAB	2017 INTER-NATIONAL FIRE TRUCK	TOTAL	THREE (3) FORD TRUCKS	2015 AMERICAN MONGOOSE TRAILER	TOTAL
2019	$9,653	$32,728	$42,381	$34,516	$14,220	$48,736
2020		32,728		34,516	3,555	38,071
2021		32,728				0
2022		11,911				0
	9,653	110,095	42,381	69,032	17,775	86,807
INTEREST	546	6,921	7,467	6,410	2,783	9,193
NET	$9,107	$103,174	$112,281	$62,622	$14,992	$77,614

F. Long-term debt (continued)

Bonds

The government issued Refunding Bonds, Series 2013 in the amount of $3,180,000 to refund all of the Series 2004 Certificate of Obligation Bonds except for $200,000. The amount of bonds refunded was $2,960,000. This resulted in a loss on refunding of $220,000. The bonds are serviced 48.89% by the General fund and 51.11% by the Utility fund. The present value savings of the refunding was projected to be $462,735. The balance at September 30, 2018 is $2,040,000.

The government also issued Combination Tax and Revenue Bonds, Series 2009 in the amount of $3,630,000. The bonds are serviced by the Utility fund. These bonds were refunded whereby the government issued Refunding Bonds, Series 2016 in the amount of $1,990,000 to refund all of the Bonds except for $840,000. The amount of bonds refunded was $1,745,000. This resulted in a loss on refunding of $245,000. The present value savings of the refunding was projected to be $145,069. The balance of the Series 2009 Bonds is $525,000 at September 30, 2018. The balance of the Series 2016 Refunding Bonds is $1,920,000 at September 30, 2018.

Bonds currently outstanding along with any covenants and securities pledged are as follow:

PURPOSE	RATE	AMOUNTS	SERIES	MATURITY DATE	PLEDGED ASSETS	COVENANTS
Governmental activities	2.00% -2.50%	$997,356	2013	2025	None	Ad Valorem Tax and Utility Fees
Business-type activities	2.00% -2.50%	1,042,644	2013	2025	None	Ad Valorem Tax and Utility Fees
Business-type activities	3.00% -4.75%	525,000	2009	2029	Sinking Fund	Ad Valorem Tax and Utility Fees
Business-type activities	2.00% -2.50%	1,920,000	2016	2025	None	Ad Valorem Tax and Utility Fees
Business-type activities	3.00% -4.75%	1,880,000	2016	2029	None	Ad Valorem Tax and Utility Fees
		$6,365,000				

Annual debt service requirements to maturity for the Bonds are as follows:

Year Ending	Governmental Activities		Business-Type Activities	
September 30,	Principal	Interest	Principal	Interest
2019	$132,003	$22,184	$412,997	$226,901
2020	136,892	19,544	428,108	216,061
2021	139,337	16,806	435,664	203,969
2022	141,781	14,019	448,219	113,220
2023	146,670	11,184	463,330	103,997
2024-2028	300,674	11,306	1,949,327	363,093
2028-2033	0	0	825,000	157,300
2034-2036	0	0	405,000	32,800
TOTALS	$997,356	$95,042	$5,367,644	$1,417,342

Changes in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year
Governmental Activities:						
General Obligation Bonds	$1,129,359		$132,003	$997,356	$132,003	$865,353
Less Deferred Amounts:						
For Bond Premium	32,597		4,075	28,522		28,522
Total Bonds Payable	1,161,956	0	136,078	1,025,878	132,003	893,875
Capital Leases	208,133		95,852	112,281	38,986	73,295
Net Pension Liability	324,227		148,602	175,625		175,625
OPEB Liability	27,028	7,475		34,503		34,503
Compensated Absences	37,111	41,296	37,111	41,296	41,296	0
	1,758,455	48,771	417,643	1,389,583	212,285	1,177,298
Business-Type Activities:						
Revenue Bonds	5,770,641		402,997	5,367,644	412,997	4,954,647
Less Deferred Amounts:						
For Bond Premium	146,984		10,267	136,717		136,717
Total Bonds Payable	5,917,625	0	413,264	5,504,361	412,997	5,091,364
Capital Leases	100,422	97,138	119,946	77,614	43,085	34,529
Net Pension Liability	193,037		93,744	99,293		99,293
OPEB Liability	16,072	4,445		20,517		20,517
Compensated Absences	13,561	17,892	13,561	17,892	17,892	0
	6,240,717	119,475	640,515	5,719,677	473,974	5,245,703
Grand Total	$7,999,172	$168,246	$1,058,158	$7,109,260	$686,259	$6,423,001

The general fund and the utility fund are used to service the compensated absences. The estimated amount due in the 2018-19 year is $59,188. The government-wide statement of activities includes $686,259 as "noncurrent liabilities, due within one year".

There was no interest capitalized.

V. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claim liabilities are estimated considering the effects of inflation, recent claim settlement trends (including frequency and amounts of payouts) and other economic and social factors (including the effects of specific, incremental claim adjustment expense, salvage and subrogation).

1. General Liability Insurance

The City is insured for general, police officers and automobile liability. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred. The City has joined together with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $1,000,000 to $2,000,000 for each insurance event. The City anticipates no contingent losses. TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas. The City continues to carries commercial fidelity bonds for elected officials and for management.

2. Property and Casualty Insurance

Property, casualty, mobile equipment, boiler and machinery insurance is provided by TML.

3. Workers' Compensation Insurance

The City insures against workers' compensation claims through TML.

4. Group Health and Life Insurance

The City maintains a group health insurance plan for active employees and their eligible dependents. Costs are recorded in the fund from which the employees' compensation is paid.

5. Unemployment Compensation Insurance

The City self-insures for unemployment compensation claims through an agreement with the Texas Workforce Commission (TWC). Under the agreement, TWC administers all claims and is reimbursed by the City for claims incurred plus administrative charges.

B. Related party transactions

The City Secretary’s father does contract work for the City, The Company’s name is Rodriguez Remodeling. Expenditures were $48,434 for the year ended September 30, 2018.

C. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial. The City was not a defendant in any lawsuit at September 30, 2018.

