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PRELIMINARY OFFICIAL STATEMENT

Dated: September 13, 2024

NEW ISSUE - Book-Entry-Only

NOT RATED

The Bonds are not obligations described in Section 103(a) of the Internal Revenue Code of 1986. Interest on the Bonds will be includable in gross income for purposes of federal income taxation under statutes, regulations, published rulings and court decisions existing on the date thereof (see "FEDERAL INCOME TAX TREATMENT OF THE BONDS") herein.

\$2,375,000*
DEVELOPMENT CORPORATION OF PEÑITAS, INC.
(Hidalgo County, Texas)
SALES TAX REVENUE BONDS, TAXABLE SERIES 2024

Dated Date: September 15, 2024

Due: September 15, as shown on page 2

Interest to accrue from Delivery Date

PAYMENT TERMS . . . Interest on the \$2,375,000* Development Corporation of Peñitas, Inc. Sales Tax Revenue Bonds, Taxable Series 2024 (the "Bonds") will accrue from the Delivery Date (defined below), will be payable March 15 and September 15 of each year commencing September 15, 2025, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar (defined below) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA, Houston, Texas (the "Paying Agent/Registrar") further acting as trustee pursuant to a trust agreement (the "Trust Agreement") with the Development Corporation of Peñitas, Inc. (the "Corporation") dated as of September 15, 2024 (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to a bond resolution (the "Resolution") to be adopted by the Board of Directors of the Corporation (the "Board") on September 18, 2024 and in accordance with certain provisions of the Development Corporation Act, currently codified as Chapters 501, 502 and 505, Texas Local Government Code, as amended (previously codified as Article 5190.6, Texas Revised Civil Statutes Annotated, as amended) (collectively, the "Act") (see "THE BONDS - Authority for Issuance"). The Bonds are special obligations of the Corporation, payable from and secured by a first lien on and pledge of certain Pledged Revenues (as defined in the Resolution) which include the proceeds of a 1/4 of 1% sales and use tax levied within the City of Peñitas, Texas (the "City") for the benefit of the Corporation (see "SELECTED PROVISIONS OF THE RESOLUTION AND TRUST AGREEMENT").

The Bonds are payable solely from the Pledged Revenues described in the Resolution and not from any other revenues, properties or income of the City or the Corporation. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Corporation or the City except with respect to the Pledged Revenues. None of the State of Texas (the "State"), the City, Hidalgo County, or any political corporation, subdivision, or agency of the State shall be obligated to pay the Bonds or the interest thereon and neither the faith and credit nor the taxing power of the State, the City, Hidalgo County, or any political corporation, subdivision, or agency thereof, except the Pledged Revenues, is pledged to the payment of the principal of or interest on the Bonds.

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purpose of (i) the acquisition of land to promote new or expanded business enterprises, (ii) funding a reserve fund for payment of principal and interest on the Bonds, and (iii) paying costs of issuance associated with the issuance of the Bonds.

CUSIP PREFIX: TBD
MATURITY SCHEDULE & 9 DIGIT CUSIP
Shown on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriter (identified below) and subject to the approving opinion of the Attorney General of Texas and the opinion of Winstead PC, San Antonio, Texas, bond counsel (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by their counsel Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through the facilities of DTC on or about September 30, 2024 (the "Delivery Date").

FMSbonds, Inc.

* Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP Prefix: TBD⁽¹⁾

<u>Amount</u>	<u>Maturity 15-Sep</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
\$ 25,000	2025			
20,000	2026			
25,000	2027			
25,000	2028			
25,000	2029			
30,000	2030			
30,000	2031			
35,000	2032			
35,000	2033			
40,000	2034			
45,000	2035			
45,000	2036			
50,000	2037			
55,000	2038			
60,000	2039			
65,000	2040			
70,000	2041			
75,000	2042			
85,000	2043			
90,000	2044			
100,000	2045			
105,000	2046			
115,000	2047			
125,000	2048			
135,000	2049			
145,000	2050			
160,000	2051			
170,000	2052			
185,000	2053			
205,000	2054			

(Interest to accrue from Delivery Date)

- (1) CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers are provided for convenience of reference only. None of the Corporation, the Financial Advisor, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

OPTIONAL REDEMPTION . . . The Corporation reserves the right, at its option, to redeem Bonds having stated maturities in and after September 15, [], in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 15, [], or any date thereafter at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

MANDATORY REDEMPTION . . . The Bonds may also be subject to mandatory sinking fund redemption in the event the Underwriter elects to aggregate two or more of the maturities as a term bond (see "THE BONDS – Mandatory Redemption").

* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended and in effect on the date hereof ("the Rule"), this document constitutes an Official Statement with respect to the Bonds that has been "deemed final" by the Corporation as of its date except for the omission of no more than the information permitted by the Rule.

No dealer, broker, salesman or other person has been authorized by the Corporation or the Underwriter 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 Corporation or the Underwriter. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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

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

THE BONDS 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 BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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

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

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibility to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

OFFICIAL STATEMENT SUMMARY

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

THE CORPORATION The Development Corporation of Peñitas, Inc. is a non-profit Type B corporation of the State of Texas (the "State"), created by the City of Peñitas, Texas (the "City") and organized and existing under the laws of the State, particularly the Development Corporation Act, currently codified as Chapters 501, 502 and 505, Texas Local Government Code, as amended (previously codified as Article 5190.6 Texas Revised Civil Statutes Annotated, as amended) (collectively, the "Act") (see "INTRODUCTION - Description of the Corporation").

THE BONDS The Bonds are issued as \$2,375,000* Development Corporation of Peñitas, Inc., Sales Tax Revenue Bonds, Taxable Series 2024. The Bonds are issued as serial bonds to mature on September 15 in each of the years 2025 through 2054, inclusive, unless the Underwriter designates two or more consecutive serial maturities as one or more term bonds (see "THE BONDS – Description of the Bonds" and "THE BONDS – Mandatory Redemption").

PAYMENT OF INTEREST Interest on the Bonds accrues from the date of the initial delivery of the Bonds, anticipated to be September 30, 2024, and is payable September 15, 2025 and each March 15 and September 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds" and "THE BONDS – Optional Redemption").

AUTHORITY FOR ISSUANCE The Bonds are issued pursuant to a bond resolution (the "Bond Resolution") expected to be adopted by the Board of Directors of the Corporation (the "Board") on September 18, 2024 and in accordance with certain provisions of the Act (see "THE BONDS - Authority for Issuance").

SECURITY FOR THE BONDS The Bonds are special, limited obligations of the Corporation payable solely from a first lien on and pledge of the "Pledged Revenues" (as defined in the Resolution), including the receipts from a 1/4 of 1% sales tax levied by the City for the benefit of the Corporation pursuant to the Act (see "THE BONDS - Security and Source of Payment" herein for a more complete description of the revenues pledged and the security for the payment of the Bonds) (see also "THE BONDS – Reserve Fund Requirements").

For the purposes of further supporting the pledge and lien created in the Resolution, the Corporation will transfer, set over and assign to the BOKF, NA, Houston, Texas, as the trustee under a trust agreement, (the "Trust Agreement") all of its right, title and interest in and to the Pledged Revenues, and all money deposited with or paid to the Trustee for the account of the Revenue Fund, the Project Fund, the Debt Service Fund, or the Debt Service Reserve under the provisions of the Trust Agreement shall be held by the Trustee, in trust, for the benefit of the registered owners of the Parity Bonds. The Pledged Revenues will be received, deposited held, used, and applied strictly in accordance with and subject to the terms and provisions of the Resolution and the Trust Agreement.

OPTIONAL REDEMPTION OF THE BONDS..... The Corporation reserves the right, at its option, to redeem Bonds having stated maturities on and after September 15, [], in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 15, [], or any date thereafter at the par value thereof plus accrued interest.

MANDATORY REDEMPTION OF THE BONDS..... The Bonds may also be subject to mandatory sinking fund redemption in the event the Underwriter elects to aggregate two or more of the serial maturities as one or more term bonds (see "THE BONDS – Mandatory Redemption").

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used for the purpose of (i) the acquisition of land and to promote new or expanded business enterprises, (ii) funding a reserve fund for payment of principal and interest on the Bonds, and (iii) paying costs of issuance associated with the issuance of the Bonds (see "PLAN OF FINANCE – Purpose of the Bonds" and "- Use of Proceeds of the Bonds").

RATING The Corporation has not applied for a municipal bond rating.

MUNICIPAL BOND INSURANCE ... The Corporation has not made an application for municipal bond insurance.

* Preliminary, subject to change.

NO TAX-EXEMPTION Interest on the Bonds will be included in gross income for federal income tax purposes under existing law, subject to matters described under the caption –"FEDERAL INCOME TAX TREATMENT OF THE BONDS" herein.

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

PAYMENT RECORD The Corporation has never defaulted in payment of its debt.

PAYING AGENT/REGISTRAR BOKF, NA, Houston, Texas.

TRUSTEE..... BOKF, NA, Houston, Texas.

DEPOSITORY..... BOKF, NA, Houston, Texas.

TAXABLE In the opinion of Bond Counsel, the interest on the Bonds will be included in gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof (see "FEDERAL INCOME TAX TREATMENT OF THE BONDS").

For additional information regarding the Corporation, please contact:

Humberto Garza III
 Executive Director
city_manager@cityofpenitas.com
 Development Corporation of
 Peñitas, Inc.
 P.O. Box 204
 Peñitas, Texas 78576
 (956) 581-3345

or

Andre Ayala
 Managing Director
andre.ayala@hilltopsecurities.com
 Hilltop Securities Inc.
 717 N. Harwood St., Suite 3400
 Dallas, Texas 75201
 (214) 953-4000

Jorge Delgado
 Senior Vice President
jorge.delgado@hilltopsecurities.com
 Hilltop Securities Inc.
 717 N. Harwood St., Suite 3400
 Dallas, Texas 75201
 (214) 953-4000

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CORPORATION ADMINISTRATION

THE CORPORATION BOARD OF DIRECTORS

<u>Board of Directors</u>	<u>Position</u>	<u>Term Expires</u>
Esequiel Garza, Jr.	President	October 2024
Osiel Ozuna Ramos	Vice President	October 2024
Homero Tijerina	Secretary	October 2024
Edwin Eloy Zuniga	Treasurer	October 2024
Hector Juarez	Member	October 2024
Jose Luis Rodriguez	Member	October 2024

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Length of Governmental Service</u>
Humberto Garza III	Executive Director	3 Years	23 Years

CITY ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Length of Governmental Service</u>
Humberto Garza III	City Manager	3 Years	23 Years
Martha V. Muñoz	Finance Director	2 Years	2 Years
Jennifer Janney Quintero	City Secretary	2 Years	2 years

CONSULTANTS AND ADVISORS

Auditors Raul Hernandez & Company, P.C.
Corpus Christi, Texas

Bond Counsel Winstead PC
San Antonio, Texas

Financial Advisor Hilltop Securities Inc.
Dallas, Texas

OFFICIAL STATEMENT

RELATING TO

\$2,375,000*
DEVELOPMENT CORPORATION OF PEÑITAS, INC.
SALES TAX REVENUE BONDS, TAXABLE SERIES 2024

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$2,375,000* Development Corporation of Peñitas, Inc. Sales Tax Revenue Bonds, Taxable Series 2024 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the bond resolution expected to be adopted on the date of the sale of the Bonds, which will authorize the issuance of the Bonds (the "Resolution") (see "SELECTED PROVISIONS OF THE RESOLUTION AND TRUST AGREEMENT").

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Development Corporation of Peñitas, Inc. (the "Corporation") 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 Corporation's Financial Advisor, Hilltop Securities Inc. ("Hilltop Securities"), Dallas, Texas.

All financial and other information presented in this Official Statement has been provided by the Corporation and the City (defined herein) from their 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 historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Corporation. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "OTHER INFORMATION - Forward-Looking Statements Disclaimer").

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

DESCRIPTION OF THE CORPORATION . . . The Corporation is a non-profit corporation duly organized and operating under the laws of the State of Texas (the "State"), particularly the Development Corporation Act, currently codified as Chapters 501, 502 and 505, Texas Local Government Code, as amended (collectively, the "Act"). The Corporation was created following an election held by the City of Peñitas, Texas (the "City") and effective September 24, 2009, and the City was authorized to levy a 1/4 of 1% local sales and use tax (the "Sales Tax") in the City for the benefit of the Corporation to finance projects authorized by the Act (see "THE SALES TAX – Source and Authorization"). The Corporation is governed by a six-member Board of Directors (the "Board") whose responsibilities include: identifying and funding community facilities and related projects to maintain and enhance the quality of life in the City; and working with the Peñitas Economic Development Corporation on efforts to expand the City's business tax base and promote job growth within the community. The City Council of the City appoints the members of the Board. Under the provisions of the Act and the Corporation's bylaws, the City is required to approve certain actions of the Corporation, including the issuance of the Bonds by the Corporation and the undertaking of projects.

PLAN OF FINANCING

PURPOSE OF THE BONDS . . . Proceeds from the sale of the Bonds will be used for the purpose of (i) the acquisition of land to promote new or expanded business enterprises, (ii) funding a reserve fund for payment of principal and interest on the Bonds, and (iii) paying costs of issuance associated with the issuance of the Bonds.

USE OF PROCEEDS OF THE BONDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Proceeds:

Par Amount of Bonds	\$	-
Premium		-
Total Sources of Proceeds	<u>\$</u>	<u>-</u>

Uses of Proceeds:

Deposit to Construction Fund	\$	-
Deposit to Debt Service Reserve Fund		
Underwriters' Discount		-
Costs of Issuance		-
Total Uses of Proceeds	<u>\$</u>	<u>-</u>

* Preliminary, subject to change.

The Bonds are being issued concurrently with the \$2,455,000* Peñitas Economic Development Corporation Sales Tax Revenue and Refunding Bonds, Taxable Series 2024 (the "4A Bonds") to finance the acquisition of land to promote new or expanded business development. The Bonds and the 4A Bonds are separate and distinct securities offerings being issued and sold independently; additionally, each issue is separate from the other and should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated September 15, 2024 and mature on September 15 in each of the years and in the principal amounts shown on page 2. Interest will accrue from the Delivery Date, will be computed on the basis of a 360-day year consisting of twelve 30-day months and will be payable on March 15 and September 15 in each year, commencing September 15, 2025 until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued by the Corporation pursuant to the Act, the Resolution and the Trust Agreement.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are special, limited obligations of the Corporation payable solely from a lien on and pledge of the "Pledged Revenues" (as defined in the Resolution) of the Corporation. The Pledged Revenues are further pledged to the establishment and maintenance of the Debt Service Fund and the Debt Service Reserve Fund. (See "SELECTED PROVISIONS OF THE RESOLUTION AND TRUST AGREEMENT".) **The Bonds do not constitute a debt of the City, the State, Hidalgo County, or any agency, political corporation, subdivision or agency thereof nor do the Bonds constitute a legal or equitable, pledge, charge, lien or encumbrance upon any property of the Corporation or the City except with respect to the Pledged Revenues. In the Resolution, the Corporation has reserved the right to issue additional revenue obligations payable, in whole or in part, from the Pledged Revenues and, subject to satisfying the terms and conditions prescribed therefor, such Additional Parity Bonds may be equally and ratably secured by a parity first lien on and pledge of such Pledged Revenues. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE, HIDALGO COUNTY, OR ANY AGENCY, POLITICAL CORPORATION OR SUBDIVISION THEREOF, HAS BEEN PLEDGED FOR THE PAYMENT OF THE BONDS, EXCEPT AS DESCRIBED HEREIN (SEE ALSO "THE BONDS – Reserve Fund").**

The Corporation has previously entered into a trust agreement with BOKF, NA, Houston, Texas, in its capacity as trustee (the "Trustee") dated September 15, 2024 (the "Trust Agreement"). Pursuant to the Resolution and the Trust Agreement, the Corporation has assigned its interest in the Pledged Revenues and all money deposited with or paid to the Trustee for the account of the Revenue Fund, the Project Fund, the Debt Service Fund, or the Debt Service Reserve to the Trustee, and such funds discussed below shall be in the custody of the Trustee for the benefit of the Owners of the Bonds and any Additional Parity Bonds. The Pledged Revenues will be received, deposited held, used, and applied strictly in accordance with and subject to the terms and provisions of the Resolution.

GENERAL COVENANTS REGARDING THE SALES TAX . . . The Municipal Sales and Use Tax Act (Texas Tax Code, Chapter 321, as amended) provides that the Sales Tax does not apply to the sale of a taxable item unless the item is also taxable under the Texas Limited Sales, Excise and Use Tax Act. The Sales Tax is therefore subject to broadening and reduction in the base against which it is levied by action of the State Legislature without the consent of the City or the Corporation.

Chapter 505 of the Act allows the voters of the City to either reduce or repeal the Sales Tax. However, an Attorney General's Opinion (Opinion No. DM-137) held with respect to any amendment to the predecessor of such Chapter of the Act that a "reduction in the sales tax rate, or a limitation on the amount of time the tax may be collected, may not be applied to any bonds issued prior to the date of the rollback election." In so ruling, the Attorney General noted any "subsequent legislation which purports to permit the reduction or other limitation of that tax is ineffective to do so, because such alteration would impair the obligation of the contract between the city and such bondholders", and in effect be a violation of Article 1, Section 10 of the United States Constitution and Article I, Section 16 of the Texas Constitution.

Under current law, the Sales Tax may not be collected after the last day of the first calendar quarter occurring after notification to the State Comptroller of Public Accounts by the Corporation that all bonds or other obligations of the Corporation that are payable in whole or in part from the proceeds of the Sales Tax, including any refunding bonds or other obligations, have been paid in full or the full amount of money necessary to defease such bonds and other obligations has been set aside in a trust account dedicated to their payment. Additionally, Section 505.354 of the Act provides that the Corporation shall be terminated upon approval of the voters of the City at an election held for such purpose, but the Corporation would continue its operations as necessary to meet obligations incurred by the Corporation before the date of the election, including the payment of principal and interest on all bonds issued by the Corporation.

* Preliminary, subject to change.

THE SALES TAX REMITTANCE AGREEMENT. . . The City, the Corporation, and BOKF, NA (the “Depository”) have entered into the Sales Tax Remittance Agreement dated September 15, 2024 (the “Transfer Agreement”). Therein the City agrees to establish and maintain at the Depository, an escrow fund to be entitled “City of Peñitas Sales and Use Tax Fund” (the “Sales Tax Fund”) to receive directly from the Comptroller, the sales and use tax levied for the City. The Sales Tax Fund will be maintained as a separate fund at the Depository, and no other moneys of the City shall be commingled with the Sales Tax Fund. Upon receipt of the revenues by the Depository from the Comptroller, the Depository shall remit the Sales Tax revenues to the credit of the Revenue Fund established in trust with the Trustee pursuant to the Trust Agreement as provided in the Resolution.

COVENANTS REGARDING SALES TAX . . . In the Resolution, the Corporation covenants and agrees that, so long as the Bonds or any Parity Bonds are outstanding, the Corporation will take and pursue all legal means and actions permissible to cause the Sales Tax to be levied and collected continuously throughout the boundaries of the City, as such boundaries may change from time to time, at the rate of 1/4 of 1% percent or, to the extent permitted by law, at a higher rate, and the Corporation will not cause a reduction, abatement or exemption in the Sales Tax. See “THE SALES TAX – Source and Authorization.”

The Corporation also covenants and agrees that, if, subsequent to the issuance of the Bonds, the City is authorized by applicable law to impose and levy the Sales Tax on any items or transactions that are not subject to the Sales Tax on the date the Resolution is adopted, then the Corporation will use its best efforts to cause the City to take such action as may be required by applicable law to subject such items or transactions to the Sales Tax.

FLOW OF FUNDS . . . All Pledged Revenues received by the Trustee are to be deposited to the credit of a Revenue Fund maintained at a depository for the Corporation’s funds. Amounts deposited to the Revenue Fund are to be pledged and appropriated to the following uses, in order of priority shown below:

FIRST: any authorized fees or expenses which are due or payable to the Trustee;

SECOND: an amount sufficient to make all deposits to the Debt Service Fund (defined below) which relates to the debt service on the Outstanding Parity Bonds or which is necessary to remedy any prior deficiencies relating to previously required deposits to the Debt Service Fund; such amount to be deposited by the Trustee to the Debt Service Fund; and

THIRD: an amount, as required herein, sufficient to make the balance in the Debt Service Reserve Fund (defined below) equal to the Debt Service Reserve Fund Requirement for the Outstanding Parity Bonds, such amount to be deposited by the Trustee to the Debt Service Reserve Fund.

Any balance remaining in the Revenue Fund after the amounts for FIRST through THIRD above have been paid in full or payment thereof has been provided for, and provided that all other obligations of the Corporation under the Resolution have been fully performed, the Executive Director of the Corporation must submit a written request to the Trustee for disbursement of funds to the Corporation specifying the purpose for the disbursement and all required Board actions as conditions precedent.

For more detailed discussion of the application of monies deposited in the various funds and account, and the purposes thereof, see "SELECTED PROVISIONS OF THE RESOLUTION AND TRUST AGREEMENT".

MONTHLY DEPOSITS . . . There shall be deposited in the Debt Service Fund (i) any amounts required to be transferred from the Debt Service Reserve Fund as described below and (ii) all amounts required to be deposited therein from the Revenue Fund. Payment of debt service, when due, shall be made from the amounts credited to the Debt Service Fund. Payments into the Debt Service Fund from the Revenue Fund (commencing with the Bonds and any Additional Parity Bonds on the date of delivery of the Bonds or Additional Parity Bonds) shall be made as follows on a monthly basis: to the extent that Pledged Revenues are sufficient, the Trustee will deposit an amount equal to 1/12th of the next unfunded scheduled interest payment due (for interest payment due on September 15, 2025) and 1/12th of the next unfunded principal payment due and (ii) thereafter, to the extent that Pledged Revenues are sufficient, the Trustee will deposit an amount equal to 1/6th of the next unfunded scheduled interest payment due and 1/12th of the next unfunded principal payment due. In instances where Pledged Revenues are not sufficient to make monthly deposits as outlined, the Trustee shall make these payments in future months as Pledged Revenues become available.

RESERVE FUND REQUIREMENTS . . . The Resolution provides that the Corporation establish and maintain a Debt Service Reserve Fund for the accumulation and maintenance of an amount equal to pay the debt service on the Bonds and Additional Parity Bonds, if issued, when other Pledged Revenues are insufficient. The Resolution also allows for the use of a surety policy to fund all or a portion of the Debt Service Reserve Requirement.

Upon the issuance of the Bonds, and as and when Additional Parity Bonds are delivered or incurred, the Debt Service Reserve Requirement shall be established or increased, if required, to an amount equal to the lesser of (i) the maximum annual Debt Service (calculated on a fiscal year basis) for all Parity Bonds then outstanding (after giving effect to the issuance of the Additional Parity Bonds), as determined on the date each series of Additional Parity Bonds are delivered or incurred, as the case may be, or (ii) if the interest on the Parity Bonds is exempt from taxation, the maximum amount that can be invested without restriction as to yield in a reasonably required reserve pursuant to federal law. Concurrently with the issuance of the Bonds, a deposit of \$ [] will be made into the Debt Service Reserve Fund. Any additional amount required to be maintained in the Debt Service Reserve Fund shall be accumulated by depositing cash or a surety policy to the credit of the Debt Service Reserve Fund immediately after the delivery of the Bonds or the then proposed Additional Parity Bonds. (See "SELECTED PROVISIONS OF THE RESOLUTION AND TRUST AGREEMENT")

ADDITIONAL PARITY BONDS . . . The Corporation shall have the right and power at any time and from time to time and in one or more series or issues, to authorize, issue and deliver Additional Parity Bonds, in accordance with law, in any amounts, for purposes of financing of projects under the provision of the Act, or for the purposes of refunding of any Parity Bonds (including the Bonds) of the Corporation incurred in connection with the financing of projects under the provisions of the Act. Such Additional Parity Bonds, if and when authorized, issued and delivered in accordance with the Resolutions, shall be secured by and made payable equally and ratable on a parity with all then outstanding Parity Bonds, from a first lien on and pledge of the Pledged Revenues. No Additional Parity Bonds may be issued unless for the preceding fiscal year or for a consecutive 12-month period out of the 15-month period immediately preceding the month in which the resolution authorizing such Additional Parity Bonds is adopted, the Pledged Revenues were not less than 115% of the Maximum Annual Debt Service of all outstanding Parity Bonds and proposed Additional Parity Bonds. (See "SELECTED PROVISIONS OF THE RESOLUTION AND TRUST AGREEMENT").

OPTIONAL REDEMPTION . . . The Corporation reserves the right, at its option, to redeem Bonds having stated maturities in and after September 15, [], in whole or in part in principal amounts \$5,000 or any integral multiple thereof, on September 15, [], or any date thereafter at the par value thereof plus accrued interest to the date of redemption.