D. Subsequent events

1. On October 9, 2018, the City approved to purchase a 2016 Ford F150 for $29,504.44; a 2017 Ford F350 for $39,828.90; a 2018 Ford F150 for $29,510.36; a 2018 Ford F150 for $32,024.16, two (2) 2018 Ford F350's at $40,029.30 each, and two (2) 2018 Ford F250 at $39,515.00 each with an underwriting fee of $545.00. The total financed amount is $290,501.46 with three annual payments in advance at 6.50% APR with payment factor of 0.354351 for a payment of $102,991.77.
2. On November 3, 2018, the City awarded a bid for the Freeny Lift Station Emergency Generator Project in the amount of $85,570.00.
3. On November 3, 2018, the City awarded a bid to KMB Construction not to exceed $115,000.00 for the Kenedy Regional Airport Board for the T-Hangar remodel project.
4. On December 3, 2018, the City awarded a bid to SLP Constructors for the TCEQ enforcement Bind Project for the Water Main Extension in the amount of $299,393.65.
5. On December 18, 2018, the City awarded a bid to J.S. Harren Company in the amount of $1,957,000.00 for the Wastewater Treatment Plant.
6. On February 12, 2018, the City awarded a contract to Kinloch for a Street Sweeper in the amount of $101,194.00.

E. Prior Period Adjustments

The City has determined that certain transactions were recorded incorrectly in a prior year. The City had a prior period adjustment whereby Business-Type Activites's Net Position was restated as follows: The line item accounts payable was restated downward by $20,728 so as to be in agreement with the actual balance. The City had a prior period adjustment whereby governmental activities' Net Position was restated as follows: The Tax Increment Reinvestment Zone 2 fund was recategorized as a discreetly presented component unit. The City also had a prior period adjustment where by both governmental activities' Net Position and the business-type activities' Net Position restated downward by $27,028 and $16,072, respectively due to the City implementing GASB 75. The restatements had the corresponding effect on the beginning Net Position as follows:

	Net Position, as Previously Reported	Conversion to Component Unit Tax Incre. Rein. Zone 2	GASB 75 Restatement	Net Position As Restated
Governmental Activites:				
Net Position	$23,179,166	($2,501)	($27,028)	$23,149,637
Total Governmental Activities	$23,179,166	($2,501)	($27,028)	$23,149,637

	Net Position, as Previously Reported	Prior Year Accounts Payable	GASB 75 Restatement	Net Position As Restated
Business-Type Activites:				
Net Position	$14,068,562	$20,728	(16,072)	$14,073,218
Total Business-Type Activities	$14,068,562	$20,728	($16,072)	$14,073,218

F. Defined Benefit Pension Plans

EXECUTIVE SUMMARY

as of December 31, 2017

Actuarial Valuation and Measurement Date, December 31,	2016	2017
Membership		
Number of		
- Inactive employees or beneficiaries currently receiving benefits	10	10
- Inactive employees entitled to but not yet receiving benefits	24	28
- Active employees	43	43
- Total	77	81
Covered Payroll	$ 1,986,081	$ 1,983,548
Net Pension Liability		
Total Pension Liability	$ 2,696,194	$ 2,866,075
Plan Fiduciary Net Position	2,178,930	2,585,778
Net Pension Liability/(Asset)	$ 517,264	$ 280,297
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	80.82%	90.22%
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	26.04%	14.13%
Development of the Single Discount Rate		
Single Discount Rate	6.75%	6.75%
Long-Term Expected Rate of Return	6.75%	6.75%
Long-Term Municipal Bond Rate*	3.78%	3.31%
Last year ending December 31 in the 100-year projection period for which projected benefit payments are fully funded	N/A	N/A

*Based on the Bond Buyer 20 Bond Index of general obligation bonds as of December 29, 2016 as this is the weekly rate closest to but not later than the Measurement Date. Beginning in 2017, the rate is based on the Fidelity 20-Year Municipal GO AA Index as of December 29, 2017 as this is the daily rate closest to but not later than the Measurement Date.

SCHEDULE OF PENSION EXPENSE

1.	Total Service Cost	$	159,676
2.	Interest on the Total Pension Liability		184,354
3.	Changes in Current Period Benefits Including Substantively Automatic Status		0
4.	Employee Contributions (Reduction of Expense)		(99,177)
5.	Projected Earnings on Plan Investments (Reduction of Expense)		(147,078)
6.	Administrative Expense		1,565
7.	Other Changes in Fiduciary Net Position		79
8.	Recognition of Current Year Outflow (Inflow) of Resources-Liabilities		(16,883)
9.	Recognition of Current Year Outflow (Inflow) of Resources-Assets		(30,996)
10.	Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities		61,155
11.	Amortization of Prior Year Outflows (Inflows) of Resources-Assets		28,146
12.	Total Pension Expense (Income)	$	140,841

SCHEDULE OF OUTFLOWS AND INFLOWS- CURRENT AND FUTURE EXPENSE

A.	Recognition Period (or amortization years)		Total (Inflow) or Outflow of Resources		**2017 Recognized in current pension expense**		Deferred (Inflow)/Outflow in future expense
Due to Liabilities:							
Difference in expected and actual experience [actuarial (gains) or losses]	5.0000	$	(84,413)	$	(16,883)	$	(67,530)
Change in assumptions [actuarial (gains) or losses]	5.0000	$	0	$	0	$	0
				$	(16,883)	$	(67,530)
Due to Assets:							
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	$	(154,978)	$	(30,996)	$	(123,982)
				$	(30,996)	$	(123,982)
Total:						$	(191,512)

B. Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension

		Net deferred outflows (inflows) of resources
2018	$	40,352
2019		4,803
2020		(41,196)
2021		(47,875)
2022		0
Thereafter		0
Total	$	(43,916)

GASB 68 requires 10 fiscal years of data to be provided in the Schedule of Contributions; the City will build this report over the next 10-year period. The data in this schedule is based on the City's fiscal year-end, not the valuation/measurement date as provided in other schedules of this report.

The Actuarially Determined Contribution (ADC) dollar amount can be calculated by multiplying the City's Full Retirement Rate (excludes portion of rate for Supplemental Death Benefits Fund) by the applicable payroll amount (for payroll, cities can use "gross earnings" as noted on line 1 of their TMRS-3 "Summary of Monthly Payroll Report"). The applicable months for the City's fiscal year are summed to determine the total ADC. Actual contribution amounts (employer-portion) remitted to TMRS will equal the "contributions in relation to ADC", with the deficiency/(excess) result then calculated. Covered payroll is the sum of the "gross earnings" for the applicable months of the TMRS-3 reports.

For additional detailed information, please reference the TMRS "GASB 68 Employer Reporting Guide."

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
$699,043	$280,297	$(62,835)

SUMMARY OF ACTUARIAL ASSUMPTIONS

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The postretirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy.

I. Economic Assumptions

A. General Inflation — General Inflation is assumed to be 2.50% per year.

B. Discount/Crediting Rates

1. System-wide Investment Return Assumption: 6.75% per year, compounded annually, composed of an assumed 2.50% inflation rate and a 4.25% net real rate of return. This rate represents the assumed return, net of all investment and administrative expenses. This is the discount rate used to value the liabilities of the individual employers.

2. Assumed discount/crediting rate for Supplemental Disability Benefits Fund and individual employee accounts: an annual rate of 5.00% for (1) accumulating prior service credit and updated service credit after the valuation date, (2) accumulating the employee current service balances, (3) determining the amount of the monthly benefit at future dates of retirement or disability, and (4) calculating the actuarial liability of the system-wide Supplemental Disability Benefits Fund.

C. Overall Payroll Growth — 3.00% per year, which is used to calculate the contribution rates for the retirement plan of each participating city as a level percentage of payroll. This represents the expected increase in total payroll. This increase rate is solely due to the effect of wage inflation on salaries, with no allowance for future membership growth. However, for cities with a decrease in the number of contributing members from 2005 to

2014, the payroll growth is decreased by half the annual percentage decrease in the count capped at a 1.0% decrease per year and rounded down to the nearest 0.1%.

D. Individual Salary Increases —

Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

Years of Service	Rate (%)
1	10.50%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
7	5.25%
8-10	4.75%
11	4.500/0
12-13	4.25%
14-16	4.00%
17-24	3.75%
25 +	3.50%

E. Annuity Increase — The Consumer Price Index (CPI) is assumed to be 2.50% per year prospectively. For the City of Kenedy annual annuity increases of 1.86% are assumed when calculating the TPL.

II. Demographic Assumptions

A. Termination Rates

1. For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. For City of Kenedy the base table is then multiplied by a factor of 102.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire — 63%, 2) Police — 88%, or 3) Other — 108%. A sample of the base rates follows:

Males

Age	Service									
	O	1	2	3	4	5	6	7	8	9
20	0.2920	0.2623	0.2186	0.1932	0.1850	0.1673	0.1529	0.1243	0.1022	0.0816
25	0.2653	0.2269	0.1812	0.1554	0.1429	0.1267	0.1148	0.1006	0.0926	0.0757
30	0.2451	0.2052	0.1610	0.1322	0.1079	0.0998	0.0896	0.0774	0.0744	0.0621
35	0.2505	0.2070	0.1577	0.1265	0.1050	0.0994	0.0848	0.0719	0.0621	0.0567
40	0.2467	0.2060	0.1561	0.1213	0.1046	0.0943	0.0805	0.0710	0.0601	0.0577
45	0.2268	0.1934	0.1556	0.1220	0.1053	0.0926	0.0813	0.0711	0.0605	0.0575
50	0.2078	0.1731	0.1412	0.1149	0.1016	0.0887	0.0807	0.0716	0.0604	0.0578
55	0.2003	0.1668	0.1265	0.1074	0.0861	0.0864	0.0771	0.0682	0.0609	0.0560
60	0.1999	0.1542	0.1231	0.1060	0.0790	0.0868	0.0753	0.0683	0.0571	0.0549
65	0.2000	0.1463	0.1238	0.1063	0.0803	0.0867	0.0757	0.0700	0.0547	0.0551
70	0.2000	0.1477	0.1237	0.1063	0.0802	0.0867	0.0756	0.0697	0.0551	0.0551

Females

Age	Service									
	o	1	2	3	4	5	6	7	8	9
20	0.3030	0.2790	0.2221	0.2098	0.1997	0.2021	0.1536	0.1539	0.1564	0.157
25	0.2782	0.2409	0.2067	0.1962	0.1710	0.1663	0.1369	0.1352	0.1186	0.1125
30	0.2574	0.2188	0.1949	0.1762	0.1347	0.1348	0.1276	0.1126	0.0973	0.080
35	0.2424	0.2118	0.1805	0.1438	0.1273	0.1238	0.1112	0.1085	0.1000	0.0769
40	0.2244	0.1993	0.1614	0.1342	0.1295	0.1097	0.1023	0.0924	0.0834	0.0733
45	0.2191	0.1853	0.1427	0.1337	0.1054	0.1017	0.0894	0.0784	0.0705	0.0725
50	0.2201	0.1793	0.1347	0.1229	0.0886	0.0881	0.0823	0.0723	0.0675	0.0617
55	0.2200	0.1738	0.1350	0.1199	0.0834	0.0806	0.0713	0.0705	0.0685	0.0551
60	0.2200	0.1523	0.1350	0.1172	0.0798	0.0843	0.0646	0.0639	0.0429	0.0379
65	0.2200	0.1431	0.1350	0.1150	0.0800	0.0857	0.0667	0.0593	0.0276	0.028
70	0.2200	0.1447	0.1350	0.1154	0.0800	0.0854	0.0664	0.0601	0.0303	0.0298

2. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. For City of Kenedy the base table is then multiplied by a factor of 102.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire — 52%, 2) Police — 79%, or 3) Other — 115%. A sample of the base rates follows:

Years from Retirement	Male	Female
1	1.72%	2.20%
2	2.29%	2.97%
3	2.71%	3.54%
4	3.06%	4.01%
5	3.35%	4.41%
6	3.61%	4.770/0
7	3.85%	5.10%
8	4.07%	5.40%
9	4.28%	5.68%
10	4.47%	5.94%
11	4.65%	6.19%
12	4.82%	6.43%
13	4.98%	6.66%
14	5.14%	6.87%
15	5.29%	7.08%

Termination rates end at first eligibility for retirement

B. Forfeiture Rates (Withdrawal of Member Deposits from T MRS) for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates shown in (A). The withdrawal rates for cities with a 2-to-l match are shown below. 4% is added to the rates for $1^1/4$-to-l cities, and 8% is added for I-to-I cities.