MANDATORY REDEMPTION . . . The Bonds may also be subject to mandatory sinking fund redemption in the event the Underwriter elects to aggregate two or more serial maturities as a term bond. In such event, the mandatory sinking fund redemption provisions will be set forth in the Resolution and the final Official Statement.

SELECTION OF BONDS FOR PARTIAL REDEMPTION . . . When the Paying Agent/Registrar is required or authorized to redeem the Bonds of a certain series at the option of the Corporation, the Corporation will determine the maturity or maturities and the amounts thereof to be redeemed. If less than all of the Bonds within a single maturity are to be redeemed, the particular Bonds to be redeemed will be selected on a pro-rata basis or by lot, as applicable, or other random method by the Paying Agent/Registrar in such a manner as the Paying Agent/Registrar may determine. If the Bonds are no longer registered to DTC or its nominee, any redemption of less than all of a maturity of Bonds shall be effected by the Paying Agent/Registrar among owners on a pro-rata basis or by lot, as applicable, subject to minimum authorized denominations. The particular Bonds or portions thereof to be redeemed shall be determined by the Paying Agent/Registrar, using such method as it shall deem fair and appropriate. If the Bonds are registered in book-entry only form and so long as DTC, or a successor securities depository, is the sole registered owner of such Bonds and if less than all of the Bonds of a maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata basis or by lot, as applicable, in accordance with DTC procedures. However, so long as the Bonds are registered in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect. It is the Corporation's intent that redemption allocations made by DTC, the DTC Participants (defined herein) or such other intermediaries that may exist between the Corporation and the Beneficial Owners (defined herein), be made on a pro rata basis. However, the Corporation can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on either of such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata basis as discussed above, then the Bonds will be selected for redemption in accordance with DTC procedures by lot. The Corporation can provide no assurance that DTC, its participants or any other intermediaries, will allocate redemptions of the Bonds of a particular maturity among the Beneficial Owners on such a proportional basis, as applicable.

A portion of a single Bond of a denomination greater than \$5,000 may be redeemed, but only in a principal amount equal to \$5,000 or any integral multiple thereof. If such a Bond is to be partially redeemed, the Paying Agent/Registrar will treat each \$5,000 portion of the Bond as though it were a single Bond for purposes of selection for redemption.

NOTICE OF REDEMPTION . . . Notice of any redemption shall be given by the Trustee upon direction of the Corporation at least 30 days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of the Bonds at the address shown on the Register. Such notice shall state, at a minimum, the complete official name of the Bonds, redemption date, redemption price, date of the Bonds, interest rate, and the place at which the Bonds are to be surrendered for payment.

With respect to any optional redemption of the Bonds, unless the Paying Agent/Registrar has received funds sufficient to pay the principal and premium, if any, and interest on the Bonds to be redeemed before giving of a notice of redemption, the notice of redemption may state the Corporation may condition redemption on the receipt by the Paying Agent/Registrar of such funds on or before the date fixed for the redemption, or on the satisfaction of any other prerequisites set forth in the notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient funds are not received, the notice shall be of no force and effect, the Corporation shall not redeem the Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, that the Bonds have not been redeemed.

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

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

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

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

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

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

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

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

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

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

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

The Corporation may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered (see "THE BONDS-Transfer, Exchange and Registration" herein).

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

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

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued, printed Bonds will be issued to the Participants or the Beneficial Owners, as the case may be, and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Resolution and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is BOKF, NA, Houston, Texas. In the Resolution, the Corporation retains the right to replace the Paying Agent/Registrar. The Bonds (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Parity Bonds to be payable only to the "Registered Owner" thereof; (ii) may be redeemed prior to their scheduled maturities; (iii) may be transferred and assigned; (iv) may be converted and exchanged for other Bonds; (v) shall have the characteristics; (vi) shall be signed, executed, and authenticated; (vii) shall be payable as to the principal and interest; and (viii) shall be administered and the Trustee and the Issuer shall have certain duties and responsibilities with respect to the Bonds, all as provided, and in the manner and to the effect as required or indicated, in the FORM OF BONDS set forth in this Resolution. The Bond initially issued and delivered pursuant to this Resolution (on which is printed, or to which such Bond is attached the Registration Certificate of the Comptroller of Public Accounts) is not required to be, and shall not be, authenticated by the Trustee, but on each substitute Bond issued in conversion of and exchange for any Bonds issued under this Resolution the Trustee, acting as the Paying Agent/Registrar, shall execute the AUTHENTICATION CERTIFICATE, in the form set forth in the FORM OF BONDS.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States mail, first class, postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or upon prior redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "THE BONDS - Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the Corporation where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . Each Bond shall be transferable within 72 hours after request, but only upon the presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Owner or his authorized representative in the form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor, to the extent possible and under reasonable circumstances within three business day after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations, of the same maturity, in the appropriate principal amount, and bearing interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the appropriate corporate trust office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination, in an aggregate principal amount or maturing amounts, as appropriate, equal to the unpaid principal amount or maturing amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar shall be and is hereby authorized to authenticate and deliver exchange Bonds in accordance with this Resolution and each Bond so delivered shall be entitled to the benefits and security of this Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The Corporation or the Paying Agent/Registrar may require the Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the Corporation. See "THE BONDS - Book-Entry-Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

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

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

REGISTERED OWNERS' REMEDIES . . . The Resolution establishes specific events of default with respect to the Bonds. If the Corporation defaults in the payment of the principal of or interest on the Bonds when due or defaults in the observance or performance of any of the covenants, conditions, or obligations of the Corporation, the Resolution provides that the Trustee is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the Corporation 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 Bonds or the Resolution and the Corporation's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles and rests with the discretion of the court but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Resolution does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the Corporation to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the Corporation's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the Corporation for breach of the obligations or covenants in the Resolution. Even if a judgment against the Corporation could be obtained, it could not be enforced by direct levy and execution against the Corporation's property. Further, the registered owners cannot themselves foreclose on property within the Corporation or sell property within the Corporation to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the Corporation 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, such as the Pledged Revenues, such provision is subject to particular circumstances and Bankruptcy Court interpretation. Chapter 9 includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the Corporation avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

DEFEASANCE . . . Any Bonds, and the interest thereon, shall be deemed to be paid, retired, and no longer Outstanding within the meaning of the Resolution (such bonds referred to as "Defeased Bonds") when payment of the principal of such Bonds, plus interest thereon to the due date (whether such due date be by reason of maturity, redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to a Paying Agent/Registrar for such payment (the "Deposit") (A) lawful money of the United States of America sufficient to make such payment or (B) Government Obligations, which may be in book-entry form, that mature and bear interest payable at times and in amounts sufficient to provide for the scheduled payment or redemption of any Defeased Bonds. To cause a Bond scheduled to be paid or redeemed on a date later than the next scheduled interest payment date on such Bond to become a Defeased Bonds, the Corporation must, with respect to the Deposit, enter into an escrow or similar agreement with a depository. Notwithstanding anything herein to the contrary, any Bond may be deemed no longer Outstanding under any means authorized now or hereafter under law.

In connection with any defeasance of the Bonds, the Corporation shall cause to be delivered either: (i) a report of an independent firm of nationally recognized certified public accountants verifying the sufficiency of the escrow established to pay the Defeased Bonds in full on the maturity or redemption date thereof ("Verification"); or (ii) a certificate from the President of the Board or the Corporation's financial advisor certifying that the amount deposited with a Depository is sufficient to pay the Defeased Bonds in full on the maturity or redemption date thereof. In addition to the required Verification or certificate, the Corporation shall also cause to be delivered an opinion of nationally recognized bond counsel to the effect that the Defeased Bonds are no longer outstanding pursuant to the terms hereof and a certificate of discharge of the Paying Agent/Registrar with respect to the Defeased Bonds. The Verification, if any, and each certificate and opinion required hereunder shall be acceptable in form and substance, and addressed, if applicable, to the Paying Agent/Registrar and the Corporation. The Bonds shall remain outstanding hereunder unless and until they are in fact paid and retired or the above criteria are met.

At such time as a Bond shall be deemed to be a Defeased Bond hereunder, and all herein required criteria have been met, such Bond and the interest thereon shall no longer be outstanding or unpaid and shall no longer be entitled to the benefits of the pledge of the security interest granted under the Resolution, and such principal and interest shall be payable solely from the Deposit of money or Government Obligations.

Government Obligations means (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board

of Directors of the Corporation adopts or approves the proceedings authorizing the issuance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) noncallable obligations of a state or an agency or a corporation, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board of Directors of the Corporation adopts or approves the proceedings authorizing the issuance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent

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

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

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DEBT INFORMATION

TABLE 1 – PRO-FORMA DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Bonds			The Bonds ⁽¹⁾			Total Sales Tax Revenue Debt ⁽¹⁾	% of Principal Retired ⁽¹⁾
	Principal	Interest	Total	Principal	Interest	Total		
	2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2025	-	-	-	25,000	195,707	220,707	220,707	
2026	-	-	-	20,000	199,750	219,750	219,750	
2027	-	-	-	25,000	198,050	223,050	223,050	
2028	-	-	-	25,000	195,925	220,925	220,925	4.00%
2029	-	-	-	25,000	193,800	218,800	218,800	
2030	-	-	-	30,000	191,675	221,675	221,675	
2031	-	-	-	30,000	189,125	219,125	219,125	
2032	-	-	-	35,000	186,575	221,575	221,575	
2033	-	-	-	35,000	183,600	218,600	218,600	10.53%
2034	-	-	-	40,000	180,625	220,625	220,625	
2035	-	-	-	45,000	177,225	222,225	222,225	
2036	-	-	-	45,000	173,400	218,400	218,400	
2037	-	-	-	50,000	169,575	219,575	219,575	
2038	-	-	-	55,000	165,325	220,325	220,325	20.42%
2039	-	-	-	60,000	160,650	220,650	220,650	
2040	-	-	-	65,000	155,550	220,550	220,550	
2041	-	-	-	70,000	150,025	220,025	220,025	
2042	-	-	-	75,000	144,075	219,075	219,075	
2043	-	-	-	85,000	137,700	222,700	222,700	35.37%
2044	-	-	-	90,000	130,475	220,475	220,475	
2045	-	-	-	100,000	122,825	222,825	222,825	
2046	-	-	-	105,000	114,325	219,325	219,325	
2047	-	-	-	115,000	105,400	220,400	220,400	
2048	-	-	-	125,000	95,625	220,625	220,625	57.89%
2049	-	-	-	135,000	85,000	220,000	220,000	
2050	-	-	-	145,000	73,525	218,525	218,525	
2051	-	-	-	160,000	61,200	221,200	221,200	
2052	-	-	-	170,000	47,600	217,600	217,600	
2053	-	-	-	185,000	33,150	218,150	218,150	91.37%
2054	-	-	-	205,000	17,425	222,425	222,425	100.00%
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,375,000</u>	<u>\$4,234,907</u>	<u>\$6,609,907</u>	<u>\$6,609,907</u>	

(1) Preliminary; subject to change. Interest on the Bonds is calculated at an assumed rate solely for illustrative purposes.

ANTICIPATED ISSUANCE OF ADDITIONAL DEBT . . . The Corporation does not anticipate the issuance of Additional Parity Bonds within the next twelve months.

The Bonds are being issued concurrently with the \$2,455,000* the 4A Bonds issued, in part, to finance the acquisition of land to promote new or expanded business enterprises. The sales tax revenues securing the 4A Bonds are not security for the Bonds. The Bonds and the 4A Bonds are separate and distinct securities offerings being issued and sold independently; additionally, each issue is separate from the other and should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for payment, the rights of the holders, and other features.

* Preliminary, subject to change.

TABLE 2 - HISTORICAL CITY RECEIPTS OF 1/4% SALES TAX ⁽¹⁾

Month of Receipt	Year Ending 9/30/2024	Year Ending 9/30/2023	Year Ending 9/30/2022	Year Ending 9/30/2021	Year Ending 9/30/2020	Year Ending 9/30/2019
October	\$ 18,712	\$ 17,746	\$ 18,811	\$ 14,997	\$ 12,886	\$ 11,185
November	19,731	20,252	17,905	15,655	12,548	11,130
December	18,969	18,889	17,460	15,565	12,709	11,281
January	21,062	20,380	19,604	16,738	13,985	13,033
February	39,657	27,334	23,456	20,104	17,355	15,318
March	20,268	19,995	18,292	16,640	13,170	10,764
April	23,478	18,041	17,367	14,987	13,279	11,265
May	24,387	19,159	20,920	22,503	16,015	12,459
June	21,578	18,781	18,242	20,464	15,189	12,175
July	22,838	20,340	21,860	18,508	16,531	12,171
August	20,325	18,999	17,007	18,317	16,955	11,704
September	22,244	19,911	17,775	18,629	14,347	11,611
Totals	<u>\$ 273,249</u>	<u>\$ 239,826</u>	<u>\$ 228,698</u>	<u>\$ 213,107</u>	<u>\$ 174,968</u>	<u>\$ 144,094</u>

(1) As reported by the Texas Comptroller of Public Accounts.

TABLE 3 - PROJECTED COVERAGE BASED UPON 1/4% SALES TAX

Sales Tax Collection for the Fiscal Year End 9/30/2023 ⁽¹⁾	\$ 239,826
Maximum Annual Debt Service, 2027 ⁽²⁾	\$ 223,050
Coverage of Maximum Requirements by last fiscal year revenue	1.08 x
Average Annual Debt Service (2025 - 2054) ⁽²⁾	\$ 228,090
Coverage of Average Requirements by last fiscal year revenue	1.05 x
Sales Tax Collection for the Last Twelve Months (Unaudited)	\$ 273,249
Maximum Annual Debt Service, 2027 ⁽²⁾	\$ 223,050
Coverage of Maximum Requirements by the Last Twelve Months	1.23 x
Average Annual Debt Service (2025 - 2054) ⁽²⁾	\$ 228,090
Coverage of Average Requirements by the Last Twelve Months	1.20 x

(1) As reported by the Texas Comptroller of Public Accounts.

(2) Includes the Bonds. Preliminary; subject to change.

THE CORPORATION

GENERAL . . . The Corporation is a non-profit corporation created by the City for the purposes of organizing and leading the economic development effort for the City. It operates under the provisions of the Act.

Voters in the City approved the Sales Tax on all taxable transactions with the City on May 9, 2009 (the "Sales Tax Election"). Over the past five fiscal years (FY 2019-FY 2023), the Corporation's Sales Tax revenues have averaged \$200,139 (see "TABLE 2 – Historical Corporation Receipts of 1/4% Sales Tax"). Sales Tax revenues, however, may vary significantly from year to year.

The affairs of the Corporation are managed by a six member Board of Directors appointed by vote of the City Council of the City. The Articles of Incorporation provide that two members of the Board must be members of the City Council and the other three members must be persons who are not City employees or members of the City Council.

The fiscal year of the Corporation runs concurrently with the City beginning on the first day of October and ending on the last day of September each year. At least thirty days prior to the commencement of each fiscal year of the Corporation, the Board must adopt a proposed budget of expected revenues and expenditures. The budget does not become effective until the same has been approved by the City Council.

All proceeds from the issuance of debt instruments by the Corporation shall be deposited and invested as provided in the resolution, order, indenture or other documents authorizing their issuance. All other monies of the Corporation must be deposited, secured and/or invested in the manner provided for the deposit, security and/or investment of the public funds of the City. The Corporation's financial statements must be audited at least once each fiscal year by an outside certified public accounting firm selected and approved by the City Council.

Any bonds issued by the Corporation may be issued (1) upon approval of the City Council and (2) in accordance with the applicable provisions of the Act.

MISSION . . . The mission of the Corporation is to pursue all avenues of growth for new and existing businesses, and to maximize employment opportunities, tax base, and quality of life in the City. The Corporation seeks to achieve these goals by leveraging the Sales Tax to promote and enhance business activity in the City.

THE SALES TAX

SOURCE AND AUTHORIZATION . . . The Sales Tax is a 1/4 of 1% limited sales and use tax imposed on all taxable transactions within the City as approved at the Sales Tax Election.

APPLICATION AND COLLECTION OF THE SALES TAX . . . The Sales Tax is authorized to be levied and collected against the receipts from the sale at retail of taxable items within the City. The Sales Tax also is an excise tax on the use, storage or other consumption of taxable tangible personal property purchased, leased or rented from a retailer within the City. The City currently levies another sales and use tax for City purposes totaling 1% in accordance with State law and, the use of such sales and use tax is restricted by current law. The imposition, computation, administration, governance, abolition and use of the Sales Tax is governed by the Texas Limited Sales, Excise, and Use Tax Act except to the extent that there is conflict with the Act, in which case the provisions of the Act control as to the Bonds. Reference is made to the Texas Municipal Sales and Use Tax Act, for a more complete description of the Sales Tax.

In general, as applied to the Sales Tax, a taxable item includes any tangible personal property and certain taxable services. "Taxable services" include certain amusement services, cable television services, personal services, motor vehicle parking and storage services, the repair, remodeling, maintenance and restoration of most tangible personal property, certain telecommunication services, credit reporting services, debt collection services, insurance services, information services, real property services, data processing services, real property repair and remodeling services, security services, telephone answering services, Internet access service, and a sale by a transmission and distribution utility of transmission or delivery of service directly to an electricity end-use customer whose consumption of electricity is subject to taxation under Chapter 151 of the Texas Tax Code. Certain items are exempted by State law from sales and use taxes, including but not limited to, items purchased for resale, food products (except food products which are sold for immediate consumption, e.g. by restaurants, lunch counters, etc.), health care supplies (including prescription medicines, corrective lens and various therapeutic appliances and devices), agricultural items (if the item is to be used exclusively on a farm or ranch or in the production of agricultural products), gas and electricity purchased for residential use (unless a city has taken steps to repeal the exemption), certain telecommunications services, newspapers and magazines. In addition, items which are taxed under other State laws are generally exempted from sales taxes. These items include certain natural resources, cement, motor vehicles and insurance premiums. Alcohol and tobacco products are taxed under both State alcohol and tobacco taxes as well as through the sales taxes except that the following are exempt from the sales taxes: mixed beverages, ice or nonalcoholic beverages that are subject to State alcohol taxes (there is no local component of the State alcohol taxes and, thus, the City would not receive any revenue with respect to such sales) and alcoholic beverages when sold to the holder of a private club registration permit under certain circumstances. In addition, purchases made by various exempt organizations are not subject to the sales and use taxes. Such organizations include the federal and state governments, political subdivisions, Indian tribes, religious institutions and certain charitable organizations and non-profit corporations. Also, State law provides an exemption from sales taxes on items purchased for the performance of certain bids and written contracts in effect when the legislation authorizing such tax (or the increase in the rate thereof) is enacted, up to a maximum of three years.

In general, a sale of a taxable item is deemed to occur within the municipality, county or special district in which the sale is consummated. The tax levied on the use, storage or consumption of tangible personal property is considered to be consummated at the location where the item is first stored, used or consumed. Thus, the use is considered to be consummated in a municipality, and the tax is levied there if the item is shipped from outside the state to a point within the municipality.

In addition to the local sales and use taxes levied, as described above, the State levies and collects a 6.25% sales and use tax against essentially the same taxable items and transactions as the Sales Tax. Under current State law, the maximum aggregate sales and use tax which may be levied within a given area by an authorized political subdivision within such area, including the State, is 8.25%. The current aggregate sales and use tax levied in the City is 8.25% of which 6.25% is levied by the State, 1% is levied by the City for general purposes, ¼ of 1% is levied by the City for the benefit of the Peñitas Economic Development Corporation and ¼ of 1% is levied as the Sales Tax by the City for the benefit of the Corporation.

The Comptroller administers and enforces all sales tax laws and collects all sales and use taxes levied by the State, and levying counties, municipalities and other special districts having sales tax powers. Certain limited items are taxed for the benefit of the State under nonsales tax statutes, such as certain natural resources and other items described above and are not subject to the sales tax base available to municipalities and counties, including the tax base against which the Sales Tax is levied. Municipalities may by local option determine to tax certain telecommunication services on the same basis as the State taxes such services (some aspects of telecommunication services, such as interstate telephone calls and broadcasts regulated by the FCC are not subject to either State or local taxation). With respect to the taxation of the residential use of gas and electricity, the State is not authorized to collect a sales tax, while municipalities, on a local option basis, may tax such use.

In recent years, several changes in the State sales tax laws have contributed to the growth of local sales tax revenues. These changes have added additional goods and services to the list of taxable items. Other items have been subjected to sales tax on an interim basis or have been taxed pursuant to legislation which includes planned phase-outs of the tax.

With certain exceptions, sales and use taxes in the State are collected at the point of sale and are remitted to the Comptroller by the "taxpayer" who is, generally speaking, the business that collects the tax resulting from a taxable transaction. Taxpayers owing \$500 or more sales and use tax dollars in a calendar month submit their tax collections to the Comptroller on a monthly basis; taxpayers owing less than \$500 sales and use tax dollars in a calendar month but \$1,500 or more in a calendar quarter submit their tax collections quarterly; and taxpayers owing less than \$1,000 per year submit their tax collections annually. Taxpayers are required to report and remit to the Comptroller by the 20th day of the month following the end of the reporting period. The reporting period for yearly filers ends December 31 of each year (making reports for yearly filers due not later than January 20); for quarterly filers, the reporting period ends at the end of each calendar quarter; and monthly filers report and remit by the 20th of each month for the previous month. The Comptroller is required by law to distribute funds to the receiving political subdivisions periodically and as promptly as feasible but not less frequently than twice during each fiscal year of the State. Historically, and at the present time, the Comptroller distributes the funds monthly with the largest payments being made quarterly in February, May, August and November.

The Comptroller has initiated a direct deposit program using electronic funds transfers to expedite the distribution of monthly allocation checks. If a political subdivision desires to participate in the electronic funds transfers, it may make application to the Comptroller. The City participates in this program. Otherwise, the Comptroller mails the monthly allocation check, which is typically received by the middle of the month following the month in which the taxpayer reports and remits payment on the tax. The Comptroller is responsible for enforcing the collection of sales and use taxes in the State. Under State law, the Comptroller utilizes sales tax permits, sales tax bonds and audits to encourage timely payment of sales and use taxes. Each entity selling, renting, leasing or otherwise providing taxable goods or services is required to have a sales tax permit. Permits are required for each individual location of a taxpayer and are valid for only one year, requiring an annual renewal. As a general rule, every person who applies for a sales tax permit for the first time, or who becomes delinquent in paying the sales or use tax, is required to post a bond in an amount sufficient to protect against the failure to pay taxes. The Comptroller's audit procedures include auditing the largest 2% of the sales and use tax taxpayers (who report about 65% of all sales and use tax in the State annually), each every three or four years. Other taxpayers are selected at random or upon some other basis for audits. The Comptroller also engages in taxpayer education programs and mails a report to each taxpayer before the last day of the month, quarter or year that it covers.

Once a taxpayer becomes delinquent in the payment of a sales or use tax, the Comptroller may collect the delinquent tax by using one or more of the following methods; (i) collection by an automated collection center or local field office, (ii) estimating the taxpayers' liability based on the highest amount due in the previous 12 months and billing them for it, (iii) filing liens and requiring a new or increased payment bond, (iv) utilizing forced collection procedures such as seizing assets of the taxpayer (e.g., a checking account) or freezing assets of the taxpayer that are in the custody of third parties, (v) removing a taxpayer's sales and use tax permit, and (vi) certifying the account to the Attorney General's Office to file suit for collection. A municipality may not sue for delinquent taxes unless it joins the Attorney General as a plaintiff or unless it first receives the permission of the Attorney General and the Comptroller.

The Comptroller retains 2% of the tax receipts for collection of the tax; additionally, under State law, a taxpayer may deduct and withhold 1/2% of the amount of taxes due on a timely return as reimbursement for the cost of collecting the sales and use taxes. In addition, a taxpayer who prepays its tax liability on the basis of a reasonable estimate of the tax liability for a month or quarter in which a prepayment is made, may deduct and withhold 1 1/4% of the amount of the prepayment in addition of the 1/2% allowed for the cost of collecting the sales and use tax.

INVESTOR CONSIDERATIONS . . . The primary source of security for the Bonds will be certain receipts of the Sales Tax received by the City for the benefit of the Corporation. The amount of revenues from the Sales Tax is closely related to the amount of economic

activity in the City. Sales and use tax receipts, unlike other taxes levied by municipalities, immediately reflect changes in the economic conditions of a municipality. The City could be subjected to economic events that slow sales tax growth or result in an annual decline in collections. The Corporation cannot predict such events, but they could arise from increased environmental regulations, downturns in financial and credit markets, cyclical housing and commercial development activity, changes in Federal and State tax policies, including the implementation of value-added taxation measures, among other factors.

Increases in internet sales may result in a decrease in Sales Tax revenue to the Corporation. The emergence of internet sales and services and issues related to taxation of such sales and services have been the subject of review and study at the state and national level. In October 1998, the United States Congress enacted the Internet Tax Freedom Act which provided a three year moratorium on certain aspects of taxation of the internet (existing taxes imposed by Texas were exempted from the moratorium). Congress extended the moratorium for additional three year terms in 2001 and 2004. In October, 2007, Congress extended the moratorium for an additional seven years through 2014. The Internet Tax Freedom Act was approved by Congress on February 11, 2016, and made permanent when signed by the President on February 24, 2016.