Age	Percent of Terminating Employees Choosing to Take a Refund
25	41.2%
30	41.2%
35	41.2%
40	38.0%
45	32.6%
50	27.1%
55	21.7%

Forfeiture rates end at first eligibility for retirement.

C. Service Retirees and Beneficiary Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

D. Disabled Annuitant Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

E. Pre-Retirement Mortality

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54.5% and female rates multiplied by 51.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

F. Annuity Purchase Rates

For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (AP Rs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

G. Disability Rates

Age	Males & Females
20	0.000004
25	0.000025
30	0.000099
35	0.000259
40	0.000494
45	0.000804
50	0.001188
55	0.001647
60	0.002180
65	0.002787

H. Service Retirement Rates, applied to both Active and Inactive Members

The base table rates vary by gender, entry age group, and age. For members under age 62, these base rates are then multiplied by 2 factors based on 1) employee contribution rate and employer match and 2) if the city has a recurring COLA.

	Males Entry Age Groups			Females Entry Age Groups		
Age	Ages 32 & Under	Ages 33-47	Ages 48 & Over	Ages 32 & Under	Ages 33-47	Ages 48 & Over
40-44	0.06	-	-	0.06	-	-
45-49	0.06	-	-	0.06	-	-
50-52	0.08	-	-	0.08	-	-
53	0.08	0.10	-	0.08	0.10	-
54	0.08	0.10	-	0.11	0.10	-
55-59	0.14	0.10	-	0.11	0.10	-
60	0.20	0.15	0.10	0.14	0.15	0.10
61	0.25	0.30	0.20	0.28	0.26	0.20
62	0.32	0.25	0.12	0.28	0.17	0.12
63	0.32	0.23	0.12	0.28	0.17	0.12
64	0.32	0.35	0.20	0.28	0.22	0.20
65	0.32	0.32	0.20	0.28	0.27	0.20
66-69	0.22	0.22	0.17	0.22	0.22	0.17
70-74	0.20	0.22	0.25	0.22	0.22	0.25
75 and over	1.00	1.00	1.00	1.00	1.00	1.00

Note: For cities without a 20-year/any age retirement provision, the rates for entry ages 32 and under are loaded by 20% for ages below 60.

Plan Design Factors Applied to Base Retirement Rates

	Employee Contribution Rate		
Employer Match	5%	6%	7%
1-1	0.75	0.80	0.84
1.5-1	0.81	0.86	0.92
2-1	0.86	0.93	1.00

Recurring COLA: 100%
No Recurring COLA: 90%

III. Methods and Assumptions

A. Valuation of Assets — The actuarial value of assets is based on the market value of assets with a ten-year phase-in of actual investment return in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continue to be recognized on their original timeframe. The actuarial value of assets is further adjusted by 33% of any difference between the initial value and a 15% corridor around the market value of assets, if necessary.

B. Actuarial Cost Method: The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated. The unfunded actuarial accrued liability is paid off in accordance with a specified amortization procedure outlined in C below.

C. Amortization Policy: For "underfunded" cities with twenty or more employees, the amortization as of the valuation date is a level percentage of payroll over a closed period using the process of "laddering". Bases that existed prior to this valuation continue to be amortized on their original schedule. Beginning January 1, 2016, all new experience losses are amortized over individual periods of not more than 25 years. Previously, some cities amortized their losses over a 30-year period. New gains (including lump sum contributions) are offset against and amortized over the same period as the current largest outstanding loss base for the specific City which in turn decreases contribution rate volatility.

Once a City reaches an "overfunded" status, all prior non-ad hoc bases are erased and the surplus for overfunded cities is amortized over a 25-year open period.

Ad hoc benefit enhancements are amortized over individual periods using a level dollar policy. The period will be based on the minimum of 15 years or the current life expectancy of the covered group.

For the December 31, 2013 actuarial valuation, there was a one-time change in the amortization policy for underfunded cities implemented in conjunction with the changes to the assumptions and cost method to minimize rate volatility associated with these changes. An initial ARC was developed using the methodology described above. For cities with a decrease in the rate compared to the rate calculated prior to changes, the amortization period for all non-ad hoc bases was shortened enough to keep the rates stable (if possible). Cities with an increase of more than 0.50% were allowed to extend the amortization periods for non-ad hoc bases up to 30 years to keep the full contribution rate from increasing. For cities with an increase of 0.50% or less, the amortization periods for all non-ad hoc bases could be extended to 25 years to keep the rate from increasing. The amortization period calculated in the prior steps was then rounded up to the nearest integer to calculate the final full contribution rate.

D. Small City Methodology — For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members.

There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%).

For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20-member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use (25-(20-8)) = 13-year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be 25-(20-1) = 6 years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

IV. Other Assumptions

1. Valuation payroll (used for determining the amortization contribution rate): An exponential average of the actual salaries paid during the prior fiscal years, with 33% weight given to the most recent year and 67% weight given to the expected payroll for the previous fiscal year, moved forward with one year's payroll growth rate and adjusted for changes in population.

2. Individual salaries used to project benefits: For members with more than three years of service, actual salaries from the past three fiscal years are used to determine the USC final average salary as of the valuation date. For future salaries, this three-year average is projected forward with two years of salary scale to create the salary for the year following the valuation. This value is then projected with normal salary scales.

3. Timing of benefit payments: Benefit payments are assumed to be made in the middle of the month. Although TMRS benefits are paid at the end of the month, eligibility for that payment is determined at the beginning of the month. A middle of month payment approximates the impact of the combination of eligibility determination and actual payment timing.

4. Percent married: 100% of the employees are assumed to be married.

5. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.

6. Optional Forms: Healthy members are assumed to choose a life only benefit when they retire. Disabled members are assumed to select a 50% Joint and Survivor option when they retire.

7. Percent electing annuity on death (when eligible): For vested members not eligible for retirement, 75% of the spouses of male members and 70% of the spouses of female members are assumed to commence an immediate benefit in lieu of a

deferred annuity or a refund. Those not electing an immediate benefit are assumed to take a refund. All of the spouses of married participants who die after becoming eligible for a retirement benefit are assumed to elect an annuity that commences immediately.

8. Partial Lump Sum Utilization: It is assumed that each member at retirement will withdraw 40% of their eligible account balance.