The federal law prevents state and local governments from imposing their sales tax on the monthly payments that consumers make to their Internet service provider in exchange for access to the Internet. The emergence of internet sales and services and issues related to taxation of such sales and services have been the subject of review and study at the State and national level. Internet sales have likely resulted in a decrease in Sales Tax revenue to the Corporation. However, in June of 2018, the U.S. Supreme Court, in reversal of a principle set out by the Court in 1992 (Quill Corp. v. North Dakota, 504 U.S. 298 (1992)), determined that the Commerce Clause of the U.S. Constitution would not prohibit state and local governmental entities from collecting sales tax on goods sold to buyers for delivery in a state, even though a business that made the sale did not have a physical presence in the state. (See South Dakota v. Wayfair, Inc., 2018 U.S. Lexis 3835 (2018)) (“Wayfair”). During the 86th Texas Legislative Session, certain laws were passed regarding the collection of sales taxes in response to the United States Supreme Court decision in Wayfair. H.B. 1525, effective October 1, 2019, amended Chapters 151, 321 and 323, Texas Tax Code, by amending the definitions of “seller” and “retailer” to include a “Marketplace” provider and to require such Marketplace provider to collect and remit to the Comptroller sales and use taxes on items sold in Texas on electronic mediums, including internet websites and software applications. H.B. 2153, effective October 1, 2019, amended the Texas Tax Code by establishing a single local use tax rate that “remote” (out-of-state) sellers may elect to use. Chapter 151 of the Texas Tax Code, as amended, now authorizes the Comptroller to adopt rules that establishes a single local tax rate for use by remote sellers.

In response to this legislation passed during the 2019 legislative session, the Texas Comptroller adopted rule changes affecting orders made on the internet. The rule changes add Section 3.334(b)(5), Texas Administrative Code, which states “orders not received by sales personnel, including orders received by a shopping website or shopping software application...are received at locations that are not places of business of the seller.” As a result, under the newly adopted regulations, when an order is placed over an internet website, that order is sourced to the purchaser’s address. The Comptroller delayed implementation of this rule until October 1, 2021. However, following a lawsuit from certain cities in the State, the Comptroller’s office agreed to a temporary injunction (Cause No. D-1-GN-21-003198) enjoining the Comptroller from implementing or enforcing the rule change until a final hearing. At a hearing in August of 2022, the court found that the procedural requirements for implementing the change were not followed and charged the Comptroller with either revising or readopting the rule change through established procedures. Accordingly, on September 23, 2022, the Comptroller published a notice of proposed rule amendment to revise §3.334(b)(5) and other portions of the rule. The Comptroller held a hearing in October 2022 regarding said proposed amendments.

On October 16, 2023, the Comptroller published notice a proposed rule amendment to add Section 3.334(c)(7), regarding the location where an order is received, which would provide as follows: "The location where the order is received by or on behalf of the seller means the physical location of a seller or third party such as an established outlet, office location, or automated order receipt system operated by or on behalf of the seller where an order is initially received by or on behalf of the seller and not where the order may be subsequently accepted, completed or fulfilled. An order is received when all of the information from the purchaser necessary to the determination whether the order can be accepted has been received by or on behalf of the seller. The location from which a product is shipped shall not be used in determining the location where the order is received by the seller." Referencing the litigation mentioned in the preceding paragraph, the notice of the proposed amendment stated, “The Comptroller expects this issue to be fully litigated. But in the interim, the Comptroller must still apply the local tax consumption statutes to pending controversies, and taxpayers are entitled to understand the basis for the Comptroller's rulings. Adoption of a definitive standard may also facilitate a more definitive decision from the courts.”

Historically, the Comptroller has remitted sales and use tax allocation checks to municipalities on a monthly basis, but State law currently requires that such allocation be made at least twice annually and such procedures could change in the future. Additionally, the taxable items and services subject to State and local sales and use taxes are subject to legislative action, and have been changed in recent years by the State Legislature. State law provides that the Sales Tax cannot be levied against any taxable item or service unless such item or service is also subject to the State sales and use tax.

In recent years, the State Legislature has enacted laws permitting the State, together with its political subdivisions, to levy sales and use taxes of up to 8.25%, which is among the highest sales tax rates in the nation (although the State has no personal or corporate income tax), and the current total sales and use tax rate within the City’s boundaries is 8.25% (including State and City taxes as well as the Sales Tax). The rate of the sales and use taxes authorized in the State could be further increased by the State Legislature and the Corporation has no way of predicting any such increase or the effect that would have on the Sales Tax the pledge of which secures the Bonds. State leaders have appointed committees to study methods of achieving greater tax equity within the State's tax system. Any changes which may be enacted by the State Legislature could effect the tax base against which the Sales Tax is levied; and the

Corporation, except in certain limited instances described below, has no control over the components of the tax bases. Neither the City nor the Corporation currently has statutory authority to increase or decrease the maximum authorized rate of the Sales Tax.

Sales Tax receipts received by the Corporation are expected to be subject to seasonal variations and to variations caused by the State laws and administrative practices governing the remittance of sales and use tax receipts which authorize different taxpayers to remit the tax receipts at different times throughout the year.

The Sales Tax is collected by the Comptroller and remitted to the City along with other City sales and use tax receipts. The City allocates a portion of the receipts to the Corporation which represents the 1/2 of 1% tax rate of the Sales Tax. Generally, sales and use taxes in the State are collected at the point of a taxable transaction and remitted by the taxpayer to the Comptroller. The Comptroller has the primary responsibility for enforcing sales and use tax laws and collecting delinquent taxes (see "THE SALES TAX – Source and Authorization"). The collection efforts of the Comptroller are subject to applicable federal bankruptcy code provisions with respect to the protection of debtors.

Additionally, it is not uncommon for taxpayers to dispute the imposition of sales and use taxes on particular items or transactions, especially in the oil and gas industry, which might require taxing entities such as the State, the City, and the Corporation to refund significant amounts of previously collected sales and use taxes to the protesting taxpayer.

Changes in the tax base against which a sales and use tax is assessed, as well as changes in the rate of such taxes, make projections of future tax revenue collections very difficult. No independent projections have been made with respect to the revenues available to pay debt service on the Bonds.

Historical information regarding the Sales Tax receipts is included herein. While the Corporation has no reason to expect that receipts of the Sales Tax will ever be insufficient to pay its outstanding Sales Tax secured debt, it makes no representation that, over the term of the Bonds, sales and services within the City will provide sufficient Sales Tax receipts to pay the Parity Bonds, including the Bonds.

THE PEÑITAS CROSSING DEVELOPMENT

Existing commercial retail within the City is primarily concentrated within the Mil Encinos Commercial Park development located along Expressway 83. Retail outlets within and surrounding the Mil Encinos Commercial Park development include a 184,000 square foot Wal-Mart Supercenter, Dollar Tree, Dollar General, Denny's Restaurant, and other smaller businesses and restaurants. The City's first Chick Fil-A and Starbucks locations opened in October 2023 and February 2024, respectively. See "PHOTOGRAPHS OF THE MIL ENCINOS COMMERCIAL PARK WITHIN THE CITY OF PEÑITAS".

In February 2024, the City announced the Peñitas Crossing development, a new 58-acre commercial development by Palmco Inc. with retailers including Ross, Five Below, PetSmart, Burlington, Ulta Beauty, Rack Room Shoes and DD's Discount in negotiations. Two restaurants in the proposed plan include Olive Garden and Longhorn Steakhouse. Phase 1 of the Peñitas Crossing development is anticipated to include retail and restaurant space with both big box retailers and outparcels by Expressway 83. Phase 1 of Peñitas Crossing is anticipated to be completed by February 2026. According to Palmco, Inc., future phases of Peñitas Crossing are currently expected to include multi-family and/or office space north of the retail development. Phase 1 of Peñitas Crossing is being financed by the Peñitas Economic Development Corporation and the Development Corporation of Peñitas Inc. via donation of land, and by Palmco Inc. loan proceeds from a loan commitment provided by Plains Capital Bank contingent upon the donation of the land by the Peñitas Economic Development Corporation and the Development Corporation of Peñitas Inc. The City of Peñitas is currently expected to participate with the financing of certain streets, drainage and sewer improvements.

Palmco Inc. is owned and operated by Mr. Jay Palmer and his son Mr. Greg Palmer. Mr. Jay Palmer is highly regarded for his contributions to the Rio Grande Valley's economic advancement. He has been actively involved in the development of first-class residential, commercial, and industrial projects since 1976. He is a former Texas Jaycee State President and in 1986 was selected as one of the Five Outstanding Young Texans. Mr. Jay Palmer has developed several shopping centers such as Jackson Palmer Crossing in Pharr/McAllen, Texas, Paradise Park Shopping Center in Pharr, Texas, and Trenton Crossing shopping center in McAllen, Texas. Mr. Jay Palmer's commercial office building developments may best be represented by Park Place in McAllen, Texas, near Hwy 83 and 2nd St., a 34-acre medically related, mixed-use project. Park Place features a six-story, 100,000 square foot bank/office building, several freestanding office/medical facilities, including a 30,000 square foot outpatient clinic. Residential development projects include an exclusive neighborhood community surrounding McAllen's first country club (Country Club Terrace), completed in the late 1970s.

SELECTED PROVISIONS OF THE RESOLUTION AND TRUST AGREEMENT

EXCERPTS FROM THE RESOLUTION

Section 3. Characteristics of the Bonds.

(a) Registration, Transfer, Conversion, and Exchange; Authentication. Registration, Transfer, Conversion, and Exchange; Authentication. The Issuer shall keep or cause to be kept at the designated payment office of BOKF, NA, Houston, Texas (the "Trustee" or the "Paying Agent/Registrar") books or records for the registration of the transfer, conversion, and exchange of the Bonds (the "Registration Books"), and the Issuer hereby appoints the Trustee as its registrar and transfer agent to keep such

books or records and make such registrations of transfers, conversions, and exchanges under such reasonable regulations as the Issuer and the Trustee may prescribe; and the Trustee shall make such registrations, transfers, conversions, and exchanges as herein provided. Attached hereto as Exhibit A is a copy of the Trust Agreement (defined below) between the Issuer and the Trustee which is hereby approved in substantially final form, and the President and the Secretary of the Issuer are hereby authorized to execute and deliver the Trust Agreement and approve any changes in the final form thereof.

(b) Payment of Parity Bonds and Interest. The Issuer hereby further appoints the Trustee to act as the paying agent for paying the principal of and interest on the Bonds and any Parity Bonds (the “Paying Agent/Registrar”). The Trustee shall keep proper records of all payments made by the Issuer and the Trustee with respect to the Bonds.

(c) In General. The Bonds (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Parity Bonds to be payable only to the “Registered Owner” thereof; (ii) may be redeemed prior to their scheduled maturities; (iii) may be transferred and assigned; (iv) may be converted and exchanged for other Bonds; (v) shall have the characteristics; (vi) shall be signed, executed, and authenticated; (vii) shall be payable as to the principal and interest; and (viii) shall be administered and the Trustee and the Issuer shall have certain duties and responsibilities with respect to the Bonds, all as provided, and in the manner and to the effect as required or indicated, in the FORM OF BONDS set forth in this Resolution. The Bond initially issued and delivered pursuant to this Resolution (on which is printed, or to which such Bond is attached the Registration Certificate of the Comptroller of Public Accounts) is not required to be, and shall not be, authenticated by the Trustee, but on each substitute Bond issued in conversion of and exchange for any Bonds issued under this Resolution the Trustee, acting as the Paying Agent/Registrar, shall execute the AUTHENTICATION CERTIFICATE, in the form set forth in the FORM OF BONDS.

(d) Selection of Parity Bonds to be Redeemed. When the Paying Agent/Registrar is required or authorized to redeem the Bonds of a certain series at the option of the Issuer, the Issuer will determine the maturity or maturities and the amounts thereof to be redeemed. If less than all of the Bonds within a single maturity are to be redeemed, the particular Bonds to be redeemed will be selected on a pro-rata basis or by lot, as applicable, or other random method by the Paying Agent/Registrar in such a manner as the Paying Agent/Registrar may determine. If the Bonds are no longer registered to DTC or its nominee, any redemption of less than all of a maturity of Bonds shall be effected by the Paying Agent/Registrar among owners on a pro-rata basis or by lot, as applicable, subject to minimum authorized denominations. The particular Bonds or portions thereof to be redeemed shall be determined by the Paying Agent/Registrar, using such method as it shall deem fair and appropriate. If the Bonds are registered in book-entry only form and so long as DTC, or a successor securities depository, is the sole registered owner of such Bonds and if less than all of the Bonds of a maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata basis or by lot, as applicable, in accordance with DTC procedures. However, so long as the Bonds are registered in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect. It is the Corporation’s intent that redemption allocations made by DTC, the DTC Participants (defined herein) or such other intermediaries that may exist between the Issuer and the Beneficial Owners (defined herein), be made on a pro rata basis. However, the Issuer can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on either of such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata basis as discussed above, then the Bonds will be selected for redemption in accordance with DTC procedures by lot. The Issuer can provide no assurance that DTC, its participants or any other intermediaries, will allocate redemptions of the Bonds of a particular maturity among the Beneficial Owners on such a proportional basis, as applicable.

A portion of a single Bond of a denomination greater than \$5,000 may be redeemed, but only in a principal amount equal to \$5,000 or any integral multiple thereof. If such a Bond is to be partially redeemed, the Paying Agent/Registrar will treat each \$5,000 portion of the Bond as though it were a single Bond for purposes of selection for redemption.

(e) Successor Trustee. The Issuer covenants with the Registered Owner that at all times while the Bonds are outstanding the Issuer shall provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Trustee for the Bonds under this Resolution, and that the Trustee will be one entity. In the event that the entity at any time acting as Trustee (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Issuer covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Trustee under this Resolution. Any successor Trustee shall be appointed in accordance with provisions of the Trust Agreement. The Corporation may not replace the Trustee without the approval of a majority of the Owners of the Bonds.

Section 5. Definitions. The terms defined in this Section for all purposes of this Resolution, except where the context by clear implication shall otherwise require, shall have the respective meanings provided below. Capitalized terms not defined in this Section shall have the meanings assigned thereto in the Trust Agreement.

“Act” means the Development Corporation Act of 1979, as amended, Article 5190.6, Texas Revised Civil Statutes (now recodified as Chapters 501 through 507, Texas Local Government Code).

“Additional Parity Bonds” means the additional debt or other obligations permitted to be issued or incurred by the Corporation.

“Average Annual Debt Service” means that amount which, at the time of computation, is derived by dividing the total amount of Debt Service to be paid over a period of years as the same is scheduled to become due and payable by the number of

years taken into account in determining the total Debt Service. For the purposes of this definition, a fractional period of a year shall be treated as an entire year. Capitalized interest payments provided from bond proceeds, accrued interest on any Additional Parity Bonds, and interest earnings thereon shall be excluded in making such computation.

“Bonds” means the “Development Corporation of Peñitas Inc., Sales Tax Revenue Bonds, Taxable Series 2024” authorized to be issued and delivered by this Resolution.

“Business Day” means any day other than a Saturday, Sunday, or legal holiday, or a day on which banking institutions in either the State of New York or the State of Texas are authorized by law or executive order to close.

“Code” means the Internal Revenue Code of 1986, as amended.

“Combined Sales and Use Tax Revenue” means the 4A Sales Tax and the Sales Tax.

“Comptroller” means the Texas State Comptroller of Public Accounts.

“Costs of Issuance” means the costs paid or incurred by or on behalf of the Issuer for the purpose of issuing the Bonds, including without limitation, the underwriter’s compensation (whether paid as a fee or as a discount), legal fees, financial advisory fees, rating agency fees, trustee fees, paying agent fees, accountant fees, printing costs, publication and other costs associated with providing notices, costs of engineering and feasibility studies needed to market and issue the Bonds.

“Credit Facility” shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that at the time of acquisition of a Credit Facility a Rating Agency would rate the Parity Bonds fully insured or guaranteed by the issuer of the Credit Facility based on the rating of the issuer of the Credit Facility in one of its four highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency would rate the Parity Bonds in one of its four highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Bonds and the interest thereon.

“Credit Facility Payment” means any payment the Issuer is obligated to make from amounts deposited in the Debt Service Reserve Fund with respect to a Credit Facility.

“Debt Service” means, as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the Issuer as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate of interest, that such obligations bear, or would have borne, interest at the maximum legal per annum rate applicable to such obligations, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

“Debt Service Coverage Ratio” means the ratio of (i) Pledged Revenues for the preceding fiscal year or any 12 consecutive months out of the 15 months immediately preceding the date of determination to (ii) the scheduled maximum annual principal and interest requirements on any Parity Bonds and proposed Additional Parity Bonds. Before Additional Parity Bonds may be issued, the Debt Service Coverage Ratio must be 1.15 on gross Pledged Revenues taking into account the scheduled maximum annual principal and interest requirements on any Outstanding Parity Bonds and the proposed maximum annual principal and interest requirements for the proposed Additional Parity Bonds to be issued.

“Debt Service Reserve Requirement” means an amount equal to the lesser of (i) the maximum annual Debt Service (calculated on a fiscal year basis) for all Parity Bonds then outstanding (after giving effect to the issuance of the Additional Parity Bonds), as determined on the date each series of Additional Parity Bonds are delivered or incurred, as the case may be, or (ii) if the interest on the Parity Bonds is exempt from taxation, the maximum amount that can be invested without restriction as to yield in a reasonably required reserve pursuant to federal law.

“DTC” means The Depository Trust Company, New York, New York.

“DTC Participant” means securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

“Event of Default” means, unless waived in writing by the Registered Owner, as defined in the Form of Bonds, the occurrence of any Event of Default under the Trust Agreement.

“Financial Advisor” means Hilltop Securities Inc., or any investment banking firm appointed by the Corporation.

“Fiscal Year” shall mean the fiscal year of the Issuer, being the twelve month period ending September 30 of each year.

“Government Obligations” means (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors of the Corporation adopts or approves the proceedings authorizing the issuance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; or (iii) noncallable obligations of a state or an agency or a corporation, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board of Directors of the Corporation adopts or approves the proceedings authorizing the issuance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent.

“Interest Payment Date” means initially September 15, 2025, and each March 15 and September 15 thereafter.

“Maximum Annual Debt Service” means the maximum annual principal and interest requirements of the Outstanding Parity Bonds and any Additional Parity Bonds.

“Outstanding” means, as of any particular date, any Bonds or Parity Bonds theretofore and thereupon delivered except: (a) any such Bonds or Parity Bonds cancelled by or on behalf of the Corporation at or before said date, (b) any such Bond or Parity Bond defeased or no longer considered Outstanding pursuant to the provisions of this Resolution, or otherwise defeased as permitted by applicable law, and (c) any such Bond or Parity Bond in lieu of or in substitution for which another Bond or Parity Bond shall have been delivered pursuant to the resolution authorizing the issuance of such Bond or Parity Bond. Provided, however, that in determining whether the Owners of the requisite principal amount of Bonds or Parity Bonds which are Outstanding have given any request, demand, authorization, direction, notice, consent, or waiver as called for by this Resolution, Bonds or Parity Bonds owned by the Issuer shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Paying Agent/Registrar shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Bonds or Parity Bonds which the Paying Agent/Registrar knows to be so owned shall be disregarded.

“Parity Bonds”, shall mean the Bonds, and any Additional Parity Bonds.

“Paying Agent/Registrar” shall mean the financial institution so designated in accordance with the provisions of Section 4 of this Resolution.

“Pledged Revenues” shall mean the Sales Tax revenue plus any interest earnings thereon, less any amounts due or owing to the Comptroller as charges for collection or retention by the Comptroller for refunds and to redeem dishonored checks and drafts, to the extent such charges and retention are authorized or required by law.

“Purchase Contract” means the letter agreement between the Issuer and the Purchaser providing for the sale of the Bonds. Attached as Exhibit “B”.

“Rating Agency” shall mean any nationally recognized municipal securities rating agency.

“4A Sales Tax” means the revenue from the one-fourth of one percent sales and use tax levied by the City within the boundaries of the City as they now or hereafter exist, together with any increases in the aforesaid rate if provided and authorized by the laws of the State of Texas, specifically the Act, and collected for the benefit of the Peñitas Economic Development Corporation, all in accordance with the Act, including particularly Chapter 504 thereof.

“Sales Tax” means the revenue from the one-fourth of one percent sales and use tax levied by the City within the boundaries of the City as they now or hereafter exist, together with any increases in the aforesaid rate if provided and authorized by the laws of the State of Texas, specifically the Act, and collected for the benefit of the Issuer, all in accordance with the Act, including particularly Chapter 505 thereof.

“Trust Agreement” means the Trust Agreement by and among the Corporation and the Trustee dated September 15, 2024, attached as Exhibit A.

“Trustee” means initially BOKF, NA, Houston, Texas or any successor named by the Issuer in accordance with the provisions of Section 3 of this Resolution.

“Underwriter” means FMSbonds, Inc.

Section 6. Pledge. (a) The Parity Bonds, and any interest payable thereon, are and shall be secured by and payable from a first lien on and pledge of the Pledged Revenues; and the Pledged Revenues are further pledged to the establishment and maintenance of the Debt Service Fund and the Debt Service Reserve Fund as hereinafter provided. The Parity Bonds are and will be secured by and payable only from the Pledged Revenues, and are not secured by or payable from a mortgage or deed of trust on any real, personal or mixed properties constituting a project financed or refinanced with proceeds of any Parity Bonds.

For the purposes of further supporting the pledge and lien herein created, the Issuer hereby TRANSFERS, SETS OVER and ASSIGNS to the Trustee all of its right, title and interest in and to the Pledged Revenues and all money deposited with or paid to the Trustee for the account of the Revenue Fund, the Project Fund, the Debt Service Fund, or the Debt Service Reserve under the provisions of the Trust Agreement shall be held by the Trustee, in trust, for the benefit of the Owners of the Parity Bonds. It is provided, however, that the Pledged Revenues shall be received, deposited held, used, and applied strictly in accordance with and subject to the terms and provisions of this Resolution.

In the event it becomes necessary to facilitate the transfer made in subsection (b) of this Section, the Issuer hereby irrevocably appoints the Trustee as its lawful agent and attorney-in-fact, for the purpose of performing those duties which consist of receiving the Pledged Revenues from the City or from the Comptroller pursuant to the Act. The power of attorney herein conferred and the agency herein created is granted for valuable consideration and is irrevocable for so long as all or any part of the Parity Bonds remain outstanding. In addition, it is intended that the power of attorney herein conferred be coupled with an interest, and in furtherance thereof the Issuer and the Trustee confirm their specific, present and co-existing interest in the Pledged Revenues.

To the extent that any Pledged Revenues are, for any reason, not received by the Trustee, from the Comptroller, under the terms of the Transfer Agreement (defined herein), the Issuer shall, by appropriate notice, direction, request or other legal method, use its good-faith efforts to cause the City's Depository Bank to pay all Pledged Revenues, upon receipt from the Comptroller, directly to the Trustee for deposit to the Revenue Fund.

The provisions, covenants, pledge and lien on and against the Pledged Revenues, as herein set forth, are established and shall be for the equal benefit, protection and security of the registered owners of the Parity Bonds without distinction as to priority and rights.

The Bonds, including interest payable thereon, shall constitute limited obligations of the Issuer, payable solely from, and secured by a pledge of and first lien on, the Pledged Revenues, and not from any other revenues, properties or income of the Issuer. Bonds shall not constitute debts or obligations of the State of Texas or of the City, and the registered owners of the Bonds shall never have the right to demand payment out of any funds raised or to be raised by ad valorem taxation or from tax proceeds in excess of those collected from the tax imposed by the Act.

(g) Corporation covenants and agrees that, so long as the Bonds or any Parity Bonds are outstanding, the Corporation will take and pursue all legal means and actions permissible to cause the Sales Tax to be levied and collected continuously throughout the boundaries of the City, as such boundaries may change from time to time, at the rate of 1/4 of 1% percent or, to the extent permitted by law, at a higher rate, and the Corporation will not cause a reduction, abatement or exemption in the Sales Tax.

(h) The Corporation covenants and agrees that, if, subsequent to the issuance of the Bonds, the City is authorized by applicable law to impose and levy the Sales Tax on any items or transactions that are not subject to the Sales Tax on the date the Resolution is adopted, then the Corporation will use its best efforts to cause the City to take such action as may be required by applicable law to subject such items or transactions to the Sales Tax.