9. Inactive Population: All non-vested members of a city are assumed to take an immediate refund if they are not contributing members in another city. Vested members not contributing in another city are assumed to take a deferred retirement benefit, except for those who have terminated in the past 12 months for whom one year of forfeiture probability is assumed. The forfeiture rates for inactive members of a city who are contributing members in another city are equal to the probability of termination multiplied by the forfeiture rates shown in II(A) and II(B) respectively. These rates are applied each year until retirement eligibility. Once a member is retirement eligible, they are assumed to commence benefits based on the service retirement rates shown in II(H).

10. There will be no recoveries once disabled.

11. No surviving spouse will remarry and there will be no children's benefit.

12. Decrement timing: Decrements of all types are assumed to occur mid-year.

13. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

14. Decrement relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

15. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

16. Benefit Service: All members are assumed to accrue 1 year of eligibility service each year.

17. The decrement rates for service-related decrements are based on total TMRS eligibility service.

V. Participant Data

Participant data was supplied in electronic text files. There were separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included birthdate, gender, service with the current city and total vesting service, salary, employee contribution account balances, as well as the data used in the next calculation of the Updated Service Credit (USC). For retired members and beneficiaries, the data included date of birth, gender, spouse's date of birth (where applicable), amount of monthly benefit, date of retirement, form of payment code, and aggregate increase in the CPI that will be used in the next calculation of the cost of living adjustment.

To the extent possible we have made use of all available data fields in the calculation of the liabilities stated in this report. Actual CPI is used to model the wear-away effect or "catch-up" when a city changes its COLA provisions. Adjustments are made for members who have service both in a city with "20 and out" retirement eligibility and one that hasn't adopted it to calculate the earliest possible retirement date.

Salary supplied for the current year was based on the annualized earnings for the year preceding the valuation date.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

Amortization Schedule

Deferred (Inflows)/Outflows of Resources

	Remaining Recognition period (or Amortization Years)	Total Remaining (Inflow) or Outflow of Resources	Measurement Year 2017	2018	2019	2020	2021	2022	Thereafter
Due to liabilities:									
difference in experiences (inflows) /outflows									
2017	5.0000	$ (84,413)	$ (16,883)	$ (16,883)	$ (16,883)	$ (16,883)	$ (16,881)	$ 0	$ 0
2016	3.6700	36,918	10,059	10,059	10,059	6,741	0	0	0
2015	2.6800	55,913	20,863	20,863	14,187	0	0	0	0
2014	1.9552	46,848	23,960	22,888	0	0	0	0	0
		Total	**$ 37,999**	**$ 36,927**	**$ 7,363**	**$ (10,142)**	**$ (16,881)**	$ 0	$ 0
change in assumptions (inflows) /outflows									
2015	2.6800	$ 16,810	$ 6,273	$ 6,273	$ 4,264	$ 0	$ 0	$ 0	$ 0
		Total	**$ 6,273**	**$ 6,273**	**$ 4,264**	**$ 0**	**$ 0**	**$ 0**	**$ 0**

	Remaining Recognition period (or Amortization Years)	Total Remaining (Inflow) or Outflow of Resources	2017	2018	2019	2020	2021	2022	Thereafter
Due to Assets:									
excess investment returns (inflows) /outflows									
2017	5.0000	$ (154,978)	$ (30,996)	$ (30,996)	$ (30,996)	$ (30,996)	$ (30,994)	$ 0	$ 0
2016	4.0000	(226)	(56)	(56)	(56)	(58)	0	0	0
2015	3.0000	72,682	24,227	24,227	24,228	0	0	0	0
2014	2.0000	7,952	3,975	3,977	0	0	0	0	0
		Total	**$ (2,850)**	**$ (2,848)**	**$ (6,824)**	**$ (31,054)**	**$ (30,994)**	**$ 0**	**$ 0**

G. GASB 75 Information

Actuarial and Financial Schedules

As of Measurement Date of December 31,2017

Actuarial Valuation and Measurement Date, December 31,	2017
Membership *	
Number of	
- Inactive employees currently receiving benefits	4
- Inactive employees entitled to but not yet receiving benefits	4
- Active employees	43
- Total	51
Covered Payroll	$ 1,983,548
Changes in the Total OPEB Liability	
Total OPEB Liability – beginning of year	$ 43,100
Changes for the year	
Service Cost	5,951
Interest on Total OPEB Liability	1,734
Changes of benefit terms	0
Differences between expected and actual experience	0
Changes in assumptions or other inputs	4,632
Benefit payments **	(397)
Net changes	11,920
Total OPEB Liability – end of year	$ 55,020
Total OPEB Liability as a Percentage of Covered Payroll	2.77%

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.).

*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.

Summary of Actuarial Assumptions:

Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Discount rate*	3.31%
Retirees' share of benefit-related costs	$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates — service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates — disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Note: The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

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

	1% Decrease (2.31%)	Current Discount Rate (3.31%)	1% Increase (4.31%)
Total OPEB liability	$66,800	$55,020	$45,968

OPEB Expense:

Service cost	$ 5,951
Interest on total OPEB liability	1,734
Changes in benefit terms	0
Employer administrative costs	0
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience [1]	0
Changes in assumptions or other inputs [2]	642
Total OPEB expense	$ 8,327

1. In the year of implementation, the beginning of year liability is rolled back from the measurement date, so there will be no experience loss / (gain).
2. Generally, this will only be the annual change in the municipal bond index rate.

Deferred (Inflows)/Outflows of Resources:

	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Differences between expected and actual experience		0
Changes in assumptions and other inputs		3,990
Contributions made subsequent to measurement date	N/A	[CITY TO PROVIDE]
Total (excluding contributions made subsequent to measurement date)		3,990

Note: The City shall include contributions made subsequent to the measurement date through the City's fiscal year end as deferred outflows of resources. Please see page 7 for retiree rates and a description of the calculation.