Section 7. Sales Tax Revenue Fund. Pursuant to the Transfer Agreement, there has been created and established, and hereby confirmed the "City of Peñitas Sales Tax Revenue Fund" (the "Sales Tax Revenue Fund") and maintained with BOKF, NA, Houston, Texas as the depository of the City (the "Depository"), separate from other City funds and accounts, so long as the Parity Bonds, or interest thereon, are Outstanding and unpaid. Pursuant to the Transfer Agreement, upon receipt of the sales and use tax revenues each month from the Comptroller, the Depository shall forward the Sales Tax to the Revenue Fund and the 4A Sales Tax to the Peñitas Economic Development Corporation. Once the Combined Sales and Use Tax Revenues for any month has been withdrawn and forwarded to the Trustee, the Depository may transfer the remaining sales and use tax revenues for that month to the City's general fund for lawful purposes.

Section 8. 4B Sales Tax Revenue Fund. There has been created and established, and hereby confirmed the "Development Corporation of Peñitas, Inc., Sales Tax Revenue Fund" (the "Revenue Fund") and maintained by the Trustee. There shall be deposited monthly from the Sales Tax Revenue Fund into the Revenue Fund, as and when received from the Comptroller and forwarded by the Depository the Sales Tax revenues.

Section 9. Use of Money in Revenue Fund. The amounts in the Revenue Fund shall be distributed as follows, and in the priority listed below:

(i) any authorized fees or expenses which are due or payable to the Trustee;

(ii) an amount sufficient to make all deposits to the Debt Service Fund (defined below) which relates to the debt service on the Outstanding Parity Bonds or which is necessary to remedy any prior deficiencies relating to previously required deposits to the Debt Service Fund; such amount to be deposited by the Trustee to the Debt Service Fund; and

(iii) an amount, as required herein, sufficient to make the balance in the Debt Service Reserve Fund (defined below) equal to the Debt Service Reserve Fund Requirement for the Outstanding Parity Bonds, such amount to be deposited by the Trustee to the Debt Service Reserve Fund.

Any balance remaining in the Revenue Fund after the amounts for Sections 9(i), (ii) and (iii) above have been paid in full or payment thereof has been provided for, and provided that all other obligations of the Corporation under the Resolution have been fully performed, the Executive Director of the Corporation must submit a written request to the Trustee for disbursement of funds to the Corporation specifying the purpose for the disbursement and all required Board actions as conditions precedent.

Section 10. Custody of Revenue Fund. The Revenue Fund shall be in the custody of the Trustee and shall be for the benefit of the Corporation and the Owners of the Parity Bonds. The Issuer hereby authorizes and directs the Trustee to withdraw sufficient funds from the Revenue Fund to pay the principal of and interest on the Bonds as the same become due and payable and to make said funds so withdrawn available to any Trustee for the purpose of paying said principal of and interest on the Parity Bonds, which authorization and direction the Corporation hereby accepts.

Section 11. Debt Service Fund. There has been created and established, and hereby confirmed the “Development Corporation of Peñitas, Inc., Sales Tax Revenue Bonds Debt Service Fund” (the “Debt Service Fund”) and maintained by the Trustee.

Section 12. Payments into the Debt Service Fund; Disbursements. There shall be deposited in the Debt Service Fund (i) any amounts required to be transferred from the Debt Service Reserve Fund as described below and (ii) all amounts required to be deposited therein from the Revenue Fund. Payment of debt service, when due, shall be made from the amounts credited to the Debt Service Fund. Payments into the Debt Service Fund from the Revenue Fund (commencing with the Bonds and any Additional Parity Bonds on the date of delivery of the Bonds or Additional Parity Bonds) shall be made as follows on a monthly basis: to the extent that Pledged Revenues are sufficient, the Trustee will deposit an amount equal to 1/12th of the next unfunded scheduled interest payment due (for interest payment due on September 15, 2025) and 1/12th of the next unfunded principal payment due and (ii) thereafter, to the extent that Pledged Revenues are sufficient, the Trustee will deposit an amount equal to 1/6th of the next unfunded scheduled interest payment due and 1/12th of the next unfunded principal payment due. In instances where Pledged Revenues are not sufficient to make monthly deposits as outlined, the Trustee shall make these payments in future months as Pledged Revenues become available.

Section 13. Debt Service Reserve Fund. There has been created and established the “Development Corporation of Peñitas, Inc., Sales Tax Revenue Bonds Debt Service Reserve Fund” (the “Debt Service Reserve Fund”) and maintained by the Trustee with the balance required to satisfy the Debt Service Reserve Fund Requirement.

Section 14. Project Fund. There has been created and established the “Development Corporation of Peñitas Series 2024 Project Fund” (hereinafter called the “Project Fund”). The Project Fund shall be held by the Trustee and shall be subject to and charged with a lien in favor of the Owners of the Bonds until said monies on deposit therein are paid out as herein provided. The proceeds from the sale of the Bonds, other than Costs of Issuance, any accrued interest and capitalized interest, if any (which shall be deposited to the credit of the Debt Service Fund), shall be credited to the Project Fund. All interest and profits from investments made with moneys in the Project Fund shall remain on deposit in the Project Fund and as a part thereof unless the President, Vice President or Executive Director of the Issuer directs that all or a portion of such interest earnings are to be deposited to the Debt Service Fund. Funds in the Project Fund shall be delivered to the City by the Trustee upon a written requisition from the President, Vice President, or Executive Director of the Issuer. All funds on deposit in the Project Fund shall be deposited into the Debt Service Fund upon completion of the Project.

Section 15. Payments into the Debt Service Reserve Fund; Disbursements. There shall initially be deposited in the Debt Service Reserve Fund from the proceeds of the Bonds, an amount sufficient to cause the amount on deposit thereon to equal the Debt Service Reserve Fund Requirement. Except as otherwise provided in the Resolution, the Debt Service Reserve Fund at all times shall be maintained at an amount equal to the Debt Service Reserve Fund Requirement.

If there are insufficient funds in the Debt Service Fund to pay the debt service on the Parity Bonds by 12:00 noon (Central Time) two Business Days prior to the day on which payment of the debt service on the Parity Bonds is due, the Trustee shall transfer from the Debt Service Reserve Fund to the Debt Service Fund amounts necessary to make such payments from the Debt Service Fund on the day on which payment of the Debt Service on the Parity Bonds is due.

If the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement because such funds have been applied to pay Debt Service on the Parity Bonds as described above, the Trustee shall transfer funds from the Revenue Fund to the Debt Service Reserve Fund in the amount necessary to satisfy the Debt Service Reserve Fund Requirement. If there are insufficient funds in the Revenue Fund to meet the requirement in a single payment, the Trustee will use future available Pledged Revenue deposited into the Revenue Fund to replenish the Debt Service Reserve Fund or, to the extent the Pledged Revenue previously remitted to the Corporation is available, the Trustee may direct the Corporation to transfer the necessary funds in equal installments over a 60-month period.

Upon redemption or defeasance of the Bonds as a whole, the moneys on deposit in the Debt Service Reserve Fund shall be transferred to the Debt Service Fund to be used for the purpose of such redemption or to an escrow for the purpose of defeasance, as appropriate. Upon final maturity of the Bonds, the balance on deposit in the Debt Service Reserve Fund, attributable to the Bonds, shall be transferred to the Debt Service Fund.

So long as any Parity Bonds are Outstanding, the Corporation shall have no right, title, or interest in or to the funds in the Debt Service Reserve Fund. However, the Corporation shall maintain the right to direct the Trustee to invest the amounts held in the Funds in Permitted Investments and interest earnings above the Debt Service Reserve Fund Requirement may be transferred to the Debt Service Fund as directed by the Corporation.

To satisfy the Debt Service Reserve Fund Requirement, the Corporation may use (i) proceeds resultant from the sale of a new series of Additional Parity Bonds, or money from any other lawfully available sources; or (ii) a Credit Facility in lieu thereof, all as the Corporation deems reasonable and appropriate, to fund the Debt Service Reserve Fund; provided, however, that (A) the amount of any such cash, the coverage of any surety bond in lieu thereof, the amount of such cash and the coverage of such surety bond, and the sum of the semiannual payments when added together shall at least equal the Debt Service Reserve Fund Requirement and (B) any such surety bond provided in lieu of cash shall be issued by an insurance company or association of companies whose insured obligations are rated by a nationally recognized rating agency in its highest rating categories. Because it is the Corporation's intention hereby to provide maximum flexibility with respect to the Debt Service Reserve Fund to be provided for any of the Bonds, as well as any Additional Parity Bonds which may be issued hereafter, the foregoing provisions shall be liberally construed in order to achieve that objective without materially prejudicing the rights and interest of the Owners of any Parity Bonds at the time outstanding.

Section 16. Security for Funds. All funds created by this Resolution shall be secured in the manner and to the fullest extent permitted or required by law for the security of public funds, and such funds shall be used only for the purposes and in the manner permitted or required by this Resolution.

Section 17. Approval of Sales Tax Remittance Agreement; Transfer of Sales Tax Revenues. (a) The Sales Tax Remittance Agreement (the "Transfer Agreement") as presented the date hereof is hereby approved and the President, Vice President, Secretary, and Executive Director of the Issuer are each hereby authorized to execute the Transfer Agreement. Pursuant to the provisions of the Transfer Agreement, the City has agreed to do any and all things necessary to accomplish the transfer of the Sales Tax collected for the benefit of the Issuer to the Revenue Fund on a monthly basis. The Transfer Agreement shall govern matters with respect to the collection of sales taxes, including the Sales Tax associated with the Pledged Revenues, from the Comptroller, credits and refunds due and owing to the Comptroller, and other matters with respect to the collection and transfer of the Sales Tax.

(b) The President, Vice President, Secretary, Treasurer and Executive Director of the Issuer are hereby ordered to do any and all things necessary including mandamus, and any action at law or in equity to accomplish the transfer of monies to the Debt Service Fund in ample time to pay the principal of and interest on the Parity Bonds.

Section 18. Defeasance of Bonds. (a) Except to the extent provided in subsection (c) of this Section, any Bonds, and the interest thereon, shall be deemed to be paid, retired, and no longer Outstanding within the meaning of this Resolution (such bonds referred to as "Defeased Bonds") when payment of the principal of such Bonds, plus interest thereon to the due date (whether such due date be by reason of maturity, redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to a Paying Agent/Registrar for such payment (the "Deposit") (A) lawful money of the United States of America sufficient to make such payment or (B) Government Obligations, which may be in book-entry form, that mature and bear interest payable at times and in amounts sufficient to provide for the scheduled payment or redemption of any Defeased Bonds. To cause a Bond scheduled to be paid or redeemed on a date later than the next scheduled interest payment date on such Bond to become a Defeased Bonds, the Corporation must, with respect to the Deposit, enter into an escrow or similar agreement with a depository. Notwithstanding anything herein to the contrary, any Bond may be deemed no longer Outstanding under any means authorized now or hereafter under law.

In connection with any defeasance of the Bonds, the Corporation shall cause to be delivered either: (i) a report of an independent firm of nationally recognized certified public accountants verifying the sufficiency of the escrow established to pay the Defeased Bonds in full on the maturity or redemption date thereof ("Verification"); or (ii) a certificate from the President of the Board or the Corporation's financial advisor certifying that the amount deposited with a Depository is sufficient to pay the Defeased Bonds in full on the maturity or redemption date thereof. In addition to the required Verification or certificate, the Corporation shall also cause to be delivered an opinion of nationally recognized bond counsel to the effect that the Defeased Bonds are no longer outstanding pursuant to the terms hereof and a certificate of discharge of the Paying Agent/Registrar with respect to the Defeased Bonds. The Verification, if any, and each certificate and opinion required hereunder shall be acceptable in form and substance, and addressed, if applicable, to the Paying Agent/Registrar and the Corporation. The Bonds shall remain outstanding hereunder unless and until they are in fact paid and retired or the above criteria are met.

At such time as a Bond shall be deemed to be a Defeased Bond hereunder, and all herein required criteria have been met, such Bond and the interest thereon shall no longer be outstanding or unpaid and shall no longer be entitled to the benefits of the pledge of the security interest granted under this Resolution, and such principal and interest shall be payable solely from the Deposit of money or Government Obligations.

(b) Any money so deposited with a Paying Agent/Registrar may at the written direction of the Corporation also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by a depository which is not required for the payment of the Defeased Bonds and interest thereon, with respect to which such money has been so deposited, shall be used as directed in writing by the Corporation.

(c) Until the Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the Corporation shall make proper arrangements to provide and pay for such services as required by this Resolution.

Section 19. Damaged, Mutilated, Lost, Stolen, or Destroyed Bonds.

(a) Replacement Bonds. In the event any outstanding Bonds are damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered a new Bond of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made by the Registered Owner thereof to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the Registered Owner applying for a replacement Bond shall furnish to the Issuer and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the Registered Owner shall furnish to the Issuer and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the Registered Owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) No Default Occurred. Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the Issuer may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Bonds. Prior to the issuance of any replacement Bond, the Paying Agent/Registrar shall charge the Registered Owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement Bond issued pursuant to the provisions of this Section by virtue of the fact that any Bonds are lost, stolen, or destroyed shall constitute an obligation of the Issuer whether or not the lost, stolen, or destroyed Bonds shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Resolution.

(e) Authority for Issuing Replacement Bonds. In accordance with section 6 of Chapter 1201, Texas Government Code, this Section of this Resolution shall constitute authority for the issuance of any such replacement Bonds without necessity of further action by the Issuer or any other body or person, and the duty of the replacement of such Bonds are hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect, as provided in Section 3 of this Resolution for Bonds issued in conversion and exchange of other Bonds..

Section 20. Custody, Approval, and Registration of Bonds; Bond Counsel Opinion. The President of the Corporation is hereby authorized to have control of the Bonds initially issued and delivered hereunder and all necessary records and proceedings pertaining to the Bonds pending their delivery and their investigation, examination, and approval by the Attorney General of the State of Texas, and their registration by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Bonds said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to such Initial Bond, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Initial Bond. The legal opinion of the Issuer's Bond Counsel, may, at the option of the Issuer, be printed on the Bonds issued and delivered under this Resolution, but none of such opinion, statement, or number shall have any legal effect, and shall be solely for the convenience and information of the Registered Owner of the Bonds.

Section 21. Remedies in Event of Default. In addition to all of the rights and remedies provided by the laws of the State of Texas, the Issuer covenants and agrees that in the event of default in payment of principal or interest on any of the Parity Bonds when due, or, in the event it fails to make the payments required to be made into the Debt Service Fund or defaults in the observance of performance of any other of the contracts, covenants, conditions, or obligations set forth in this Resolution or in the Bonds, the following remedies shall be available:

(f) the Trustee shall be entitled to a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the Issuer and the officials thereof to observe and perform the contracts, covenants, obligations, or conditions prescribed in this Resolution; and

any delay or omission to exercise any right or power accruing upon any default shall not impair any such right or power nor be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 23. Additional Parity Bonds. So long as the Trust Agreement is in effect and no Event of Default as defined thereon is then existing, one or more series of Additional Parity Bonds may be delivered for any lawful purposes, including refunding any Outstanding Parity Bonds. The amount of any Additional Parity Bonds may include the Costs of Issuance, capitalized interest, and such other costs related to financing as permitted by applicable law. Such Additional Parity Bonds shall be payable solely and only from the Sales Tax. The Additional Parity Bonds of each such series shall be authenticated by the Paying

Agent/Registrar and, upon payment to the Paying Agent/Registrar of the proceeds of said sale of Additional Parity Bonds, they shall be delivered by the Paying Agent/Registrar to the purchasers thereof, but only upon there being filed with the Paying Agent/Registrar:

A copy, duly certified by the Secretary of the Issuer, of the resolution adopted by the Issuer authorizing (i) the execution and delivery of an agreement supplemental to this Agreement providing for the payment of Sales Tax sufficient to pay the principal of and interest on the Additional Parity Bonds; (ii) any amendment to the Trust Agreement; (iii) the issuance of the Additional Parity Bonds; and (iv) if the purpose of the Additional Parity Bonds is refunding, the payment and redemption of the Bonds to be refunded;

A certificate by an independent certified public accountant or firm of independent public accounts stating that the "Debt Service Coverage Ratio" is equal to at least 115%; provided, however, that this requirement shall not apply to any Additional Parity Bonds proposed to be issued or incurred for refunding or refinancing purposes that will have the result of reducing the principal and interest requirements on all Parity Bonds or if, as a result of any refinancing or refunding, the Parity Bonds are no longer outstanding;

If the purpose of the Additional Parity Bonds is refunding, a certificate of the Issuer stating that (i) notice of redemption of the Outstanding Parity Bonds to be refunded has been duly given or that provision has been made therefor and (ii) the proceeds of the issue plus any other amounts stated to be available for the purpose will be sufficient to pay the principal or redemption price of such Outstanding Parity Bonds at maturity or on the redemption date plus interest accrued to such date or dates together with all other costs and expenses related to the refunding which statement shall be verified by a certified public accountant, the paying agent for the Outstanding Parity Bonds, or the Corporation's Financial Advisor;

Original executed counterparts of an agreement supplemental to the Trust Agreement, and any amendment of the Trust Agreement, and the date or dates of the Additional Parity Bonds, the rate or rates of interest of the Additional Parity Bonds, the time or times of payment of the interest thereon and the principal thereof, and the redemption provisions with respect thereto, all shall be as provided in the supplemental agreement, and any amendment of the Trust Agreement shall otherwise comply with the Trust Agreement;

A written order to the Paying Agent/Registrar by the Issuer to authenticate and deliver the Additional Parity Bonds to the purchasers therein identified, or upon the written order of the Issuer, upon payment to the Paying Agent/Registrar but for the account of the Issuer of the sum specified in such written order; such written order shall direct the Paying Agent/Registrar to deposit such payment in the Revenue Fund or the Project Fund as shall be therein specified; and

(f) Each series of Additional Parity Bonds shall be equally and ratably secured under this Agreement with the Bonds and all other series of Additional Parity Bonds, if any, then outstanding, without preference, priority, or distinction of any Bonds over any other thereof; provided, however, that Additional Parity Bonds may be dated, bear interest at such rate or rates, have such maturity dates, have such redemption dates, have such options, and have such premiums, have such credit enhancement, and be sold at such prices, as shall be determined by the Issuer, with the same payment dates as the Bonds.

EXCERPTS FROM TRUST AGREEMENT

ARTICLE II. AUTHORIZATION AND ISSUANCE OF BONDS

Section 2.01. Authorization for Agreement; Agreement to Constitute Contract. This Agreement is entered into pursuant to the Act. In consideration of the purchase and acceptance of the Bonds by those who shall purchase and hold the same from time to time, the provisions of this Agreement shall be a part of the contract of the Issuer with the Owners of the Bonds, and shall be deemed to be and shall constitute a contract between the Issuer, the Trustee, and the Owners from time to time of the Bonds, and such provisions are covenants and agreements with such Owners which the Issuer hereby determines to be necessary and desirable for the security and payment thereof.

Section 2.02. Authorization and Issuance of Bonds; Prepayment.

(a) The Bonds are issued pursuant to the Resolution, attached hereto as **Exhibit A**. Proceeds from the sale of the Bonds will be used for the purpose of (i) paying authorized costs associated with the Project, (ii) funding a Debt Service Reserve Fund, and (iii) paying Costs of Issuance associated with the issuance of the Bonds.

(b) The Bonds (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Bonds to be payable only to the Registered Owner thereof; (ii) may be redeemed prior to scheduled maturity; (iii) may be transferred and assigned; (iv) may be converted and exchanged for other Bonds; (v) shall have the characteristics described in the Resolution; (vi) shall be signed, sealed, executed, and authenticated; (vii) shall be payable as to the principal and interest; and (viii) shall be administered and the Trustee and the Issuer shall have certain duties and responsibilities with respect to the Bonds, all as provided, and in the manner and to the effect as required or indicated, in the FORM OF BONDS set forth in the Resolution.

Section 2.03. Form of Bonds. The Bonds are issuable only as fully registered bonds in denominations of \$5,000 or integral multiples thereof. The Bonds shall be substantially in the form set forth in the Resolution attached as **Exhibit A**, which form is incorporated by reference herein as if copied in full, with such appropriate variations, omissions, and insertions as are permitted or required by this Agreement and may have endorsed thereon such legends or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or any usage or requirement of law with respect thereto. Fully registered Bonds shall be lettered “R” and shall be numbered from I-1 upward.

Section 2.04. Details; Payment of Bonds. The Issuer agrees and covenants to cause to be kept and maintained at the principal office of the Trustee, as Paying Agent/Registrar, the Registration Books for evidencing the registration, payment, and transfer of the Bonds under such reasonable rules and regulations as the Paying Agent/Registrar may prescribe. Upon any change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause a written notice thereof to be sent to each Owner of the Bonds by United States mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

The principal of and interest on the Bonds due and payable by reason of maturity, redemption, or otherwise, shall be payable only to the Registered Owner of the Bonds appearing on the Registration Books (i) on the “Record Date” (hereinafter defined) for purposes of paying interest thereon and (ii) on the date of surrender of the Bonds for purposes of paying principal at the maturity or the redemption thereof. The Issuer and the Paying Agent, and any agent of either, shall treat the Registered Owner as the Owner of a Bond for purposes of receiving payment and all other purposes whatsoever, and, to the extent permitted by law, neither the Issuer nor the Paying Agent, or any agent of either, shall be affected by notice to the contrary.

Interest on the Bonds shall be paid to the Registered Owner whose name appears in the Registration Books at the close of business on the “Record Date” (the last business day of the month preceding such interest payment date) and shall be paid (i) by check sent on or prior to the appropriate date of payment by United States mail, first class postage prepaid, by the Paying Agent/Registrar to the address of the Registered Owner appearing in the Registration Books or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested in writing by the Registered Owner at the Registered Owner’s risk and expense.

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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the “Special Payment Date” - which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Registered Owner appearing on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice.

Section 2.05. Execution; Special and Limited Obligation. The Bonds shall be executed on behalf of the Issuer with the manual or facsimile signature of the President or any Vice President of the Issuer, and attested with the manual or facsimile signature of the Secretary of the Issuer. All authorized facsimile signatures shall have the same force and effect as manual signatures. In case any officer of the Issuer whose signature or a facsimile of whose signature shall appear on the Bonds shall cease to be such officer before the delivery of such Bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery.

The Bonds are special and limited obligations payable solely and only from the Pledged Revenues. The Bonds and the interest thereon shall never constitute a debt, indebtedness, or a pledge of the faith and credit of the State of Texas, or any political subdivision thereof.

Section 2.06. Conditions Precedent to Delivery of Bonds; Authentication. The Issuer shall execute and deliver to the Trustee, as Paying Agent/Registrar and the Trustee shall authenticate the Bonds as hereinafter in this Section provided.

Prior to and as a condition precedent to the delivery of the Bonds, there shall be filed with and delivered to the Trustee:

- (a) A copy, duly certified by the Secretary of the Issuer, of the Resolution;
- (b) An original executed counterpart of this Agreement, and the Transfer Agreement; and
- (c) The Initial Bond of the Bonds numbered I-1; and
- (d) A written order to the Trustee by the Issuer to authenticate and deliver the Bonds to the Purchaser.

Section 2.07. Redemption Dates and Prices. The Issuer reserves the right to redeem the Bonds in whole or in part on any date, at a price of par value plus accrued interest due on such date as described in the Resolution.

Section 2.08. Notice of Redemption. Unless waived by the Owner, not less than 30 days prior to the redemption date, the Paying Agent/Registrar shall cause notice of the call for any redemption identifying the Bonds or portions thereof to be redeemed to be given in the name of the Issuer and sent by registered or certified mail to the Registered Owners of each Bonds to be redeemed; provided, however, that failure to give such notice by mailing, or any defect therein, shall not affect the validity of

any proceedings for the redemption of such Bonds. Any notice mailed as provided in this Section shall be conclusively presumed to have been duly given, irrespective of whether received.

Section 2.09. Redemption Payments; Effect of Call for Redemption. Prior to the date fixed for redemption of Bonds, Available Money shall be deposited with the Paying Agent/Registrar to pay, and the Paying Agent/Registrar is hereby authorized and directed to apply such funds to the payment of, the Bonds or portions thereof called for redemption, together with accrued interest thereon to the redemption dates and any required premium.

On the date so designated for redemption, notice having been given in the manner and under the conditions hereinabove provided, the Bonds or portions thereof so called for redemption shall become and be due and payable at the redemption price provided for as described in the provisions describing redemption of such Bonds or portions thereof in the Form of Bond; and if sufficient money, or if Government Obligations the principal of and interest on which will provide sufficient money at the times required, for payment of the redemption price and accrued interest to the redemption date are then held by the Paying Agent/Registrar in trust for the Owners of the Bonds or portions thereof to be redeemed, interest on the Bonds or portions thereof so called for redemption shall cease to accrue, such Bonds or portions thereof shall cease to be entitled to any benefit or security under this Agreement, and the Owners of the Bonds or portions thereof shall have no rights in respect thereof except to receive payment of the redemption price thereof and accrued interest to the redemption date and, to the extent provided in Section 3.06 hereof, to receive a Bond for any unredeemed portions of the Bonds.

Section 2.10. Partial Redemption. In case part, but not all, of an Outstanding Bond shall be selected for redemption, the Registered Owner thereof or his attorney or legal representative shall present and surrender such Bond to the Paying Agent/Registrar for payment of the principal amount thereof so called for redemption, and the Issuer shall execute and deliver to or upon the order of such Registered Owner or his attorney or legal representative, without charge therefor, in exchange for the unredeemed portion of the principal amount of the fully registered Bond so surrendered, a registered Bond of the same maturity and bearing interest at the same rate.

ARTICLE III. GENERAL PROVISIONS

Section 3.01. Payment of Principal and Interest. The Issuer covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond at the place, on the dates, and in the manner provided in the Resolution and this Agreement and in the Bonds according to the true intent and meaning thereof, but solely and only from the payments, revenues, and receipts specifically assigned herein for such purposes.

Section 3.02. Performance of Covenants; Issuer. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions required to be performed by it and contained in the Resolution and in this Agreement, in any and every Bond executed and delivered hereunder, and in all of its proceedings pertaining hereto. The Issuer covenants that it is duly authorized under the laws of the State of Texas, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to execute this Agreement, to assign its rights under the Agreement, and to assign the Pledged Revenues pursuant to the Resolution and other amounts under the Agreement hereby assigned in the manner and to the extent herein set forth that all action on its part for the issuance of the Bonds; that the execution and delivery of this Agreement has been duly and effectively taken; and that the Bonds in the hands of the Owners thereof are and will be valid and enforceable special obligations of the Issuer according to the terms thereof and hereof.

Section 3.03. Instruments of Further Assurance. The Issuer covenants that it will do, execute, acknowledge, and deliver or cause to be done, executed, acknowledged, and delivered, such Agreements supplemental hereto and such further acts, instruments, and transfers as the Trustee may reasonably require for the better and more effectual assignment unto the Trustee, all and singular, the Sales Tax, assigned under the Resolution to the payment of the principal of and interest on the Bonds. The Issuer further covenants that it will not create or suffer to be created any lien, encumbrance, or charge upon the Sales Tax.

Section 3.04. Recordation. The Issuer covenants that it will cooperate to the end that this Agreement and any financing statements and all supplements hereto, and other instruments as may be required from time to time to be kept, will be recorded and filed in such manner and in such places as may from time to time be required by law in order fully to preserve and protect the security of the Owners of the Bonds and the rights of the Trustee hereunder.

Section 3.05. Mutilated, Lost, Stolen, or Destroyed Bonds. In the event any Bond is mutilated, lost, stolen, or destroyed, the Issuer may execute and the Paying Agent/Registrar may authenticate and deliver a new Bond as provided for in the Resolution.

Section 3.06. Exchange and Transfer of Bonds; Paying Agent/Registrar; Persons Treated as Owners. (a) Exchange. As provided for in the Resolution, the Bonds may be exchanged for an equal aggregate principal amount of Bonds of the same series and maturity, earning interest at the same rate representing all unpaid interest due or to become due thereon, of any denomination or denominations, and in the same form as the Bonds surrendered for exchange.

(b) Transfer. The Trustee has been appointed Paying Agent/Registrar and shall keep the Registration Books for the registration of transfers of Bonds as provided in the Resolution.

(c) **Delivery, Cancellation, Charges.** In all cases in which Bonds shall be exchanged or transferred hereunder, the Paying Agent/Registrar shall authenticate and deliver Bonds as provided for in the Resolution.

(d) **Ownership.** The person in whose name a Bond shall be registered shall be deemed and regarded as the absolute Owner thereof for all purposes, and payment of or on account of the principal of and interest on any such Bond shall be made only to or upon the order of the Registered Owner thereof or his legal representative. All such payments shall be valid and effective to satisfy and discharge the liability upon such Bond, including the interest thereon, to the extent of the sum or sums so paid. Neither the Issuer, nor any Paying Agent/Registrar shall be affected by any notice to the contrary.

Section 3.07. Destruction of Bonds. Whenever any Bonds shall be delivered to the Paying Agent/Registrar for cancellation thereof pursuant to the Resolution and Agreement, such Bonds shall be promptly cancelled and destroyed by the Paying Agent/Registrar in accordance with applicable regulations.

Section 3.08. Additional Parity Bonds. The Corporation expressly reserves the right to issue Additional Parity Bonds as described in the Resolution.

Section 3.09. Non-presentment of Bonds. In the event any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, if funds or Governmental Obligations sufficient to pay such Bonds shall have been made available to the Paying Agent/Registrar for the benefit of the Owners thereof, all liability of the Issuer to the Owner thereof for the payment of such Bonds, as the case may be, shall forthwith cease, terminate, and be completely discharged, and thereupon it shall be the duty of the Paying Agent/Registrar to hold such funds, without liability for interest thereon, for the benefit of the Owner of such Bonds, as the case may be, who shall thereafter be restricted exclusively to such funds for any claim of whatever nature on his part under this Agreement or on, or with respect to, said Bonds. The Paying Agent/Registrar's obligation to hold such funds shall be subject to the unclaimed property laws of the State of Texas and continue for a period of two years following the date on which any such payment has become due, whether at maturity, or at the date fixed for redemption thereof, or otherwise, at which time the Paying Agent/Registrar, upon receipt of indemnity satisfactory to it, shall surrender any remaining funds or Governmental Obligations so held by the Paying Agent/Registrar to the Issuer, whereupon any claim under this Agreement by the Owners of the Bonds of whatever nature shall be made upon the Issuer.

Section 3.10. Rights Under Agreement. The Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer. Reference is hereby made to the Agreement for a detailed statement of said covenants and obligations.

Section 3.11. Corporate Existence of Issuer. The Issuer covenants that it will not voluntarily take action that would adversely affect its corporate existence and will duly procure any necessary renewals and extensions thereof; will use its best efforts to maintain, preserve, and renew all the rights, powers, privileges, and franchises owned by it; and will comply with all valid acts, rules, regulations, and orders of any legislative, executive, judicial, or administrative body applicable to the Issuer in connection with the Bonds.

Section 3.12. Taxable Status of the Bonds. As provided for in the Resolution, the Issuer hereby covenants that interest on the Bonds will be included in gross income for federal tax purposes. The Issuer has not taken any action, has no present intention of taking any action, and knows of no action taken or intended which would cause interest on the Bonds to be excludable from the gross income of any Owner for federal income tax purposes.

ARTICLE IV. REVENUES AND FUNDS

Section 4.01. Source of Payment of Bonds. In the Resolution, the Board has authorized and approved the pledge of the Sales Tax revenues for the payment of, and as security for, the Bonds. NONE OF THE STATE, THE CITY, NOR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR INTEREST ON THE BONDS. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE BONDS.

Section 4.02. Creation/Maintenance of Funds. The Funds shall be established pursuant to the Resolution. All funds shall be in the custody of the Trustee and shall be for the benefit of the Corporation and the Owners of the Bonds. The Issuer hereby authorizes and directs the Trustee to withdraw funds from the Revenue Fund in accordance with the Resolution.

Section 4.03. Payments into Project Fund; Disbursements. A portion of the proceeds of the Bonds shall be deposited into the Project Fund. The Trustee is authorized and directed to make disbursements and to effect transfer of funds for each disbursement from the Project Fund in accordance with and as required by the Resolution.

Section 4.04. Investment of Funds. Any money held by the Trustee in any of the funds described herein shall be invested or reinvested by the Trustee, at the direction of the Issuer, in the manner provided by Texas law, including particularly the Public Funds Investment Act, Chapter 2256, Texas Government Code; provided, however, that all such deposits and investments shall be made in such manner that the money required to be expended from any fund will be available at the proper time or times.

The Trustee may make any and all such investments through its own investment department. Any obligations acquired by the Trustee as a result of such investment or reinvestment shall be held by or under the control of the Trustee. The interest accruing thereon and any profit realized from such investments shall be credited pro rata to such fund, and any loss resulting from such investment shall be charged pro rata to such fund.

Absent written direction from the Issuer, the Trustee shall invest and reinvest such funds in the Cavanal Hill Government Securities Fund (CUSIP 14956P836).

Section 4.05. Security for Funds. All uninvested money in all Funds established pursuant to this Agreement shall be secured by the Trustee in such manner and to such extent as required by applicable law and shall be secured only by instruments which meet the qualifications as Permitted Investments.

Section 4.06. Money to be Held in Trust. All money required to be deposited with or paid to the Trustee for the account of the Revenue Fund, the Project Fund, the Debt Service Fund, or the Debt Service Reserve Fund (collectively, the "Funds") under any provisions of this Agreement shall be held by the Trustee in trust, and shall, while held by the Trustee, constitute part of the Trust Estate and be subject to the security interest created hereby.

Section 4.07. Repayment to Issuer. Any amounts remaining in the Funds after payment in full of the Bonds; the reasonable and necessary fees, charges, and expenses of the Trustee, any Paying Agents, and the Issuer; and all other amounts required to be paid hereunder shall be paid to the Issuer upon the expiration or upon the sooner termination of the term of the Agreement.

ARTICLE V. DISCHARGE OF AGREEMENT

If the Issuer shall pay or cause to be paid, or there shall be otherwise paid or provisions for payment made to or for the Owners of all Bonds, the principal and interest due or to become due thereon from the sources, at the times, and in the manner stipulated therein, and if the Issuer shall not then be in default in any of the other covenants and promises in the Bonds and in this Agreement expressed as to be kept, performed, and observed by it or on its part, and shall pay or cause to be paid to the Trustee all sums of money due or to become due according to the provisions hereof, then these presents and the estate and rights hereby granted shall cease, terminate, and be void, whereupon the Trustee shall cancel and discharge the lien of this Agreement, and release, assign, and deliver unto the Issuer all the estate, right, title, and interest in and to any and all rights assigned to the Trustee or otherwise subject of the lien of this Agreement, except amounts in the Rebate Fund, and money or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond shall be deemed to be paid within the meaning of this Article and for all purposes of this Agreement when: (1) payment of the principal of and the applicable premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as provided in this Agreement, or otherwise), either (a) shall have been made or caused to be made in accordance with the terms thereof or (b) shall have been provided by irrevocably depositing with the Trustee, in trust, and the Trustee shall have irrevocably set aside exclusively for such payment, (i) money sufficient to make such payment; (ii) Government Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient money without reinvestment to make such payment; or (iii) any combination of (i) and (ii) and (2) all necessary and proper fees, compensation, and expenses of the Trustee and any Paying Agent/Registrar pertaining to the Bonds shall have been paid or the payment thereof provided for to the satisfaction of it. In the event of an advance refunding of the Bonds, the Trustee shall receive the verification report of a nationally recognized independent certified public accountant as to the adequacy of the escrow funds provided therefor. At such time as a Bond shall be deemed to be paid hereafter, as aforesaid, it shall no longer be secured by or entitled of the benefits of this Agreement, except for the purposes of any such payment from such money or Government Obligations.

Notwithstanding the foregoing, no deposit under clause (1)(b) of the immediately preceding paragraph shall be deemed a payment of such Bonds as aforesaid until the earlier of: (1) proper notice of such redemption of such Bonds shall have been previously given in accordance with this Agreement, or in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, until the Issuer shall have given the Trustee on behalf of the Issuer, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of the Bonds, in accordance with the provisions hereof, that the deposit required by (1)(b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this Article and stating such maturity or redemption date upon which money is to be available for the payment of the principal or redemption price, if applicable, on said Bonds or (2) the maturity of such Bonds.

Any money so deposited with the Trustee as provided in this Article may at the direction of the Issuer also be invested and reinvested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Trustee pursuant to this Article which is not required for the payment of the Bonds and interest and premium thereon with respect to which such money shall have been so deposited, shall be deposited in the Revenue Fund as and when realized and collected for use and application as are other money deposited in that fund.

ARTICLE VI. EVENTS OF DEFAULT; REMEDIES

Section 6.01. Events of Default. Each of the following events is hereby defined as and declared to be and to constitute an "Event of Default" under this Agreement.

(a) Default in the due and punctual payment of the principal of or interest on any Outstanding Bond by the Issuer, whether at the stated maturity hereof, or upon proceedings for redemption or as required by sinking fund provisions thereof, or upon the maturity thereof by declaration.

(b) Default in the performance or observance of any other of the covenants, agreements, or conditions on the part of the Issuer in this Agreement, the Resolution, the Transfer Agreement, or in the Bonds contained and continued thereof for the period after notice specified in Section 6.11 hereof.

Section 6.02. Remedies; Rights of Owners of the Bonds. Upon the occurrence of an Event of Default, the Trustee may proceed, but is under no obligation other than as described in this Agreement, to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of and interest on the Outstanding Parity Bonds, including, without limitation, the following:

(a) a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the Issuer and the officials thereof to observe and perform the contracts, covenants, obligations, or conditions prescribed in this Resolution; and

(b) any delay or omission to exercise any right or power accruing upon any default shall not impair any such right or power nor be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

If an Event of Default shall have occurred, and if requested so to do by the Owners of not less than 25% in aggregate principal amount of all Outstanding Parity Bonds and being indemnified as provided in Section 7.02(m) hereof, the Trustee shall be obligated to exercise one or more of the rights and powers conferred by this Agreement, as the Trustee shall deem most expedient in the interests of the Owners of the Bonds.

No remedy by the terms of this Agreement conferred upon or reserved to the Trustee or the Owners of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee, the Issuer, or the Owners of the Bonds hereunder or now or hereafter existing at law, in equity, or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Owners of the Bonds, shall extend to or shall affect any subsequent default or Event of Default or shall impair any right or remedies consequent thereon.

Section 6.03. Right of Owners of the Bonds to Direct Proceedings. Anything in this Agreement to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Outstanding Parity Bonds shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Agreement, or for the appointment of a receiver or any other proceedings hereunder; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of this Agreement.

Section 6.04. Appointment of Receivers. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds under this Agreement, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the revenues, issues, earnings, income, products, and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Section 6.05. Waiver. Upon the occurrence of an Event of Default, to the extent that such rights may then lawfully be waived, neither the Issuer nor the State of Texas nor any political subdivision thereof, nor anyone claiming through or under any of them, shall set up, claim, or seek to take advantage of any appraisal, valuation, stay, extension, or redemption laws now or hereafter in force, in order to prevent or hinder the enforcement of this Agreement, and the Issuer, for itself and all who may claim through or under it, hereby waives, to the extent that it lawfully may do so, the benefit of all such laws.

Section 6.06. Application of Money. All money received by the Trustee pursuant to any right given or action taken under the provisions of this Article shall (after payment of the costs and expenses of the proceedings resulting in the collection of such money and of the expenses, liabilities, and advances incurred or made by the Trustee) be deposited in the Revenue Fund and all money in the Revenue Fund shall be applied as follows:

(a) Unless the principal of all the Outstanding Parity Bonds shall have become or shall have been declared due and payable, all such money shall be applied:

FIRST--To the payment to the persons entitled thereto of all installments of interest then due on the Outstanding Parity Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege except as to the respective rates of interest specified in the Bonds. The Issuer shall deposit or cause the Trustee to deposit money from the Revenue Fund to the Debt Service Fund for the payment of interest due on the Outstanding Parity Bonds on a monthly basis in accordance with the Resolution;

SECOND--To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds matured or called for redemption on the payment of which money is held pursuant to the provisions of this Agreement) in the order of their due dates, with interest on the principal of such Bonds at the rate per annum borne by such Bonds from the respective dates upon which they become due until paid and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege. The Issuer shall deposit or cause the Trustee to deposit money from the Revenue Fund to Debt Service Fund for the payment of unpaid principal of and premium, if any, due on the Outstanding Parity Bonds on a monthly basis in accordance with the Resolution; and

THIRD—to the Debt Service Reserve Fund as necessary to make the balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement for the Outstanding Parity Bonds.

Any balance remaining in the Revenue Fund after the amounts for FIRST through THIRD above have been paid in full or payment thereof has been provided for, shall be disbursed only in accordance with the Resolution.

(b) If the principal of all the Outstanding Parity Bonds shall have become due or shall have been declared due and payable, all such money shall be applied to the payment of the principal and interest then due and unpaid upon the Outstanding Parity Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Outstanding Parity Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article then, subject to the provisions of subsection (b) of this Section in the event that the principal of all the Bonds shall later become due or be declared due and payable, the money shall be applied in accordance with the provisions of subsection (a) of this Section.

Whenever money is to be applied pursuant to the provisions of this Section, such money shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such money available for application and the likelihood of additional money becoming available for such application in the future. Whenever the Trustee shall apply such funds it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue.

Section 6.07. Remedies Vested in Trustee. All rights of action (including the right to file proof of claims) under this Agreement or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or proceedings related thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiff or defendant any Owners of the Bonds.

Section 6.08. Rights and Remedies of Owners of the Bonds. No Owner of any Bond shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of this Agreement or for the execution of any trust hereof or for the appointment of a receiver or any other remedy hereunder, unless:

(a) A default has occurred of which the Trustee has been notified or is deemed to have notice;

(b) Such default shall have become an Event of Default and the owners of not less than 25% in aggregate principal amount of Outstanding Parity Bonds shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit, or proceeding in their own name or names, and they have offered to the Trustee indemnity as provided in Section 7.01(m) hereof;

(c) The Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name within a reasonable time; and such notification, request, and offer of indemnity are hereby declared in every case, at the option of the Trustee, to be conditions precedent to the execution of the powers

and trusts of this Agreement, and to any action or cause of action for the enforcement of this Agreement, or for the appointment of a receiver or for any other remedy hereunder; it being understood and intended that no one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb, or prejudice the lien of this Agreement by its, his, or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal and ratable benefit of the Owners of all Outstanding Parity Bonds. Nothing in this Agreement contained shall, however, affect or impair the rights of any Owner to enforce the payment of the principal of and interest on any Bond at and after the maturity thereof, of the obligation of the Issuer to pay the principal of and interest on each of the Bonds issued hereunder to the respective Owners thereof at the time, place, from the source, and in the manner in the Bonds expressed. Nothing herein contained shall be construed as permitting or affording any Owner a right or cause of action against the Trustee or in respect of the issue of Bonds where a default has been waived under Section 6.10 of this Agreement.

Section 6.09. Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under this Agreement by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Issuer, the Trustee, and the Owners of the Bonds shall be restored to their former position and rights hereunder, and all rights, remedies, and powers of the Trustee shall continue as if no such proceedings had been taken.

Section 6.10. Waivers of Event of Default. The Trustee may waive any default or Event of Default hereunder and its consequences, and shall do so upon the written request of the Owners of at least a majority in principal amount of all Outstanding Parity Bonds; provided, however, the Trustee may not waive an Event of Default described in subparagraph (a) of Section 6.01 hereof without the consent of the Owners of all Outstanding Parity Bonds.

The provisions of the preceding paragraph of this Section, however, are subject to the condition that if, after the principal of all Outstanding Parity Bonds shall have been declared to be due and payable as a result of an Event of Default hereunder, and before any judgment or decree for the appointment of a receiver or for the payment of the money due shall have been obtained or entered, the Issuer shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration (with interest upon such principal and overdue installment of interest), and such amounts as shall be sufficient to cover all expenses of the Trustee in connection with such Event of Default and all defaults under this Agreement, other than nonpayment of principal of Bonds which shall have become due by said declaration, shall have been remedied, then and in every such case, such Event of Default may be waived and such declaration and its consequences rescinded and annulled by the Trustee by written notice to the Issuer, which waiver, rescission, and annulment shall be binding upon the Owners of all Outstanding Parity Bonds; provided, however, that if such declaration was requested by the Owners of not less than 25% in principal amount of the Outstanding Parity Bonds, such waiver, rescission, and annulment must be consented to in writing by the Owners of not less than a majority in principal amount of the Outstanding Parity Bonds, which consent shall be binding upon the Trustee and upon the Owners of all Outstanding Parity Bonds; but no such waiver, rescission, and annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Section 6.11. Notice of Defaults; Opportunity of Issuer to Cure Certain Defaults. Anything herein to the contrary notwithstanding, no default under Section 6.01(b) hereof shall constitute an Event of Default until actual notice of such default by registered or certified mail shall be given to the Issuer by the Trustee or by the Owners of not less than 25% in aggregate principal amount of all Outstanding Parity Bonds and the Issuer shall have had 30 days after receipt of such notice to correct said default or to cause said default to be corrected, and shall not have corrected said default or caused said default to be corrected within the applicable period; provided, however, if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within the applicable period and diligently pursued until the default is corrected and extensions of time have been obtained as described in Section 6.01 of the Agreement.

With regard to any alleged default concerning which notice is given to the Issuer under the provisions of this Section, the Issuer, to the full extent permitted by law, hereby grants the City full authority for the account of the Issuer to perform and observe any covenant or obligation alleged in said notice not to have been performed or observed in the name and stead of the Issuer with full power to do any and all things and acts to the same extent that the Issuer could do and perform any such things and acts and with power of substitution, and the Trustee hereby consents to such grant of authority.

ARTICLE VII. TRUSTEE

Section 7.01. Trustee. The Issuer covenants with the Registered Owners of the Bonds that at all times while the Bonds are outstanding the Issuer shall provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Trustee for the Bonds under the Resolution and this Agreement, and that the Trustee will be one entity. In the event that the entity at any time acting as Trustee (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Issuer covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Trustee under the Resolution. Upon any change in the Trustee, the previous Trustee promptly shall transfer and deliver the Register (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Trustee designated and appointed by the Issuer. Upon any change in the Trustee, the Issuer promptly will cause a written notice thereof to be sent by the new Trustee to each Owner of the Bonds, by United States mail, first class, postage prepaid, which notice also shall give the address of the new Trustee. By accepting the position and

performing as such, each Trustee shall be deemed to have agreed to the provisions of the Resolution and this Agreement, and a certified copy of the Resolution and the Agreement shall be delivered to each Trustee.

Section 7.02. Acceptance of the Trusts. The Trustee hereby accepts the trusts imposed upon it by this Agreement, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Agreement. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers, or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to advice of counsel concerning all matters of trust hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers, and employees as may reasonably be employed in connection with the trust hereof. The Trustee may act upon the opinion or advice of any attorneys approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action exercised in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds (except in respect to any certificate of the Trustee endorsed on the Bonds); the recording or re-recording, filing, or re-filing of this Agreement, or any other instrument required by this Agreement to secure the Bonds; insuring the Project or collecting any insurance money; the validity of the execution by the Issuer of this Agreement or of any supplements thereto or instruments of further assurance; or the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby or otherwise as to the maintenance of the security hereof.

(d) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder. The Trustee may in good faith buy, sell, own, and hold any of the Bonds and may join in any action which any Owners of the Bonds may be entitled to take with like effect as if the Trustee were not a party to the Agreement. The Trustee may also engage in or have an interest in any financial or other transaction with the Issuer, provided that if the Trustee determines that any such relation is in conflict with its duties under this Agreement, it shall eliminate the conflict or resign as Trustee. To the extent permitted by law, the Trustee may also receive tenders and purchase in good faith Bonds from itself, including any department, affiliate, or subsidiary, with like effect as if it were not the Trustee.

(e) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram, or other paper or document believed to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Agreement upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Bond, shall be conclusive and binding upon all future Owners of the same Bond and upon bonds issued in exchange therefor or in place thereof. After appointment of a receiver as permitted by Section 6.04, the Trustee shall be relieved of its duties hereunder.

(f) As to the existence or nonexistence of any fact or as to the sufficiency or validity of any instrument, paper, or proceeding, the Trustee shall be entitled to rely upon a certificate signed by the Issuer Representative as sufficient evidence of the facts therein contained; and prior to the occurrence of a default of which the Trustee has been notified as provided in subsection (h) of this Section, or of which by said subsection it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction, or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the President, Vice President, or Secretary of the Issuer to the effect that a resolution and order in the form therein set forth has been adopted by the Issuer as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Agreement shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article II hereof or the failure of the Issuer to file with the Trustee any document required by this Agreement to be so filed subsequent to the issuance of the Bonds, unless the Trustee shall be specifically notified in writing of such default by the Issuer or by the Owners of at least 25% in aggregate principal amount of the Outstanding Parity Bonds; and all notices or other instruments required by this Agreement to be delivered to the Trustee shall be delivered at the corporate trust office of the Trustee and, in the absence of such notice so delivered, the Trustee may conclusively assume there is no

default except as aforesaid. If money sufficient to pay maturing principal and interest on the Bonds is not timely received by the Trustee, the Trustee covenants to give timely notice of such fact to the Issuer.

(i) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants, and representatives, shall have the right, but shall have no duty to inspect all books, papers, and records of the Issuer pertaining to the Project and the Bonds, and to take such memoranda therefrom and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers.

(k) The Trustee shall not be responsible or liable for any loss suffered in connection with the investment of funds made by it in accordance with this Agreement, nor shall it be responsible for paying interest on any funds held by it hereunder for which it has received no investment instructions.

(l) Notwithstanding anything elsewhere in this Agreement contained, the Trustee shall have the right, but shall not be required, to demand in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Agreement, any showings, certificates, opinions, appraisals, or other information, or corporate action or evidence thereof, in addition to that required by the terms hereof as a condition of such action by the Trustee, as deemed desirable for the purpose of establishing the right of the Issuer to the authentication of any Bonds, the withdrawal of any cash, or the taking of any other action by the Trustee.