Schedule of Outflows and Inflows — Current and future expense

	Recognition Period (or amortization years) *		Total (Inflow) or Outflow of Resources		2017 Recognized in current OPEB expense		Deferred (Inflow)/Outflow in future expense
Due to Liabilities:							
Difference in expected and actual experience [actuarial (gains) or losses]	7.2200	$	0	$	0	$	0
Change in assumptions [actuarial (gains) or losses]	7.2200	$	4,632	$	642	$	3,990
Contributions made subsequent to measurement date			[Provided by City]		[Provided by City]		[Provided by City]
Total (excluding city provided Contributions made subsequent to measurement date):						$	3,990

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future OPEB expense (excluding city-provided contributions made subsequent to the measurement date):

		Net deferred outflows (inflows) of resources
2018	$	642
2019		642
2020		642
2021		642
2022		642
Thereafter		780
Total	$	3,990

* The recognition period for liability (gains) or losses may differ from GASB 68 reporting due to differences in the covered inactive populations

Amortization Schedule - Deferred (Inflows)/Outflows of Resources

	Remaining Recognition period (or amortization years)	Total Remaining (Inflow) or Outlfow of Resources	Measurement Year						
			2017	2018	2019	2020	2021	2022	Thereafter
differences in experiences (inflows)/outflows									
2017	7.2200	$0	$0	$0	$0	$0	$0	$0	$0
		Total	$0	$0	$0	$0	$0	$0	$0
change in assumptions (inflows)/outflows									
2017	7.2200	$4,632	$642	$642	$642	$642	$642	$642	$780
		Total	$642	$642	$642	$642	$642	$642	$780

Schedule of Contributions - (Retiree-only portion of the rate, for OPEB):

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2017	0.20%	0.02%
2018	0.18%	0.02%

Note 1: Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note 2: In order to determine the retiree portion of the City's Supplemental Death Benefit Plan contributions (that which is considered OPEB), the City should perform the following calculation:

Total covered payroll * Retiree Portion of SDB Contribution (Rate)

Consideration should be given to the time period of contributions incurred (i.e., City's fiscal year vs. calendar year) to ensure the proper contribution rate is utilized in the above calculation.

Actuarial Assumptions

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of T MRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013.

I. Economic Assumptions

A. General Inflation — General Inflation is assumed to be 2.50% per year.

B. Discount Rates — Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date.

C. Individual Salary Increases — Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

Years of Service	Rate (%)
1	10.50%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
7	5.25%
8-10	4.75%
11	4.50%
12-13	4.25%
14-16	4.000/0
17-24	3.75%
25 +	3.50%

II. Demographic Assumptions

A. Termination Rates

1. For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. For City of Kenedy the base table is then multiplied by a factor of 102.0% based on the experience of the city in comparison to the group as a whole.
   A further multiplier is applied depending on an employee's classification: 1) Fire — 63%, 2) Police — 88%, or 3) Other— 108%. A sample of the base rates follows:

Males

	Service									
Age	0	1	2	3	4	5	6	7	8	9
20	0.2920	0.2623	0.2186	0.1932	0.1850	0.1673	0.1529	0.1243	0.1022	0.0816
25	0.2653	0.2269	0.1812	0.1554	0.1429	0.1267	0.1148	0.1006	0.0926	0.0757
30	0.2451	0.2052	0.1610	0.1322	0.1079	0.0998	0.0896	0.0774	0.0744	0.0621
35	0.2505	0.2070	0.1577	0.1265	0.1050	0.0994	0.0848	0.0719	0.0621	0.0567
40	0.2467	0.2060	0.1561	0.1213	0.1046	0.0943	0.0805	0.0710	0.0601	0.0577
45	0.2268	0.1934	0.1556	0.1220	0.1053	0.0926	0.0813	0.0711	0.0605	0.0575
50	0.2078	0.1731	0.1412	0.1149	0.1016	0.0887	0.0807	0.0716	0.0604	0.0578
55	0.2003	0.1668	0.1265	0.1074	0.0861	0.0864	0.0771	0.0682	0.0609	0.0560
60	0.1999	0.1542	0.1231	0.1060	0.0790	0.0868	0.0753	0.0683	0.0571	0.0549
65	0.2000	0.1463	0.1238	0.1063	0.0803	0.0867	0.0757	0.0700	0.0547	0.0551
70	0.2000	0.1477	0.1237	0.1063	0.0802	0.0867	0.0756	0.0697	0.0551	0.0551

Females

	Service									
Age	0	1	2	3	4	5	6	7	8	9
20	0.3030	0.2790	0.2221	0.2098	0.1997	0.2021	0.1536	0.1539	0.1564	0.1574
25	0.2782	0.2409	0.2067	0.1965	0.1710	0.1663	0.1369	0.1352	0.1186	0.1125
30	0.2574	0.2188	0.1949	0.1762	0.1347	0.1348	0.1276	0.1126	0.0973	0.0804
35	0.2424	0.2118	0.1805	0.1438	0.1273	0.1238	0.1112	0.1085	0.1000	0.0769
40	0.2244	0.1993	0.1614	0.1342	0.1295	0.1097	0.1023	0.0924	0.0834	0.0733
45	0.2191	0.1853	0.1427	0.1337	0.1054	0.1017	0.0894	0.0784	0.0705	0.0725
50	0.2201	0.1793	0.1347	0.1229	0.0886	0.0881	0.0823	0.0723	0.0675	0.0617
55	0.2200	0.1738	0.1350	0.1199	0.0834	0.0806	0.0713	0.0705	0.0685	0.0551
60	0.2200	0.1523	0.1350	0.1172	0.0798	0.0843	0.0646	0.0639	0.0429	0.0379
65	0.2200	0.1431	0.1350	0.1150	0.0800	0.0857	0.0667	0.0593	0.0276	0.0280
70	0.2200	0.1447	0.1350	0.1154	0.0800	0.0854	0.0664	0.0601	0.0303	0.0298

2. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. For City of Kenedy the base table is then multiplied by a factor of 102.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire - 52%, 2) Police - 79%, or 3) Other — 115%. A sample of the base rates follows:

Years from Retirement		Female
1	1.72%	2.20%
2	2.29%	2.97%
3	2.71%	3.54%
4	3.06%	4.01%
5	3.35%	4.41%
6	3.61%	4.77%
7	3.85%	5.10%
8	4.07%	5.40%
9	4.28%	5.68%
10	4.47%	5.94%
11	4.65%	6.19%
12	4.82%	6.43%
13	4.98%	6.66%
14	5.14%	6.87%
15	5.29%	7.08%

Termination rates end at first eligibility for retirement

B. Forfeiture Rates (Withdrawal of Member Deposits from T MRS) for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates shown in (A). The withdrawal rates for cities with a 2-to-l match are shown below. 4% is added to the rates for l 1/2-to-l cities, and 8% is added for 1-to-1 cities.