(m) Before taking the action referred to in Sections 6.02, 6.03, or 7.04 hereof, the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct by reason of any action so taken.

(n) All money received by the Trustee shall, until used, applied, or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law and the Trustee shall not be under any liability for interest on any money received hereunder except such as may be agreed to by them.

(o) No provision of this Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights and powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonable assured.

Section 7.03. Fees, Charges, and Expenses of Trustee and Paying Agent/Registrar. Pursuant to this Section and the Resolution, the Trustee and any Paying Agent/Registrar shall be entitled to payment and reimbursement from the Issuer for reasonable fees for their services rendered hereunder as Trustee, as Paying Agent/Registrar, and all advances, counsel fees, and other expenses reasonably and necessarily made or incurred by the Trustee, as Paying Agent/Registrar in connection with such services.

Section 7.04. Notice of Default. If a default occurs of which the Trustee is required by Section 7.01(h) hereof to take notice or if notice of default be given as provided in Section 7.01(h), then the Trustee shall promptly give written notice thereof by registered or certified mail to the Issuer and each Owner of the Bonds at such address as appears on the Registration Books; provided, however, that the failure to give or receive such notice shall have no effect upon any occurrence of an Event of Default hereunder and shall not impair the exercise of any remedies hereunder.

Section 7.05. Intervention by the Trustee. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of Owners of the Bonds, the Trustee may intervene on behalf of the Owners of the Bonds and shall do so if requested in writing by the Owners of at least 25% of the aggregate principal amount of the Outstanding Parity Bonds.

Section 7.06. Successor Trustee by Merger or Otherwise. Any corporation or association into which the Trustee may be converted or merged, with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation, or transfer to which it is a party, *ipso facto*, shall be and become the successor Trustee hereunder and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges, responsibilities, obligations, and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed, or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

Section 7.07. Resignation by the Trustee. The Trustee may at any time resign from the trusts hereby created by giving 30 days' written notice to the Issuer and by registered or certified mail to each Owner of the Bonds. Such notice to the Issuer may be served personally or sent by registered mail. Such resignation shall take effect upon the appointment of a successor Trustee by the Issuer. Provided, however, that if no successor Trustee has been named 30 days after such resignation, the resigning Trustee

may petition a court of competent jurisdiction in Hidalgo County, Texas, to appoint a successor Trustee and any successor Trustee appointed by such court shall immediately become the Trustee under this Agreement.

Section 7.08. Removal of the Trustee. The Trustee may be removed at any time by an instrument or substantially concurrent instruments in writing delivered to the Trustee and the Issuer and approved and signed by the Owners of a majority in aggregate principal amount of the Outstanding Parity Bonds. Such removal shall take effect upon the appointment of a successor Trustee by the Issuer and payment in full of all fees and expenses then due to the Trustee.

Section 7.09. Appointment of Successor Trustee by Owners of the Bonds; Temporary Trustee. In case the Trustee hereunder shall resign, be dissolved, be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case the Trustee shall be taken under the control of any public officer or officers or of a receiver appointed by a court, a successor may be appointed by the Owners of a majority in aggregate principal amount of the Outstanding Parity Bonds, by an instrument or concurrent instruments in writing signed by such Owners, or by their attorneys-in-fact, duly authorized; provided, nevertheless, that in case of such vacancy the Issuer, by an instrument executed and signed by its President and attested by its Secretary, may appoint a temporary Trustee to fill such vacancy until a successor Trustee shall be provided; and any such temporary Trustee so appointed by the Issuer shall immediately and without further action be superseded by a Trustee so appointed by such Owners of the Bonds. Every such Trustee appointed pursuant to the provisions of this Section shall be a trust company or bank organized and doing business in the United States in good standing having a reported capital and surplus of not less than \$50,000,000, if there be such an institution willing, qualified, and able to accept the trust upon reasonable or customary terms.

Section 7.10. Successor Trustee. Every successor appointed hereunder shall execute, acknowledge, and deliver to its or his predecessor and to the Issuer an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties, and obligations of its predecessor[s]; but such predecessor shall, nevertheless, on the written request of the Issuer, or of its successor Trustee, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers, and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and money held by it as the Trustee hereunder to its successor Trustee. Should any instrument in writing from the Issuer be required by and successor Trustee for more fully and certainly vesting in such successor the estates, rights, powers, and duties hereby vested or intended to be vested in the predecessor any and all such instruments in writing shall, on request, be executed, acknowledged, and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article, shall be filed and/or recorded by the successor Trustee in each recording office where this Agreement shall have been filed and/or recorded.

Section 7.11. Designation of Additional Paying Agents. The Issuer may cause the necessary arrangements to be made through the Trustee and to be thereafter continued for the designation of additional Paying Agents satisfactory to the Issuer and the Trustee and for providing for the payment of such of the Bonds as shall be presented when due at the principal office of the Trustee, or its successor in trust hereunder, or at the office of said additional Paying Agents. All such funds held by said additional Paying Agents shall be held by each of them in trust and shall be subject to the security interest created hereby and the terms hereof.

Section 7.12. Successor Trustee, Paying Agent, and Registrar. In the event of a change in the office of the Trustee, Paying Agent/Registrar, due to resignation or removal, the duties and responsibilities shall be assumed by the successor Trustee, Paying Agent/Registrar.

Section 7.13. Designation and Succession of Paying Agents. The Trustee and any other banks or trust companies, if any, hereinafter designated as Paying Agent or Paying Agents in any supplemental Agreement or Issuer resolution providing for the issuance of Additional Parity Obligations as provided in Section 3.08 hereof, shall be the Paying Agent or Paying Agents for the applicable series of Bonds.

Any bank or trust company with or into which any Paying Agent may be merged or consolidated, or to which the assets and business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Agreement. If the position of Paying Agent shall become vacant for any reason, the Issuer shall, within 30 days thereafter, appoint such bank or trust company located in the same city as such Paying Agent to fill such vacancy. Notice of the designation of a successor Paying Agent shall be given by registered or certified mail to each Owner of Bonds at its address as it appears on the Register. The Paying Agents shall enjoy the same protective provisions in respect of the performance of their duties hereunder as are specified in Section 7.02 hereof with respect to the Trustee insofar as such provisions may be applicable.

Section 7.14. Co-Trustee. In the event of litigation under this Agreement or the Agreement, in particular in case of the enforcement under an Event of Default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights, or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, the Trustee may appoint an additional individual or institution to serve as a separate or co-Trustee ("Co-Trustee"). In the event that the Trustee appoints a separate or Co-Trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest, and lien expressed or intended by this Agreement to be exercised by or vested in or conveyed to the Trustee shall be exercisable by and vest in such separate or Co-Trustee, but only to the extent necessary to enable such separate or Co-Trustee to exercise such powers, rights, and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or Co-Trustee shall run to and be enforceable by either of them. Should the Issuer be required to furnish to the separate or Co-Trustee any instrument in writing for more fully and certainly vesting in and conforming to it such properties, rights, powers, trusts, duties, and obligations,

the Issuer shall, on request, execute, acknowledge, and deliver such instruments. In case any separate or Co-Trustee, or a successor to either, shall die, become incapable of acting, resign, or be removed, all of the estates, properties, rights, powers, trusts, duties, and obligations of such separate or Co-Trustee, insofar as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new Trustee or successor to such separate or Co-Trustee.

ARTICLE VIII. AMENDMENTS AND SUPPLEMENTAL AGREEMENTS

Section 8.01. Supplemental Agreements Not Requiring Consent. The Issuer and the Trustee may, without the consent of, or notice to, any of the Owners of the Bonds, enter into an Agreement or Agreements supplemental to this Agreement as shall not be inconsistent with the terms and provisions hereof for any one or more of the following purposes:

- (a) To cure any ambiguity or for any defect or omissions in this Agreement;
- (b) To grant to or confer upon the Trustee for the benefit of the Owners of the Bonds any additional rights, remedies, powers, or authorities that may lawfully be granted to or conferred upon the Owners of the Bonds or the Trustees;
- (c) To subject to this Agreement additional revenues, properties, or collateral;
- (d) To modify, amend, or supplement this Agreement, or any Agreement supplemental hereto, in such manner as to permit the qualification hereof and thereof under the Trust Agreement Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States, and, if they so determine, to add to this Agreement or any Agreement supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Agreement Act of 1939 or similar federal statute;
- (e) To issue Additional Parity Bonds in accordance with Section 3.08 hereof;
- (f) To add to the covenants and agreements of the Issuer contained in this Agreement other covenants and agreements thereafter to be observed for the protection of the Owners of the Bonds, or to surrender or limit any right, power, or authority herein reserved to or conferred upon the Issuer;
- (g) To provide for the conversion of any Bond to book-entry form;
- (h) To satisfy any requirement imposed by a rating agency to obtain a rating on any series of Additional Parity Bonds; and
- (i) To maintain the extent to which the interest on the Bonds is not includable in the gross income of the recipients thereof, if in the opinion of Bond Counsel such supplemental Agreement is necessary.

Section 8.02. Supplemental Agreements Requiring Consent. Exclusive of supplemental Agreements covered by Section 8.01 hereof and subject to the terms and provisions contained in this Section, and not otherwise, the Owners of a majority in aggregate principal amount of the Outstanding Parity Bonds shall have the right, from time to time, anything contained in this Agreement to the contrary notwithstanding, to consent to and approve the execution by the Issuer and the Trustee of such other Agreement or Agreements supplemental hereto as shall be deemed necessary and desirable by the Trustee for the purposes of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms of provisions contained in this Agreement or in any supplemental Agreement; provided, however, that nothing contained in this Section or Section 8.01 shall permit, or be construed as permitting, without the consent and approval of the Owners of all the Outstanding Parity Bonds, (a) an extension of the maturity of the principal of or the interest on any Bond issued hereunder, or a reduction in the principal amount of any Bond or the rate of interest or premium thereon, or a reduction in the amount or extension of the time of any payment required by any mandatory sinking fund requirements herein; (b) a privilege or priority of any Bond or Bonds over any other Bond or Bonds; (c) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental Agreement; or (d) the deprivation of the Owner of any Outstanding Bond of the lien created by this Agreement. If at any time the Issuer shall request the Trustee to enter into any such supplemental Agreement for any of the purposes of this Section, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental Agreement to be mailed to each Owner of the Bonds at its address as it appears on the Registration Books. Such notice shall briefly set forth the nature of the proposed supplemental Agreement and shall state that copies thereof are on file at the principal office of the Trustee for inspection by all Owners of the Bonds. If, within 60 days, or such longer period as shall be prescribed by the Issuer following the mailing of such notice, the Owners of a majority, or in the case of an amendment to the effect of (a) through (e) above, 100% in aggregate principal amount of the Outstanding Parity Bonds at the time of the execution of any such supplemental Agreement shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to any of the terms and provisions contained herein, or the operation thereof; in any manner question the priority of the execution thereof; or enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental Agreement as in this Section permitted and provided, this Agreement shall be and be deemed to be modified and amended in accordance therewith.

RISK FACTORS

DEPENDENCE ON BORDER ECONOMY AND IMPACT OF PESO DEVALUATION. . . The City lies approximately 0.5 miles from the border between the United States and Mexico. Its economy is influenced by the strength of the Mexican economy and the value of the Mexican peso compared to the American dollar. Many retail centers in U.S. border areas are dependent upon Mexican customers. The U.S. government's enhanced security measures at the border could impact the willingness of these customers to travel to the United States for the purchase of retail goods. In addition, from time to time, Mexico devalues its currency (the peso), and such devaluations have an impact on the amount of visitors that the City receives from across the border and which could ultimately have an impact on retail sales in the City. It is not possible to predict when or how often any future devaluations occur or the impact of border relations on the City's economy.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Available Corporation funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board. Both State law and the Corporation's investment policies are subject to change. Under State law, the Corporation is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation 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 its successor or the National Credit Union Share Insurance Fund or its successor; (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 investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (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 investing entity'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 entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), 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 and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for Corporation deposits, or (ii) where (a) the funds are invested by the Corporation through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the Corporation as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the Corporation; (b) the broker or the depository institution selected by the Corporation 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 Corporation; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Corporation appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Corporation with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the Corporation, held in the Corporation's name, and deposited at the time the investment is made with the Corporation or with a third party selected and approved by the Corporation 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 Corporation, held in the Corporation's name and deposited at the time the investment is made with the Corporation or a third party designated by the Corporation; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) 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) a no-load money market

mutual fund registered with and regulated by the Securities and Exchange Commission that provides the Corporation with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is 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 in the next succeeding paragraph.

The Corporation 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 Corporation 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 Corporation 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 Corporation funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All Corporation 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, Corporation 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 Corporation shall submit an investment report detailing: (1) the investment position of the Corporation, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest Corporation funds without express written authority from the Board.

ADDITIONAL PROVISIONS . . . Under State law, the Corporation is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the Corporation to disclose the relationship and file a statement with the Texas Ethics Commission and the Corporation Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the Corporation to: (a) receive and review the Corporation's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Corporation and the business organization that are not authorized by the Corporation's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Corporation's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Corporation and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Corporation'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 no-load mutual funds in the aggregate to no more than 15% of the Corporation's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Corporation.

CURRENT INVESTMENTS . . . As of August 31, 2024, the following percentages of the Corporation's investible funds were invested in the following categories:

Type of Investment	Market Value
Interest Bearing Checking Account (Operating)	\$ 12.90
Total	\$ 12.90

FEDERAL INCOME TAX TREATMENT OF THE BONDS

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

General. The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Bonds and is based on the Internal Revenue Code of 1986 (the "Code"), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service ("IRS") and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Bonds and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to the branch profits tax or, personal holding company provisions of the Code or taxpayers qualifying for the health insurance premium assistance credit) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Bonds as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Bonds as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

As used herein, the term "U.S. Holder" means a beneficial owner of a Bond who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Bond that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BEFORE DETERMINING WHETHER TO PURCHASE BONDS.

THIS SUMMARY IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO U.S. HOLDERS

Periodic Interest Payments and Original Issue Discount. The Bonds are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Bonds or original issue discount, if any, accruing on the Bonds will be includable in "gross income" within the meaning of Section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Bonds. An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the Bonds. Generally, a U.S. Holder's tax basis in the Bonds will be the owner's initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be longterm or short-term depending on whether the Bonds has been held for more than one year.

Defeasance of the Bonds. Defeasance of any Bond may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

State, Local and Other Tax Consequences. Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Bonds under applicable state or local laws, or any other tax consequence, including the application of gift and estate taxes. Certain individuals, estates or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Bonds. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Bond, will not be subject to U.S. federal income or withholding tax in respect of a Bond, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Bond.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 of the Code 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the Corporation has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Corporation is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of the United States Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the Corporation will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system.

ANNUAL REPORTS . . . The Corporation will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Corporation of the general type included in this Official Statement under Tables numbered 1 through 3 and in Appendix B, which is the City's annual audited financial report. The Corporation will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2024. The City, on behalf of the Corporation will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2024. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the Corporation will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The Corporation's current fiscal year end is September 30. Accordingly, the Corporation must provide updated information included in the above-referenced tables by the last day of March in each year and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by the last day of September in each year, unless the Corporation changes its fiscal year. If the Corporation changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the Corporation otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Website or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by the Rule.

NOTICE OF CERTAIN EVENTS . . . The Corporation will also provide timely notices of certain events to the MSRB. The Corporation will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on

credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Corporation, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Corporation or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the Corporation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Corporation, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Corporation, any of which reflect financial difficulties.

Neither the Bonds nor the Resolution make any provision for credit enhancement or liquidity enhancement. In addition, the Corporation will provide timely notice of any failure by the Corporation to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Corporation in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Corporation, 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 Corporation.

The term "Financial Obligation" shall mean, for purposes of the events in clauses (15) and (16), 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); provided that Financial Obligation shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The Corporation intends the words used in clauses (15) and (16) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in the Rule, as evidenced, by SEC Release No. 34-83885, dated August 20, 2018.

AVAILABILITY OF INFORMATION . . . In connection with its continuing disclosure agreement entered into with respect to the Bonds, the Corporation will file all required information and documentation with the MSRB in electronic format in accordance with MSRB's guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The Corporation has agreed to update information and to provide notices of certain specified events only as described above. The Corporation 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 Corporation makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Corporation 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 registered and beneficial owners of Bonds may seek a writ of mandamus to compel the Corporation to comply with its agreement.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The Corporation has not been subject to the Rule in the previous five years.

OTHER INFORMATION

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the Corporation or its directors and officers that would have a material adverse financial impact upon the Corporation or its operations, or that affects or seeks to prohibit, restrain or enjoin the Corporation from completing the Project or from selling, issuing or delivering the Bonds to finance the Project.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended) provides the Bonds are (i) negotiable instruments, (ii) investment securities to which Texas Business and Commerce Code, as amended, applies and (iii) legal and authorized investments for insurance companies, fiduciaries or trustees and sinking funds of municipalities or other political subdivisions or public agencies of the State. The Texas Finance Code also contains provisions that, subject to a prudent investor standard, provide for the Bonds to be legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. For the Bonds to be an eligible investment for municipalities, political subdivisions or public agencies of the State, the PFIA, provides that a rating of not less than "A" or its equivalent as to investment quality must be assigned by a nationally recognized investment rating agency. Furthermore, the Bonds are eligible to secure the 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 Corporation made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes.

LEGAL OPINIONS

The Corporation will furnish the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the Corporation. Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information (other than any financial, technical, or statistical data therein) under the captions and subcaptions "PLAN OF FINANCING", "THE BONDS" (except the subcaptions "Book-Entry-Only System" and "Registered Owners' Remedies"), "THE CORPORATION," "SELECTED PROVISIONS OF THE RESOLUTION AND TRUST AGREEMENT," "FEDERAL INCOME TAX TREATMENT OF THE BONDS," "CONTINUING DISCLOSURE OF INFORMATION" (except the subheading "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Bonds for Sale", "Legal Investments and Eligibility to Secure Public Funds in Texas," and "Legal Opinions" (except for the first two sentences of the first paragraph thereof,) under the caption "OTHER INFORMATION" and such firm is of the opinion that the information relating to the Bonds and legal issues contained under such captions and subcaptions is a fair and accurate description of the laws and legal issues addressed therein, and, with respect to the Bonds, such information conforms to the Resolution. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion may accompany the Bonds deposited with DTC or may be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by their counsel Orrick, Herrington & Sutcliffe, Austin, Texas. The fee of Underwriter's counsel is contingent upon the delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds 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.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from Corporation and City records, audited financial statements and other sources that 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.

FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the Corporation in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Hilltop Securities Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the Corporation for the investment of bond proceeds or other funds of the Corporation upon the request of the Corporation.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

UNDERWRITER

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Corporation, at an underwriting discount of \$_____. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter of the Bonds has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

MISCELLANEOUS

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

The Resolution authorizing the issuance of the Bonds will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriter.

Board President
Development Corporation of Peñitas, Inc.

ATTEST:

Board Secretary
Development Corporation of Peñitas, Inc.

Photographs Taken in Mil Encinos Commercial Park within the City of Peñitas







APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

The City of Peñitas, Texas (the “City”) is located 13 miles west of McAllen in southwestern Hidalgo County. The City has a total area of approximately 4.0 square miles.

The City was incorporated in 1993. The City's home rule charter was adopted May 12, 2012. In addition to the power indicated in the City Charter the City may exercise powers enumerated in Chapter 1331, as amended, Texas Government Code, formerly Chapter 13, Title 28, Article 1175, as amended, of the Revised Civil Statutes of the State of Texas 1925, conferred and granted to home rule cities. The City operates under the City Council-Manager form of government and provides a full range of municipal services as authorized by its charter. The services include public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, utilities, and improvements.

The 2020 Census population of the City was 6,460. The 2024 estimated population of the City is 6,340.

EDUCATION

The City is served by the La Joya Independent School District (the “District”). The District is comprised of 23 elementary schools, 8 middle schools, 3 comprehensive high schools, 4 special campuses, 2 early college high schools and 1 school within a school. As of June 2023, the District’s peak student enrollment was 25,027. As of June 2023, the District employs a staff of approximately 4,037.

The nearest higher education facility is the University of Texas RGV, Edinburg which is located 27 miles east of the City.

TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2023/2024	% of Total
		Taxable Assessed Valuation	Taxable Assessed Valuation
Walmart Real Estate Business Trust	Retail	\$ 9,849,264	2.83%
AEP Texas Inc - 27H	Utility	9,054,360	2.60%
Walmart Stores of Texas LLC	Retail	6,437,291	1.85%
Villages of Peñitas LP	Apartments	4,287,544	1.23%
Los Cuartos SNF Investments LLC	Healthcare	4,184,490	1.20%
Pulice Construction Inc.	Equipment	4,104,841	1.18%
Hilcorp Energy Development LP	Energy	3,288,060	0.94%
All Valley Trucking LLP	Equipment	3,180,193	0.91%
Palmview Metro Investments LLC	Retail	2,132,970	0.61%
S-SI Peñitas Village LLC	Real Estate	2,098,067	0.60%
		<u>\$ 48,617,080</u>	<u>13.95%</u>

HIDALGO COUNTY

Hidalgo County was created in 1852 from Cameron and Starr counties. It was organized in the same year in at the same time had an area of 2,365 square miles. When first organized, the County extended almost as far north as Nueces County; however, later reductions to form counties to its north and east have reduced Hidalgo County to its present area of 1,583 square miles. The area economy is diversified by the tourist industry, agribusiness and international trade with Mexico. The Texas Almanac designates cotton, grain, vegetables, citrus and sugar cane as principal sources of agriculture income. The County is a leading producer of cotton and sorghum and the minerals produced in Hidalgo County include gas, sand and gravel. The County is a popular tourist center located in the lush lower Rio Grande Valley with access to old Mexico and facilities catering to thousands of summer and winter visitors.

LABOR FORCE FOR HIDALGO COUNTY

	May	Average Annual			
	2024	2023	2022	2021	2020
Civilian Labor Force	383,028	378,591	371,568	368,989	364,530
Total Employed	361,221	355,519	347,089	340,222	325,008
Total Unemployed	21,807	23,072	24,479	28,767	39,522
Unemployment Rate	5.7%	6.1%	6.6%	7.8%	10.8%

Source: Texas Employment Commission.

APPENDIX B

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

The information contained in this Appendix consists of excerpts from the City of Peñitas, Texas Annual Financial Report for the Year Ended September 30, 2022, 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.

To date, the Corporation, like many economic development corporations in Texas, does not have a separate outside audit and is included as a component unit in the City's audit. The Bonds are payable solely from the Pledged Revenues. The financial information included in the City's audit unrelated to the Corporation's Pledged Revenues should not be construed or interpreted as available or pledged to the payment of the Bonds.

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CITY OF PENITAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Raul Hernandez & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

5402 Holly Road, Suite 102 Corpus Christi, TX 78411 Office: (361) 980-0428 Fax: (361) 980-1002

CITY OF PENITAS, TEXAS
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2022

CITY OF PENITAS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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Raul Hernandez & Company, P.C.
Certified Public Accountants
5402 Holly Rd, Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Penitas, Texas
Penitas, Texas 78576

Qualified and Unmodified Opinions

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Qualified
General Fund	Unmodified
Enterprise Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Qualified Opinion on the Governmental Activities, Business-type Activities, and Enterprise Fund

In our opinion, except for effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities, Business-type Activities and the Enterprise Fund of the City of Penitas, Texas, as of September 30, 2022, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the General Fund and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, and the aggregate remaining fund information of the City of Penitas, Texas, as of September 30, 2022, and the respective changes in financial position and, thereof for the year then ended in accordance with accounting principles generally accepted in the United State of America.

Basis for Qualified and Unmodified Opinions

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

Matter Giving Rise to the Qualified Opinions on the Governmental Activities, Business-type Activities and the Enterprise Fund.

The City of Penitas, Texas had not performed physical inventories of capital assets acquired in the years prior to the beginning of this fiscal year. Consequently, we were not able to determine the historical cost of prior year capital assets in the governmental activities, business-type activities, and the enterprise fund. Without historical costs, the depreciation of capital assets in the governmental activities, business-type activities and the enterprise fund is only an estimate. Accounting principles generally accepted in the United States of America require that these capital assets be depreciated, which would decrease the assets and net assets and increase expenses of the governmental activities, business-type activities, and enterprise fund.

Emphasis of Matter – Change of Accounting Principle

As discussed in the notes to the financial statements, in the year ending September 30, 2022, the City of Penitas, Texas adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison and schedule of the City of Penitas, Texas's proportionate share of the net pension liability and schedule of City of Penitas, Texas's pension contributions, and schedule of the City of Penitas, Texas's proportionate share of the net OPEB liability and schedule of City of Penitas, Texas's OPEB contributions identified as required supplementary information, as listed in the table of contents, 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.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2024, on our consideration of the City of Penitas, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Penitas, Texas's internal control over financial reporting and compliance.

Raul Hernandez + Company, P.C.

Corpus Christi, Texas

August 6, 2024

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MANAGEMENTS DISCUSSION AND ANALYSIS

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CITY OF PENITAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2022

Our discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2022. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's governmental activities showed a net position of \$3,940,346 while the business-type activities showed a net position of \$14,912,888.
- The City has \$221,517 in long-term debt for governmental activities and \$4,812,868 for business-type activities at year end.
- Capital assets for governmental activities was \$3,546,395 and the business-type activities was \$19,349,163.

Overview of the Financial Statements

The basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The Statement of Net position and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole and present a longer-term view of the City's finances. These statements include all assets and liabilities of the City, and the statements are presented on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

Activities of the City as a whole include governmental activities, and business-type activities. Governmental activities are those activities which are financed primarily through taxes and grants.

Most of the City's basic services are reported as governmental activities. Business-type activities are those activities which are intended to recover all or a significant portion of their costs through user fees and charges. Utility system operations are a common example of business-type activities. The City has no component units. Component units are legally separate organizations for which the City is financially accountable. Whenever a City is financially accountable for activities of a legally separate organization, those activities are reported in the government-wide financial statements as component unit activities.

CITY OF PENITAS, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
September 30, 2022

The accrual basis of accounting used for the government-wide financial statements recognizes revenues when earned and expenses when incurred regardless of when cash is received or paid.

Fund financial statements

Fund financial statements are used to present more detailed information about the City’s most significant funds. Separate fund financial statements are prepared for the City’s governmental funds and proprietary funds, as opposed to the government-wide statements which reflect the City as a whole.

Fund financial statements are prepared using the measurement focus and basis of accounting applicable to each broad fund category. Governmental fund financial statements are presented on a spending or “financial flow” measurement focus using the modified accrual basis of accounting. Proprietary fund financial statements are presented on a cost of services or “capital maintenance” measurement focus using the accrual basis of accounting. Because the proprietary fund financial statements are presented using the same measurement focus and basis of accounting as the government-wide financial statements, the totals from the proprietary fund financial statements flow directly into the business-type activities column of the government-wide financial statements. For the governmental funds, reconciliation is presented to describe the differences between the net position, and change in net position reported in the governmental fund financial statements and the net position, and change in net position reported in the governmental activities column of the government-wide financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a complete understanding of the information provided in the government-wide and fund financial statements.

Condensed Financial Information

Condensed financial information is presented in the following tables.

CITY OF PENITAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2022

Government-wide net position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
	Current and other assets	\$ 1,675,526	1,644,250	594,342	189,414	2,269,868
Capital assets	3,546,395	3,460,328	19,349,163	20,127,966	22,895,558	23,588,294
Total assets	<u>5,221,921</u>	<u>5,104,578</u>	<u>19,943,505</u>	<u>20,317,380</u>	<u>25,165,426</u>	<u>25,421,958</u>
Deferred Outflows of Resources	33,884	32,750	33,884	32,749	67,768	65,499
Long-term liabilities	265,892	281,024	4,857,241	4,903,868	5,123,133	5,184,892
Other liabilities	968,900	1,155,540	126,592	226,046	1,095,492	1,381,586
Total liabilities	<u>1,234,792</u>	<u>1,436,564</u>	<u>4,983,833</u>	<u>5,129,914</u>	<u>6,218,625</u>	<u>6,566,478</u>
Deferred Inflows of Resources	80,667	38,644	80,667	38,644	161,334	77,288
Net position:						
Invested in capital assets, net of debt	3,324,878	3,179,304	14,536,295	15,221,098	17,861,173	18,400,402
Restricted	2,257,643	1,776,486	-	-	2,257,643	1,776,486
Unrestricted	(1,642,175)	(1,293,670)	376,593	(42,528)	(1,265,582)	(1,336,198)
Total net position	<u>\$ 3,940,346</u>	<u>3,662,120</u>	<u>14,912,888</u>	<u>15,178,570</u>	<u>18,853,234</u>	<u>18,840,690</u>

The City's governmental activities showed a net position of \$3,940,346 while the business-type activities showed a net position of \$14,912,888. Capital assets for governmental activities was \$3,546,395 and the business-type activities was \$19,349,163.

Government-wide changes in net position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
	Change in net assets					
Total revenues	\$ 5,746,089	6,489,135	565,293	551,580	6,311,382	7,040,715
Total expenses	(5,501,807)	(7,170,241)	(1,272,899)	(1,210,169)	(6,774,706)	(8,380,410)
Change before transfers	244,282	(681,106)	(707,606)	(658,589)	(463,324)	(1,339,695)
Transfers	(213,100)	(288,459)	213,100	288,459	-	-
Change in net position	31,182	(969,565)	(494,506)	(370,130)	(463,324)	(1,339,695)
Net position - beginning	3,662,119	4,602,744	15,178,570	15,548,700	18,840,689	20,151,444
Prior Period Adjustment	247,045	28,940	228,824	-	475,869	28,940
Net position - ending	<u>\$ 3,940,346</u>	<u>3,662,119</u>	<u>14,912,888</u>	<u>15,178,570</u>	<u>18,853,234</u>	<u>18,840,689</u>

CITY OF PENITAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2022

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues:						
Charges for services	\$ 472,617	562,582	564,983	551,046	1,037,600	1,113,628
Operating Grants and Contributions	952,721	1,717,996	-	-	952,721	1,717,996
General revenues:						
Maintenance and Operations Taxes	1,344,350	1,103,068	-	-	1,344,350	1,103,068
Debt Service Taxes	324,928	290,493	-	-	324,928	290,493
Grants	436,324	639,702	-	-	436,324	639,702
Sales tax	1,837,638	1,930,333	-	-	1,837,638	1,930,333
Franchise taxes	206,679	181,926	-	-	206,679	181,926
Penalty and Interest on Tax	48,835	47,398	-	-	48,835	-
Investment Earnings	1,265	227	310	534	1,575	761
Miscellaneous	120,732	15,409	-	-	120,732	15,409
Transfers In	-	-	213,100	288,459	213,100	288,459
Total revenues	\$ 5,746,089	6,489,134	778,393	840,039	6,524,482	6,993,316

General fund revenues were \$5,746,089 and expenditures were \$5,714,907 at September 30, 2022.

Utility fund had \$778,393 in revenues and \$1,272,899 in expenditures at September 30, 2022.

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2022	2021	2022	2021	2022	2021
Expenses						
General Government	\$ 2,805,742	3,485,535	-	-	2,805,742	3,485,535
Public safety	1,447,585	1,912,519	-	-	1,447,585	1,912,519
Highways and Streets	783,689	1,050,889	-	-	783,689	1,050,889
Culture and Recreation	86,881	351,998	-	-	86,881	351,998
Economic Development	372,425	345,330	-	-	372,425	345,330
Bond Interest	5,485	23,970	-	-	5,485	23,970
Transfers Out	213,100	288,459	-	-	213,100	288,459
Utility Fund	-	-	1,272,899	1,210,169	1,272,899	1,210,169
Total expenses	\$ 5,714,907	7,458,700	1,272,899	1,210,169	6,987,806	8,668,869

CITY OF PENITAS, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
September 30, 2022

Financial Analysis of the City’s Funds

The City has experienced an increase in sales tax revenue due to current economic conditions. We attribute some of this increase due to the stability of the current economic climate.

The city adopted a conservative budget for 2022-2023.

Regarding the other governmental funds, the debt service fund levied taxes sufficient to cover the governmental debt service requirements as well as a portion of the utility fund debt service (which was transferred to the utility fund) and ended the year with a \$3,668 fund balance.

As discussed above, the utility fund's operations ended the year with a (\$265,682) decrease in net position. The utility fund has net position of \$14,912,888 at the end of the year. However, \$14,536,295 is restricted for investment in capital assets, net of related debt. Unrestricted net position of \$376,593 represents less than 3 months in terms of the utility system’s annual expenses including net transfers out.

General Fund Budgetary Highlights

Over the course of the year, the City’s revenues had a negative variance of (\$452,852). Expenditures had an overall increase of \$49,622.

Capital Asset and Debt Administration

Capital assets

The following capital asset information is presented net of depreciation. More detailed information can be found on page 36 of the notes to the financial statements.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Land	\$ 29,305	29,305	130,000	130,000	159,305	159,305
Infrastructure	3,149,479	3,149,479	19,587,087	19,587,087	22,736,566	22,736,566
Buildings	1,899,670	1,899,670	4,063,475	4,063,475	5,963,145	5,963,145
Machinery and Equipment	1,480,005	1,048,025	-	-	1,480,005	1,048,025
Depreciation	(3,012,064)	(2,666,151)	(4,428,399)	(3,652,596)	(7,440,463)	(6,318,747)
Total assets	\$ 3,546,395	3,460,328	19,352,163	20,127,966	22,898,558	23,588,294

The City added approximately \$431,980 to capital assets during the year. Capital additions include purchase of new equipment, remodeling, infrastructure improvements, water and sewer system upgrades and improvements and construction in progress of street improvements and sewer line upgrades among others. Depreciation expense of \$1,121,716 was also recorded for the year.

CITY OF PENITAS, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
September 30, 2022

Debt

More detailed information on the City’s debt can be found on page 38 in the notes to the financial statements.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
	General obligation debt	\$ -	-	4,812,868	4,903,868	4,812,868
Lons and Notes payable	221,517	281,025	-	-	221,517	281,025
Total debt	\$ 221,517	281,025	4,812,868	4,903,868	5,034,385	5,184,893

Economic Factors

The City’s elected ad appointed officials considered many factors when setting the fiscal year 2022-2023 budget, tax rates. Those factors included the economy, inflation, new retail expansion within the incorporated limits, and pending projects to improve infrastructure throughout the city. The City’s population growth has continued to trend upward since the year 2000. The City of Penitas Budget for 2022-2023 included amounts available for appropriation are at \$4.444 million, which is higher than the actual revenue of \$4.185 million in the 2021-2022 year. Budgeted expenditures are expected to decrease from \$4.737 million to \$4.444 million. If these estimates are realized, the City’s budgetary General Fund balance is expected to remain the same by the close of 2022-2023.

Contacting the City’s Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have questions about this report or need additional financial information, please direct your requests to the City’s administration office, at City of Penitas, 1111 Main Street 78576, Penitas, Texas.

BASIC FINANCIAL STATEMENTS

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CITY OF PENITAS, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business - Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,035,204	\$ 32,794	\$ 1,067,998
Taxes Receivable, Net	207,761	-	207,761
Accounts Receivable, Net	431,879	52,949	484,828
Due from Other Governments	79,136	-	79,136
Due from Other Funds	(508,599)	508,599	-
Due from Others	423,831	-	423,831
Prepaid Items	6,314	-	6,314
Capital Assets:			
Land	29,305	130,000	159,305
Infrastructure	3,149,479	19,584,087	22,733,566
Buildings & Improvements	1,899,670	4,063,475	5,963,145
Furniture and Equipment	1,480,005	-	1,480,005
Accumulated Depreciation	(3,012,064)	(4,428,399)	(7,440,463)
Total Assets	<u>5,221,921</u>	<u>19,943,505</u>	<u>25,165,426</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pension Plan	26,386	26,386	52,772
Deferred Outflow Related to OPEB	7,498	7,498	14,996
Total Deferred Outflows of Resources	<u>33,884</u>	<u>33,884</u>	<u>67,768</u>
LIABILITIES			
Accounts Payable	89,293	840	90,133
Wages and Salaries Payable	115,769	4,567	120,336
Due to Others	712,317	-	712,317
Accrued Interest Payable	-	121,185	121,185
Unearned Revenues	51,521	-	51,521
Noncurrent Liabilities:			
Due Within One Year	117,303	94,000	211,303
Due in More Than One Year:			
Due In One Year	104,214	4,718,868	4,823,082
Net Pension Liability	23,570	23,569	47,139
Net OPEB Liability	20,805	20,804	41,609
Total Liabilities	<u>1,234,792</u>	<u>4,983,833</u>	<u>6,218,625</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	76,594	76,594	153,188
Deferred Inflow Related to OPEB	4,073	4,073	8,146
Total Deferred Inflows of Resources	<u>80,667</u>	<u>80,667</u>	<u>161,334</u>
NET POSITION			
Net Investment in Capital Assets and Lease Assets	3,324,878	14,536,295	17,861,173
Restricted:			
Restricted for Debt Service	3,668	-	3,668
Restricted for Other Purposes	2,253,975	-	2,253,975
Unrestricted	(1,642,175)	376,593	(1,265,582)
Total Net Position	<u>\$ 3,940,346</u>	<u>\$ 14,912,888</u>	<u>\$ 18,853,234</u>

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

CITY OF PENITAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 2,805,742	\$ 472,617	\$ 621,318
Public Safety	1,447,585	-	331,403
Highways and Streets	783,689	-	-
Culture and Recreation	86,881	-	-
Economic Development and Assistance	372,425	-	-
Interest on Debt and Right-to-Use Leases	5,485	-	-
Total Governmental Activities	5,501,807	472,617	952,721
BUSINESS-TYPE ACTIVITIES:			
Utility Fund	1,272,899	564,983	-
Total Business-Type Activities	1,272,899	564,983	-
TOTAL PRIMARY GOVERNMENT	\$ 6,774,706	\$ 1,037,600	\$ 952,721

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Property Taxes, Levied for Debt Service
- General Sales and Use Taxes
- Franchise Tax
- Penalty and Interest on Taxes
- Grants and Contributions
- Miscellaneous Revenue
- Investment Earnings
- Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,711,807)	\$ -	\$ (1,711,807)
(1,116,182)	-	(1,116,182)
(783,689)	-	(783,689)
(86,881)	-	(86,881)
(372,425)	-	(372,425)
(5,485)	-	(5,485)
<u>(4,076,469)</u>	<u>-</u>	<u>(4,076,469)</u>
-	(707,916)	(707,916)
-	(707,916)	(707,916)
<u>(4,076,469)</u>	<u>(707,916)</u>	<u>(4,784,385)</u>
1,344,350	-	1,344,350
324,928	-	324,928
1,837,638	-	1,837,638
206,679	-	206,679
48,835	-	48,835
436,324	-	436,324
120,732	-	120,732
1,265	310	1,575
(213,100)	213,100	-
<u>4,107,651</u>	<u>213,410</u>	<u>4,321,061</u>
31,182	(494,506)	(463,324)
3,662,119	15,178,570	18,840,689
247,045	228,824	475,869
<u>\$ 3,940,346</u>	<u>\$ 14,912,888</u>	<u>\$ 18,853,234</u>

CITY OF PENITAS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

	General Fund	Penitas EDC-4A Fund	Penitas EDC-4B Fund
ASSETS			
Cash and Cash Equivalents	\$ 710,290	\$ 103,068	\$ 124,019
Taxes Receivable	173,203	-	-
Allowance for Uncollectible Taxes (credit)	(8,660)	-	-
Accounts Receivable, Net	243,025	37,998	37,998
Due from Other Governments	77,615	-	-
Due from Other Funds	-	1,081,123	690,789
Due from Others	423,831	-	-
Prepaid Items	6,314	-	-
Total Assets	<u>\$ 1,625,618</u>	<u>\$ 1,222,189</u>	<u>\$ 852,806</u>
LIABILITIES			
Accounts Payable	\$ 77,416	\$ -	\$ -
Wages and Salaries Payable	115,769	-	-
Due to Other Funds	2,852,184	-	-
Due to Others	-	-	-
Unearned Revenues	50,000	-	-
Total Liabilities	<u>3,095,369</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	164,543	-	-
Total Deferred Inflows of Resources	<u>164,543</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Prepaid Items	6,314	-	-
Retirement of Long-Term Debt	-	-	-
Other Restricted Fund Balance	-	1,222,189	852,806
Unassigned Fund Balance	(1,640,608)	-	-
Total Fund Balances	<u>(1,634,294)</u>	<u>1,222,189</u>	<u>852,806</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,625,618</u>	<u>\$ 1,222,189</u>	<u>\$ 852,806</u>

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

Penitas Redevelopment Authority	Other Funds	Total Governmental Funds
\$ 143	\$ 97,684	\$ 1,035,204
-	45,493	218,696
-	(2,275)	(10,935)
-	112,858	431,879
-	1,521	79,136
617,782	1,667	2,391,361
-	-	423,831
-	-	6,314
<u>\$ 617,925</u>	<u>\$ 256,948</u>	<u>\$ 4,575,486</u>
\$ 11,877	\$ -	\$ 89,293
-	-	115,769
11,901	35,875	2,899,960
712,317	-	712,317
-	1,521	51,521
<u>736,095</u>	<u>37,396</u>	<u>3,868,860</u>
-	43,218	207,761
-	43,218	207,761
-	-	6,314
-	3,668	3,668
-	172,666	2,247,661
(118,170)	-	(1,758,778)
<u>(118,170)</u>	<u>176,334</u>	<u>498,865</u>
<u>\$ 617,925</u>	<u>\$ 256,948</u>	<u>\$ 4,575,486</u>

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CITY OF PENITAS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2022

Total Fund Balances - Governmental Funds	\$	498,865
<p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to Increase (decrease) net position.</p>		
		-0-
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.</p>		
		3,179,304
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2022 capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		491,487
<p>Included in the assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB 68 in the amount of (\$23,570), a deferred resource inflow in the amount of (\$76,594), and a deferred resource outflow in the amount of \$26,386. This resulted in an increase/(decrease) in the net position by (\$73,778).</p>		
		(73,778)
<p>Included in the assets/(liabilities) is the recognition of the City's net OPEB asset/(liability) required by GASB 75 in the amount of (\$20,805), a deferred resource inflow in the amount of (\$4,073), and a deferred resource outflow in the amount of \$7,498. This resulted in an increase/(decrease) in the net position by (\$17,380).</p>		
		(17,380)
<p>The 2022 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>		
		(345,913)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		207,761
Net Position of Governmental Activities	\$	3,940,346

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

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

	General Fund	Penitas EDC-4A Fund	Penitas EDC-4B Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 1,094,691	\$ -	\$ -
General Sales and Use Taxes	919,927	229,982	229,982
Franchise Tax	206,679	-	-
Penalty and Interest on Taxes	48,835	-	-
Licenses and Permits	245,396	-	-
Intergovernmental Revenue and Grants	916,838	-	-
Fines	277,222	-	-
Investment Earnings	-	390	461
Contributions & Donations from Private Sources	20,805	-	-
Other Revenue	14,074	-	272
Total Revenues	<u>3,744,467</u>	<u>230,372</u>	<u>230,715</u>
EXPENDITURES:			
Current:			
General Government	2,210,332	-	-
Public Safety	1,516,214	-	-
Public Works:			
Highways and Streets	754,137	-	-
Culture and Recreation	288,369	-	-
Conservation and Development:			
Economic Development and Assistance	-	17,963	141
Debt Service:			
Principal on Debt and Right-to-Use Leases	18,555	-	40,952
Interest on Debt and Right-to-Use Leases	-	-	5,485
Total Expenditures	<u>4,787,607</u>	<u>17,963</u>	<u>46,578</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,043,140)</u>	<u>212,409</u>	<u>184,137</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	540,666	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>540,666</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(502,474)	212,409	184,137
Fund Balance - October 1 (Beginning)	(1,378,865)	1,009,780	668,669
Prior Period Adjustment	247,045	-	-
Fund Balance - September 30 (Ending)	<u>\$ (1,634,294)</u>	<u>\$ 1,222,189</u>	<u>\$ 852,806</u>

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

Penitas Redevelopment Authority	Other Funds	Total Governmental Funds
\$ 238,019	\$ 324,929	\$ 1,657,639
-	457,747	1,837,638
-	-	206,679
-	-	48,835
-	-	245,396
-	451,402	1,368,240
-	-	277,222
26	388	1,265
-	-	20,805
-	56,385	70,731
<u>238,045</u>	<u>1,290,851</u>	<u>5,734,450</u>
-	451,417	2,661,749
-	7,371	1,523,585
-	-	754,137
-	-	288,369
350,902	-	369,006
-	-	59,507
-	-	5,485
<u>350,902</u>	<u>458,788</u>	<u>5,661,838</u>
<u>(112,857)</u>	<u>832,063</u>	<u>72,612</u>
-	-	540,666
-	(753,766)	(753,766)
-	(753,766)	(213,100)
(112,857)	78,297	(140,488)
(5,313)	98,037	392,308
-	-	247,045
<u>\$ (118,170)</u>	<u>\$ 176,334</u>	<u>\$ 498,865</u>

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

Total Net Change in Fund Balances - Governmental Funds	\$	(140,488)
<p>The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) the change in net position.</p>		
		-0-
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2022 capital outlays and debt principal payments is to increase (decrease) the change in net position.</p>		
		491,487
<p>The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/21 caused the change in the ending net position to increase in the amount of \$25,679. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$24,332). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$16,972. The result of these changes is to increase/(decrease) the change in net position by \$18,319.</p>		
		18,319
<p>The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/21 caused the change in the ending net position to increase in the amount of \$456. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$429). The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense increased/(decreased) the change in net position by (\$3,889). The result of these changes is to increase/(decrease) the change in net position by (\$3,862).</p>		
		(3,862)
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.</p>		
		(345,913)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.</p>		
		11,639
Change in Net Position of Governmental Activities	\$	31,182

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

CITY OF PENITAS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2022

EXHIBIT D-1

	Business Type Activities
	Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 32,794
Accounts Receivable, Net	52,949
Due from Other Funds	533,174
Total Current Assets	618,917
Noncurrent Assets:	
Capital Assets:	
Land	130,000
Buildings & Improvements	4,063,475
Improvements other than Buildings	19,584,087
Accumulated Depreciation	(4,428,399)
Total Noncurrent Assets	19,349,163
Total Assets	19,968,080
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	26,386
Deferred Outflow Related to OPEB	7,498
Total Deferred Outflows of Resources	33,884
LIABILITIES	
Current Liabilities:	
Accounts Payable	840
Wages and Salaries Payable	4,567
Due to Other Funds	24,575
Accrued Interest Payable	121,185
Bonds Payable - Current	94,000
Total Current Liabilities	245,167
Noncurrent Liabilities:	
Due In More Than One Year	4,718,868
Net Pension Liability	23,569
Net OPEB Liability	20,804
Total Noncurrent Liabilities	4,763,241
Total Liabilities	5,008,408
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	76,594
Deferred Inflow Related to OPEB	4,073
Total Deferred Inflows of Resources	80,667
NET POSITION	
Net Investment in Capital Assets and Lease Assets	14,536,295
Unrestricted	376,593
Total Net Position	\$ 14,912,888

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

CITY OF PENITAS, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBIT D-2

	Business-Type Activities
	Utility Fund
OPERATING REVENUES:	
Charges for Services	\$ 564,983
Total Operating Revenues	564,983
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	122,339
Purchased Professional & Technical Services	15,000
Purchased Property Services	33,365
Other Operating Costs	100,444
Supplies	29,270
Depreciation	775,803
Total Operating Expenses	1,076,221
Operating Income (Loss)	(511,238)
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	310
Interest Expense - Nonoperating	(196,678)
Total NonOperating Revenue (Expenses)	(196,368)
Income (Loss) Before Transfers	(707,606)
Nonoperating Transfers In	213,100
Change in Net Position	(494,506)
Total Net Position - October 1 (Beginning)	15,178,570
Prior Period Adjustment	228,824
Total Net Position - September 30 (Ending)	\$ 14,912,888

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

CITY OF PENITAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBIT D-3

	Business-Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 564,983
Cash Payments to Employees for Services	(136,796)
Cash Payments for Other Operating Expenses	(692,848)
Net Cash Provided by (Used for) Operating Activities	(264,661)
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfers In	213,100
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Principal and Interest Paid on Long-Term Debt	(287,678)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	310
Net Increase (Decrease) in Cash and Cash Equivalents	(338,929)
Cash and Cash Equivalents at Beginning of Year	142,899
Prior Period Adjustment	228,824
Cash and Cash Equivalents at End of Year	\$ 32,794
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by (Used for) Operating Activities:</u>	
Operating Income (Loss)	\$ (511,238)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:	
Depreciation	775,803
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(6,434)
Decrease (Increase) in Interfund Receivables	(533,174)
Decrease (Increase) in Pension/OPEB Outflows	(1,135)
Increase (Decrease) in Accounts Payable	264
Increase (Decrease) in Interfund Payables	24,575
Increase (Decrease) in Pension/OPEB Payables	(55,345)
Increase (Decrease) in Pension/OPEB Inflows	42,023
Net Cash Provided by (Used for) Operating Activities	\$ (264,661)

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

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The citizens of the City voted on May 12, 2012 to incorporate the City of Penitas, Texas. The City operates under a Home Rule Charter with a Mayor – City Council form of government.

The general governmental functions include law enforcement, fire and other public safety activities, streets, sanitation, public improvements, public charities, parks and recreation, library services, zoning and general administrative services. Enterprise funds are used to account for the operations of its utility operations.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units by the Financial Accounting Standards Board (FASB), when applicable.