Age	Percent of Terminating Employees Choosing to Take a Refund
25	41.2%
30	41.2%
35	41.2%
40	38.0%
45	32.6%
50	27.1%
55	21.7%

Forfeiture rates end at first eligibility for retirement.

C. Service Retirees and Beneficiary Mortality Rates

For calculating the OPEB liability and the OPEB contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

D. Disabled Annuitant Mortality Rates

For calculating the OPEB liability and the OPEB contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set forward for both males and females. In addition, a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

E. Pre-Retirement Mortality

For calculating the OPEB liability and the contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54.5% and female rates multiplied by 51.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

F. Disability Rates

Age	Males & Females
20	0.000004
25	0.000025
30	0.000099
35	0.000259
40	0.000494
45	0.000804
50	0.001188
55	0.001647
60	0.002180
65	0.002787

G. Service Retirement Rates, applied to both Active and Inactive Members

The base table rates vary by gender, entry age group, and age. For members under age 62, these base rates are then multiplied by 2 factors based on 1) employee contribution rate and employer match and 2) if the city has a recurring COLA.

	Males Entry Age Groups			Females Entry Age Groups		
Age	Ages 32 & Under	Ages 33 - 47	Ages 48 & Over	Ages 32 & Under	Ages 33 - 47	Ages 48 & Over
40-44	0.06	-	-	0.06	-	-
45-49	0.06	-	-	0.06	-	-
50-52	0.08	-	-	0.08	-	-
53	0.08	0.10	-	0.08	0.10	-
54	0.08	0.10	-	0.11	0.10	-
55-59	0.14	0.10	-	0.11	0.10	-
60	0.20	0.15	0.10	0.14	0.15	0.10
61	0.25	0.30	0.20	0.28	0.26	0.20
62	0.32	0.25	0.12	0.28	0.17	0.12
63	0.32	0.23	0.12	0.28	0.17	0.12
64	0.32	0.35	0.20	0.28	0.22	0.20
65	0.32	0.32	0.20	0.28	0.27	0.20
66-69	0.22	0.22	0.17	0.22	0.22	0.17
70-74	0.20	0.22	0.25	0.22	0.22	0.25
75 and over	1.00	1.00	1.00	1.00	1.00	1.00

Note: For cities without a 20-year/any age retirement provision, the rates for entry ages 32 and under are loaded by 20% for ages below 60.

Plan Design Factors Applied to Base Retirement Rates

	Employee Contribution Rate		
Employer Match	5%	6%	7%
1-1	0.75	0.80	0.84
1.5 - 1	0.81	0.86	0.92
2-1	0.86	0.93	1.00

Recurring COLA: 100%

No Recurring COLA: 90%

III. Methods and Assumptions

A. Valuation of Assets — For purposes of calculating the Total OPEB Liability, the plan is considered to be unfunded and therefore no assets are accumulated for OPEB.

B. Actuarial Cost Method: The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated.

C. Supplemental Death Benefit — The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Fund, the SDB rate for retiree coverage is currently only one-third of the total term cost.

IV. Other Assumptions

1. Inactive Population: All non-vested members of a city are assumed to take an immediate refund if they are not contributing members in another city. Vested members not contributing in another city are assumed to take a deferred retirement benefit, except for those who have terminated in the past 12 months for whom one year of forfeiture probability is assumed. The forfeiture rates for inactive members of a city who are contributing members in another city are equal to the probability of termination multiplied by the forfeiture rates shown in Il(A) and Il(B) respectively. These rates are applied each year until retirement eligibility. Once a member is retirement eligible, they are assumed to commence benefits based on the service retirement rates shown in Il(G).

2. There will be no recoveries once disabled.

3. Decrement timing: Decrements of all types are assumed to occur mid-year.

4. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

5. Decrement relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

6. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

7. Benefit Service: All members are assumed to accrue 1 year of eligibility service each year.

8. The decrement rates for service-related decrements are based on total TMRS eligibility service.

V. Participant Data

Participant data was supplied in electronic text files. There were separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included birthdate, gender, service with the current city and total vesting service and salary. For retired members, the data included date of birth, gender and date of retirement.

To the extent possible we have made use of all available data fields in the calculation of the liabilities stated in this report. Adjustments are made for members who have service both in a city with "20 and out" retirement eligibility and one that hasn't adopted it to calculate the earliest possible retirement date.

Salary supplied for the current year was based on the annualized earnings for the year preceding the valuation date.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

Glossary of Terms

Actuarial Assumptions These assumptions are estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and compensation increases. Actuarial assumptions are generally based on past experience, often modified for projected changes in condition s. Economic assumptions (compensation increases, payroll growth, inflation and investment return) consist of an underlying real rate of return plus an assumption for a long-term average rate of inflation.

Actuarial Cost Method A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of the benefits between future normal cost and actuarial accrued liability. The actuarial cost method may also be referred to as the actuarial funding method.

Actuarial Gain (Loss) The difference in liabilities between actual experience and expected experience during the period between two actuarial valuations is the gain (loss) on the accrued liabilities.

Actuarial Present Value (APV) The amount of funds currently required to provide a payment or series of payments in the future. The present value is determined by discounting future payments at predetermined rates of interest and probabilities of payment.

Actuarial Valuation The actuarial valuation report determines, as of the actuarial valuation date, the service cost, total OPEB liability, and related actuarial present value of projected benefit payments for OPEB.

Actuarially Determined Contribution (ADC) A calculated contribution into a defined benefit OPEB plan for the reporting period, most often determined based on the funding policy of the plan.

Covered Payroll The payroll of employees that are provided with OPEB.

Deferred Inflows and Outflows The deferred inflows and outflows of OPEB resources are amounts used under GASB Statement No. 75 in developing the annual OPEB expense. Deferred inflows and outflows arise with differences between expected and actual experiences or changes of assumptions. The portion of these amounts not included in OPEB expense should be included in the deferred inflows or outflows of resources.

Glossary of Terms

Discount Rate	The discount rate is the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).
Entry Age Normal Actuarial Cost Method (EAN)	A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the Actuarial Accrued Liability.
GASB	The Governmental Accounting Standards Board is an organization that exists in order to promulgate accounting standards for governmental entities.
Other Postemployment Benefits (OPEB)	Benefits (such as death benefits, life insurance, disability, and long- term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment, regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payments for sick leave.
Real Rate of Return	The rate of return on an investment after adjustment to eliminate inflation.
Service Costs	The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.
Total OPEB liability	The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of this Statement.
Total OPEB Expense	The total OPEB expense is the sum of the following items: 1. Service Cost 2. Interest on the Total OPEB Liability 3. Current-Period Benefit Changes 4. Administrative Expense 5. Recognition of Outflow (Inflow) of Resources due to Liabilities

REQUIRED SUPPLEMENTARY INFORMATION

A. Total pension liability

	2017	2016	2015
1. Service Cost	$159,676	$171,200	$155,990
2. Interest (on the Total Pension Liability)	184,354	163,460	141,880
3. Changes of benefit terms	0	0	0
4. Difference between expected and actual experience	(84,413)	46,977	97,639
5. Changes of assumptions	0	0	29,356
6. Benefit payments, including refunds of employee contributions	(89,736)	(42,944)	(32,458)
7. Net change in total pension liability	169,881	338,693	392,407
8. Total pension liability -- beginning	2,696,194	2,357,501	1,965,094
9. Total pension liability - ending	2,866,075	2,696,194	2,357,501

B. Plan fiduciary net position

	2017	2016	2015
I. Contributions - employer	96,995	85,004	79,778
2. Contributions - employee	99,177	99,304	93,857
3. Net investment income	302,056	129,200	2,609
4. Benefit payments, including refunds of employee contributions	(89,736)	(42,944)	(32,458)
5. Administrative Expense	(1,565)	(1,458)	(1,589)
6. Other	(79)	(79)	(78)
7. Net change in plan fiduciary net position	406,848	269,027	142,119
8. Plan fiduciary net position - beginning	2,178,930	1,909,903	1,767,783
9. Plan fiduciary net position - ending*	2,585,778	2,178,930	1,909,902
C. Net pension liability (A.9 - B.9)	$280,297	$517,264	$447,599
D. Plan fiduciary net position as a percentage of the total pension liability (B.9 / A.9)	90.22%	80.82%	81.01%
E. Covered-employee payroll (B.9 / A.9)	$1,983,548	$1,986,081	$1,877,141
F. Net pension liability as a percentage of covered employee payroll (C/E)	14.13%	26.04%	23.84%

SCHEDULE OF CONTRIBUTIONS

Last 10 Fiscal Years (will ultimately be displayed)

	2014	2015	2016	2017
Actuarially Determined Contribution	xxx,xxx	xxx,xxx	xxx,xxx	xxx,xxx
Contributions in relation to the actuarially determined contribution	xxx,xxx	xxx,xxx	xxx,xxx	xxx,xxx
Contribution deficiency (excess)	xxx,xxx	xxx,xxx	xxx,xxx	xxx,xxx
Covered payroll	xxx,xxx	xxx,xxx	xxx,xxx	xxx,xxx
Contributions as a percentage of covered payroll	xx.xx%	xx.xx%	xx.xx%	xx.xx%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes	There were no benefit changes during the year.

OPEB Retirement System Information

OPEB Plans

Changes in the Total OPEB Liability

Changes for the year	2017
1. Service Cost	$5,951
2. Interest on Total OPEB Liability	1,734
3. Changes of benefit terms	0
4. Difference between expected and actual experience	0
5. Changes in assumptions or other inputs	4,632
6. Benefit payments	(397)
7. Net changes	11,920
Total OPEB Liability - beginning of year	43,100
Total OPEB Liability - end of year	$55,020

E. Covered-employee payroll (B.9 / A.9)	$1,983,548
F. Total OPEB Liability as a Percentage of Covered Payroll	2.77%

CITY OF KENEDY, TEXAS
PAVING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Interest	$3,000	$3,000	$1,865	($1,135)
Total Revenues	3,000	3,000	1,865	(1,135)
EXPENDITURES				
Current:				
Public Transportation	530,000	530,000	273,641	256,359
Capital Projects -				
Capital Outlay and Other				0
Total Expenditures	530,000	530,000	273,641	256,359
Excess (Deficiency) of Revenues Over (Under) Expenditures	(527,000)	(527,000)	(271,776)	255,224
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	596,000	396,000	396,000	0
Total Other Financing Sources (Uses)	596,000	396,000	396,000	0
Net Changes in Fund Balances	69,000	(131,000)	124,224	255,224
Fund Balances - Beginning	1,604,920	1,604,920	1,604,920	
Fund Balances - Ending	$1,673,920	$1,473,920	$1,729,144	$255,224

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

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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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.

August __, 2019

CITY OF KENEDY, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019
DATED AS OF AUGUST 1, 2019
IN THE AGGREGATE PRINCIPAL AMOUNT OF $6,720,000

AS BOND COUNSEL FOR THE CITY OF KENEDY, TEXAS (the "***City***") in connection with the issuance of the certificates of obligation described above (the "***Certificates***"), we have examined into the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates until maturity or prior redemption at the rates and payable on the dates as stated in the text of the Certificates, and which are subject to redemption, all in accordance with the terms and conditions stated in the text of the Certificates.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Certificates including (i) the ordinance authorizing the issuance of the Certificates (the "***Ordinance***"), (ii) one of the executed Certificates (Certificate No. T-1), and (iii) the City's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been authorized, issued and delivered in accordance with law; that the Certificates constitute valid and legally binding general obligations of the City in accordance with their terms except as the enforceability thereof may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion; that the City has the legal authority to issue the Certificates and to repay the Certificates; that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Certificates, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the City, and have been pledged for such payment, within the limits prescribed by law; and that "*Surplus Revenues*" (as such term is defined and described in the Ordinance) received by the City from the ownership and operation of the City's Waterworks and Sewer System have been pledged to further secure the payment of the Certificates in the manner set forth 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. In expressing the aforementioned opinions, we have relied on certain representations of the City, the accuracy of which we have not independently verified, and have assumed compliance by the City 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 if the City fails 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.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further given, and are based on our knowledge of facts, as of the date hereof. We assume no duty or obligation to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter 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 City as the taxpayer. We observe that the City 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.

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion 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 City, 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 we have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City. Our role in connection with the City'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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