B. Financial Reporting Entity

The City's Financial reporting entity comprises the following: Primary

Government: City of Penitas

The City's basic financial statements include the accounts of all City Operations. The criteria for including organizations as component units with the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name).
- The City holds the corporate powers of the organization.
- The City appoints a voting majority of the organization's board.
- The City is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the City.
- There is a fiscal dependency by the organization on the City.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

Blended Component Unit

Blended component units are separate legal entities that meet the component unit criteria and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City's blended component units are the Penitas Corporation, a 4A corporation, and the Development Corporation of Penitas, a 4B corporation and Penitas Redevelopment Authority. Both Corporations promote the economic interest and developments of the City and collect sales taxes under section 4B of the Development Corporation Act of 1979 for these purposes. The Redevelopment Authority is organized to promote the common good and general welfare of Reinvestment Zone Number One and neighboring areas on behalf of the City.

The reason they are classified as blended component units is because the City appoints all board members and can remove them at will. Some of the city officials serve in the governing bodies.

C. Government – Wide and Fund Financial Statements

The government-wide financial statements include the statement of the net position and the statement of activities. These statements report information on all of the non- fiduciary financial information for the City and its component units. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Eliminations have been made to minimize the double-counting of internal activities. Individual funds are not displayed, but the statements distinguish governmental activities (generally supported by taxes and the city general revenue) from business-type activities (generally financed in whole or in part with fees charged to external customers). The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements.

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

1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues. The fund financial statements provide reports on the financial condition and results of operations about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant GASB pronouncements and applicable FASB pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increase(revenues) and decrease(expenses) in net total assets.

Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of current period. The City considers property recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are sales taxes, franchise taxes, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. 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 needed.

E. Fund Accounting

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for governmental funds and proprietary funds. The City has no fiduciary funds. The governmental and proprietary fund financial statements place an emphasis on major funds. Those funds which are determined to be major funds are presented in separate columns, with all nonmajor governmental funds being aggregated and displayed in a single column. Interfund receivable and payable balances and transfers between funds have been eliminated in the fund financial statements.

The City has reported the following major governmental funds:

General Fund - The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Penitas EDC-4A – The fund is a special revenue fund to account for the collection of sales taxes under Section 4A of the Development Corporation Act of 1979. Since the tax collections are approved specifically for such expenditures, the Penitas EDC-4A is considered a Special Revenue Fund..

Penitas EDC-4B – The fund is a special revenue fund to account for the collection of sales taxes under Section 4B of the Development Corporation Act of 1979. Since the tax collections are approved specifically for such expenditures, the Penitas EDC-4B is considered a Special Revenue Fund..

Penitas Redevelopment Authority Fund – The fund is a special revenue fund to account for the property taxes levied and collected on property taxable in the Reinvestment Zone. Since the tax increments are approved specifically for such expenditures, the Redevelopment Authority is considered a Special Revenue Fund.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

The City has reported the following major proprietary funds:

Utility Fund - The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary, to ensure integrity of the funds.

Additionally, the City reports the following fund type(s):

Special Revenue Funds – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Debt Service Fund – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

F. Assets, Liabilities and Net Position or Equity

b. Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash are available upon demand and are considered to be "cash equivalents" when preparing financial statements. All investments are recorded at fair value based on quoted market prices. Fair Value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

c. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City conformity with Subtitle E, Teas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Taxable property includes real property and certain personal property situated in the City. Certain properties of religious, educational and charitable organizations, including the federal government and the State of Texas, are exempt from taxation. Additionally, there are other exemptions as noted below in arriving at the total assessed valuation of taxable property. The valuations are subject to county-wide revaluation every five years. The effective rate Is based upon the previous year's total assessed valuation.

Allowances for uncollectible tax receivables within the General and Debt Service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and included as part of the allowance for uncollectible; except for tax receivables over 20 years the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The City does not write off tax receivables greater than 20 years.

d. Inventories

The inventories are recorded at cost and are accounted for by the consumption period.

e. Receivables and Payables

Activities 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".

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectible.

**CITY OF PENITAS, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

f. Transactions between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

g. Capital Assets

Capital assets include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are capital assets valued at their value their fair market value on the date donated. Repairs and maintenance are construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Infrastructure	30 Years
Improvements	20 Years
Water and Sewer System	30-50
Years Machinery and Equipment	3-15 Years

h. Compensated Absences

No liability for compensated absences is reported in the government-wide and proprietary fund statements consist of unpaid, accumulated annual and compensation time leave balances. It is the City's policy to permit some employees to accumulate earned but unused vacation and for sick pay benefits. There is a liability for unpaid accumulated vacation leave since the City does have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. At September 30, 2022, there is no accrued liability recognized.

i. Long-Term Obligations

In the government-wide, proprietary and component unit financial statements, long-term obligations are reported as liabilities. In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing resources.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

i. Restricted Assets

The proceeds and required reserves of debt issuances are recorded as restricted assets as they are restricted for debt service and/or capital projects, payments and/or purchases.

j. Net Position/ Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outsource parties for use for a specific purpose.

k. Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management.

l. Net Pension Liability

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

m. Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

a. Budgetary Data

The City Council adopts an “appropriated budget” for the General Fund. In accordance with Government Accounting Board (GASB) Statement #34, a City is required to present the adopted and final amended budgeted revenues and expenditures.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Council. Once a budget is approved, it can be formally amended by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Council, and are not made after fiscal year end.
4. Budgeted amounts are ad amended by the Council. All budget appropriations lapse at year end.

b. Budget Basis of Accounting

The City prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP Basis). The budget and all transactions are presented in accordance with the City’s method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis are stated in the statement and schedules associated with the analysis of actual results to the budgeted expectations.

Excess of Expenditures over Appropriations

General Fund expenditures exceeded appropriations by the amounts noted below:

Department	Expenditures Over Appropriations
General Government	\$ (1,072,855)
Culture and Recreation	(123,596)

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

c. Deficit Fund Balance

General fund had a deficit fund balance of (\$1,634,294) and Penitas Redevelopment Authority had a deficit fund balance of (\$118,170) due to excess of expenditures over revenues accumulations as of September 30, 2022.

d. General Fund's Fund Balance Policy

The City has adopted GASB 54 as part of its fiscal ending September 30, 2011. Implementation of GASB 54 is required of all cities for the fiscal year ending in 2011. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances with are non-spendable and spendable.

Non-spendable fund balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, noncurrent advances to other funds that are not expected to be collected in the next fiscal year, and the principal (corpus) of an endowment fund. The City does not have any non-spendable fund balances. In addition to non-spendable fund balance, GASB has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

-Restricted: Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation. All of the City's restricted funds are from Special Revenue Funds, whose funds are revenues legally restricted to expenditures for a particular purpose.

-Committed: Fund balances that contain self-imposed constraints of the government from its highest level of decision-making authority. The responsibility to commit funds rests with the elected City Commissioners and Mayor. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. The City had no such fund.

-Assigned: Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the City Manager. The only funds assigned relate to the accumulation of funds for future capital projects.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

-Unassigned: Fund balance of the general fund that is not constrained for any particular purpose. This is also where negative amounts from the other categories of fund balance are recognized. When an expense is incurred for purposes which both restricted and unrestricted net position are available, the City typically first applies restricted resources, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition. 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 assigned, then unassigned, and finally committed funds.

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS

- a. City's funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Chapter 2257 Collateral for Public Funds of the Government Code in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At September 30, 2022, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings account included in temporary investments) was \$1,067,998 and the bank balance was \$1,106,065.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy of maintaining contact with the trust department of its depository agency to eliminate all custodial credit risk. As of September 30, 2022, the City's bank balance was not exposed to custodial credit risk and was over-insured and over-collateralized, by FDIC insurance and pledged securities held by financial institutions.

- b. Restricted Cash – N/A

- c. Investments

The City is required by Government Code Chapter 2256, the public Funds Investment Act ("Act"), to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management and include a list of the types of authorized investments in which the investing entity's funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the general purposes financial statements disclosed that in the areas of investment practices, management reports and establish appropriate policies. The City adheres to the requirements of the Act. Additionally, investment practices of the City are in accordance with local policies and are followed when investments are present.

The City was in compliance with the Investment Act.

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

1. Interest Rate Risk
This is the risk that changes in interest will adversely affect the fair value of an Investment. At year end, the City was not exposed to interest rate risk. The City's investment policy states that no investment shall exceed 24 months in maturity. By limiting the exposure of its investments, the City reduces its risks to the rising or decreasing interest rates.
2. Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to an indication of credit risk. At year end, the City was not significantly exposed to credit risk.
3. Custodial Credit Risk
Deposits and investments are exposed to custodial credit risk if they are not covered by the depository insurance and the deposits and investments are uncollateralized, collateralized with securities held by the pledging financial institution, trust department or agent but not in the City's name. At year end, the City was not exposed to custodial credit risk.
4. Concentration of Credit Risk
This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was exposed to concentration of credit risk, but highly collateralized. With the City's investment policy, diversification is stressed. The City was in compliance with its diversification investment guidelines.
5. Foreign Currency Risk
This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the city was not exposed to foreign currency risk.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

d. Disaggregation of Receivables and Payables

Receivables for the City at September 30, 2022, were as follows:

	<u>Property Taxes</u>	<u>Sales and Franchise Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total</u>
General Fund	\$ 164,543	\$ 243,025	\$ 77,615	\$ -	\$ 430,145	\$ 915,328
Special Revenue Fund	-	-	1,521	2,391,361	188,854	2,581,736
Debt Service Fund	43,218	-	-	-	-	43,218
Enterprise Fund	-	-	-	533,174	52,949	586,123
Total Receivables	<u>\$ 207,761</u>	<u>\$ 243,025</u>	<u>\$ 79,136</u>	<u>\$ 2,924,535</u>	<u>\$ 671,948</u>	<u>\$ 4,126,405</u>

Payables for the City at September 30, 2022, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due To Other Funds</u>	<u>Other</u>	<u>Total</u>
General Fund	\$ 77,416	\$ 115,769	\$ 2,852,184	\$ 50,000	\$ 3,095,369
Special Revenue Fund	11,877	-	47,776	713,838	773,491
Enterprise Fund	840	4,567	24,575	121,185	151,167
Total Payable	<u>\$ 90,133</u>	<u>\$ 120,336</u>	<u>\$ 2,924,535</u>	<u>\$ 885,023</u>	<u>\$ 4,020,027</u>

e. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The City has two items that qualify for reporting in this category, one is related to the City's net pension liability and the other is related to the City's net OPEB liability and both are reported on the government-wide statements of net position. This deferred outflow includes City contributions to the retirement systems contributed subsequent to the measurement date of the net pension liability and net OPEB liability, as of September 30, 2022, the City's deferred outflows totaled \$67,768.

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.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

The City has two items that qualify for reporting in this category, one of which are reported on the government wide statements of net position and the other reported on the balance sheet at the governmental fund level.

Government-wide statements

One is the deferred inflow related to the net position liability and net OPEB liability and is the difference between expected and actual economic experiences and changes in actual earnings. This is amortized over subsequent accounting periods as determined by the actuary. As of September 30, 2022, the City’s deferred inflow totaled \$161,334.

Governmental fund level

This deferred inflow is property taxes received prior to the applicable budget year. As of September 30, 2022, the City’s deferred inflow totaled \$207,761.

Business-Type Activities

Deferred Outflows for Business-Type Activities was \$33,884 and Deferred Inflows for Business-Type Activities was \$80,667 as of September 30, 2022.

f. Deferred Revenue

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

	Special Revenue Funds	Total
Governmental		
Urban County	\$ 1,521	\$ 1,521
Total Deferred Revenue	\$ 1,521	\$ 1,521

g. Due from Other Funds

The City reports interfund balances between many of its funds. The total of all balances agrees with the sum of interfund balances presented in the statements of net position / balance sheets for governmental and proprietary funds. The interfund balances are operational and short-term in nature. Interfund balances as reflected in the schedule of findings and questioned costs, due not reconcile, as required by GAAP, and therefore, the reconciliation has been omitted.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

h. Capital Assets

Governmental Activities

	Beginning Balance October 1, 2021	Additions	Adjstments/ Deletions	Ending Balance September 30, 2022
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 29,305	\$ -	\$ -	\$ 29,305
Construction in Progress	-	-	-	-
Total Capital assets, not being depreciated	<u>29,305</u>	<u>-</u>	<u>-</u>	<u>29,305</u>
Capital Asset being depreciated:				
Buildings	1,899,670	-	-	1,899,670
Infrastructure	3,149,479	-	-	3,149,479
Machinery and Equipment	1,048,025	431,980	-	1,480,005
Total capital assets, being depreciated	<u>6,097,174</u>	<u>431,980</u>	<u>-</u>	<u>6,529,154</u>
Less accumulated depreciation for:				
Buildings	(896,896)	(73,582)	-	(970,478)
Infrastructure	(981,476)	(104,336)	-	(1,085,812)
Machinery and Equipment	(787,779)	(167,995)	-	(955,774)
Total accumulated depreciation	<u>(2,666,151)</u>	<u>(345,913)</u>	<u>-</u>	<u>(3,012,064)</u>
Total capital assets being depreciated, net	3,431,023	86,068	-	3,517,090
Governmental activities capital assets, net	<u>\$ 3,460,328</u>	<u>\$ 86,068</u>	<u>\$ -</u>	<u>\$ 3,546,395</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General Government	\$ 158,450
Public Safety	145,983
Highways and Streets	29,552
Economic Development and Assistance	3,419
Culture, Recreation and Parks	8,509
Total Depreciation Expense - Governmental Activities	<u>\$ 345,913</u>

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Capital Assets(continued)

Business-type Activities

	Beginning Balance October 1, 2021	Additions	Adjstments/ Deletions	Ending Balance September 30, 2022
Business-type Activities				
Capital Assets, not being depreciated:				
Land	\$ 130,000	\$ -	\$ -	\$ 130,000
Construction in Progress	-	-	-	-
Total Capital assets, not being depreciated	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>130,000</u>
Capital Asset being depreciated:				
Buildings	4,063,475	-	-	4,063,475
Infrastructure	19,584,087	-	-	19,584,087
Machinery and Equipment	-	-	-	-
Total capital assets, being depreciated	<u>23,647,562</u>	<u>-</u>	<u>-</u>	<u>23,647,562</u>
Less accumulated depreciation for:				
Buildings	(1,041,384)	(123,000)	-	(1,164,384)
Infrastructure	(2,611,212)	(652,803)	-	(3,264,015)
Machinery and Equipment	-	-	-	-
Total accumulated depreciation	<u>(3,652,596)</u>	<u>(775,803)</u>	<u>-</u>	<u>(4,428,399)</u>
Total capital assets being depreciated, net	19,994,966	(775,803)	-	19,219,163
Business-type activities capital assets, net	<u>\$ 20,124,966</u>	<u>\$ (775,803)</u>	<u>\$ -</u>	<u>\$ 19,349,163</u>

Depreciation expense was charged to business-type activities as follows:

Business-Type Activities:

Utility Fund	\$ 775,803
Total Depreciation Expense - Business-Type Activities	<u>\$ 775,803</u>

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

i. Long Terms Obligations

The following schedule summarizes the changes in long-term debt during year ended September 30, 2022:

Descriptions	Amounts
Loans Payable:	
Note Payable to Mil Encinos for \$625,000, interest of 3.50%.	\$ 75,000
Note Payable to Texas Leverage Fund for \$550,000, payable in monthly payments of \$3,869.84, including interest of 3.25%, due December 17, 2026.	<u>146,517</u>
Total Loans Payable	<u>\$221,517</u>
 Notes Payable:	
\$1,364,000 Certificates of Obligation from USDA 92-02 with annual interest rate of 3.75%, maturity date, November 1, 2050	\$1,160,000
\$460,000 Certificates of Obligation from USDA with annual interest rate of 4.50%, maturity date, November 1, 2050	383,868
\$1,605,000 Certificates of Obligation from USDA 92-04 with annual interest rate of 3.00%, maturity date, November 1, 2050	1,382,000
\$2,250,000 Certificates of Obligation from USDA 92-06 with annual interest rate of 3.00%, maturity date, November 1, 2053	<u>1,887,000</u>
Total Notes Payable	<u>\$4,812,868</u>

Loans Payable – Governmental Activities

Loans payable at September 30, 2022 is comprised of the following:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2023	\$ 117,303	\$ 4,135
2024	43,698	2,740
2025	45,140	1,298
2026	15,376	104
2027	-	-
Total	<u>\$ 221,517</u>	<u>\$ 8,277</u>

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Certificate of Obligation & Bonds-Business-Type Activities

Debt service requirements of bonds payables at September 30, 2022 are as follows:

<u>Year Ending September 30</u>	Business-Type Activities	
	Principal	Interest
2022	\$ 94,000	\$ 170,568
2023	98,000	167,423
2024	103,000	164,125
2025	106,000	160,935
2026	590,000	747,094
2027-2031	708,000	639,093
2032-2036	851,000	508,208
Thereafter	2,262,868	512,794
Total	\$ 4,812,868	\$ 3,070,240

j. Changes in Long-Term Liabilities

Long-term activity for the year ended September 30, 2022, was as followed:

	<u>Beginning Balance October 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance September 30, 2022</u>	<u>Due Within One Year</u>
Governmental Activities:					
Lones and Notes Payable	\$ 281,025	\$ -	\$ 59,508	\$ 221,517	\$ 117,303
Total bonds and leases payable	<u>281,025</u>	<u>-</u>	<u>59,508</u>	<u>221,517</u>	<u>117,303</u>
Other long-term liabilities					
Net pension liability	80,730	-	57,161	23,569	-
Net OPEB liability	18,990	1,815	-	20,805	-
Total other long-term liabilities	<u>99,720</u>	<u>1,815</u>	<u>57,161</u>	<u>44,374</u>	<u>-</u>
Total Governmental Activities	<u>\$ 380,745</u>	<u>\$ 1,815</u>	<u>\$ 116,669</u>	<u>\$ 265,891</u>	<u>\$ 117,303</u>

	<u>Beginning Balance October 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance September 30, 2022</u>	<u>Due Within One Year</u>
Business-Type Activities					
Bonds Payable	\$ 4,903,868	\$ -	\$ 91,000	\$ 4,812,868	\$ 94,000
Total bonds and leases payable	<u>4,903,868</u>	<u>-</u>	<u>91,000</u>	<u>4,812,868</u>	<u>94,000</u>
Other long-term liabilities					
Net pension liability	80,729	-	57,160	23,569	-
Net OPEB liability	18,989	1,815	-	20,805	-
Total other long-term liabilities	<u>99,718</u>	<u>1,815</u>	<u>57,160</u>	<u>44,374</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 5,003,586</u>	<u>\$ 1,815</u>	<u>\$ 148,160</u>	<u>\$ 4,857,242</u>	<u>\$ 94,000</u>

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

k. Tax Increment Reinvestment Zone

The City of Penitas, on December 26, 2006 executed a Tri-Party agreement between the City of Penitas and the Penitas Redevelopment authority. This hereby created and established in the depository bank, a fund to call the “REINVESTMENT ZONE NUMBER ONE, CITY OF PENITAS, TEXAS, TEXAS TAX INCREMENT FUND” (HEREIN CALLED THE “Tax Increment Fund”). Money in the Tax Increment Fund, from whatever source, may be disbursed from the Tax Increment Fund, invested and paid as permitted by the Act or by any agreements entered into pursuant to the Act, or as otherwise authorized by law.

l. Litigation

From time to time, the City is involved in routine litigation that arises in the ordinary course of operations. There are no pending significant legal proceedings to which the City is a party for which management believes the ultimate outcome would have a material adverse effect on the City’s financial position.

Arbitrage

The City has issued long-term debt for capital construction projects. These bonds are subject to the arbitrage regulations. Arbitrage regulations call for the return call for the return of the difference in interest revenue against interest expense. At September 30, 2022, there was no liability of arbitrage that would have been owed to the federal government.

m. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and commissions, injuries to employees (workman’s compensation), and natural disasters. During the fiscal year, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in exceeded coverage in any of the past three fiscal years. A copy of TML’s comprehensive annual report may be obtained by request at the following address:

Texas Municipal League
1821 Rutherford Lane, Suite 400
Austin, TX 78754-5128

n. Urban Country

The City of Penitas, Texas and other municipalities in Hidalgo Country participate in the Hidalgo Country’s “Urban Country” program. By being designed ad an “Urban Country”, Hidalgo Country and the participating cities are entitled to receive a formula share of entitlement CDBG program funds from the U.S Department of Housing and Urban Development (HUD).

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Monies received from HUD are allocated to the cities participating in the program based on agreed upon formulas. The County is responsible for the administration of the program and is ultimately responsible for including the grant activity related to the Urban County Program in its audit report as per CDBG guidelines. All monies received from HUD on this program are handled by county. The County pays the vendors or contractors directly for goods or services which benefit the difference cities. The County also reimburses the Cities for general administration cost incurred by those cities.

o. Affiliated Party Transactions

The Penitas Redevelopment Authority currently has a board member who is employed by Mil Encinos Development Ltd., who is in agreement with the Authority to undertake certain improvements within the Zone, and who currently has outstanding claims deemed eligible by Development Agreements with the Authority. The same board member also is employed by D&S Enterprise, G.E. Bell Properties and Gerald E. Bell Trust; all of which are current landowners with properties located inside the Authority, but currently have no claims associated with the Development Agreements.

p. Pension Plan

A. Plan Description

The City of Penitas participates as one of 901 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the Texas Government Code, Title 8, Subtitle G (TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS does not receive any funding from the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at tmrs.com.

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

B. Benefits Provided

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

At retirement, the member's benefit is calculated based on the sum of the member's contributions with interest, the city-financed monetary credits with interest, and their age at retirement and other actuarial factors. The retiring member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the total member's contributions and interest.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Plan Provisions:

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

	Plan Year 2021	Plan Year 2022
Employee Deposit Rate	6.00%	6.00%
Matching Ratio (City to Employee)	1.5 to 1	1.5 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60/5,0/20	60/5,0/20
Updated Service Credit	0% Repeating, Transfers	0% Repeating, Transfers
Annuity Increase (to Retirees)	0% of CPI Repeating	0% of CPI Repeating

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	44
Active employees	39
Total	85

C. Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the member's total compensation, and the city matching ratios are either 1:1 (1 to 1), 1.5:1 (1 ½ to 1) or 2:1 (2 to 1), both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The city's contribution rate is based on the liabilities created from the benefit plan option selected by the city and any changes in benefits or actual experience over time.

Employees for the City of Penitas were required to contribute 6.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Penitas were 3.97% and 3.94% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2022, were \$70,424 and were equal to the required contributions.

D. Net Pension Liability

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

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Actuarial assumptions:

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

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

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

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

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public and Private Markets	12.0%	7.22%
Real Estate	12.0%	6.85%
Hedge Funds	5.0%	5.35%
Private Equity	10.0%	10.00%
Total	100.0%	

Discount Rate:

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

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2020	\$ 959,801	\$ 798,341	\$ 161,460
Changes for the year:			
Service cost	155,933	-	155,933
Interest	67,852	-	67,852
Change of benefit terms	-	-	-
Difference between expected and actual experience	(64,708)	-	(64,708)
Changes of assumptions	-	-	-
Contributions - employer	-	66,505	(66,505)
Contributions - employee	-	102,363	(102,363)
Net investment income	-	105,009	(105,009)
Benefit payments, including refunds of employee contributions	(65,100)	(65,100)	-
Administrative expense	-	(482)	482
Other changes	-	3	(3)
Net changes	93,977	208,298	(114,321)
Balance at 12/31/2021	\$ 1,053,778	\$ 1,006,639	\$ 47,139

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 258,919	\$ 47,139	\$ (119,473)

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at tmrs.com.

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

For the year ended September 30, 2022, the City recognized pension expense of \$32,560.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 1,415	\$ 99,865
Changes in actuarial assumptions	-	236
Difference between projected and actual investment earnings (net of current year amortization)	-	53,087
Contributions subsequent to the measurement date	51,357	-
Total	\$ 52,772	\$ 153,188

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

\$51,357 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2023	\$ (34,156)
2024	(39,346)
2025	(32,291)
2026	(31,359)
2027	(11,944)
Thereafter	(2,677)

q. Other Post Employment Benefits (OPEB)

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post-employment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

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

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	2	
Inactive employees entitled to but not yet receiving benefits	2	
Active employees	39	
Total	43	

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Contributions

Employees for the City of Penitas were required to contribute 0.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.07% and 0.07% in calendar year 2021 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2022 were \$1,249 and were equal to the required contributions.

Net Pension Liability

The City's Net OPEB Liability was measured as of December 31, 2021, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

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

Inflation	2.50% per year
Overall Payroll Growth	3.50% to 11.50% per year - including inflation
Discount rate*	1.84%
Retiree's share of benefit related costs	\$0

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

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 – 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Mortality rates – disabled retirees – 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 1.84%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability.

Total OPEB Liability:

	Increase (Decrease)
	Total OPEB Liability
Balance at 12/31/2020	\$ 37,979
Changes for the year:	
Service cost	6,312
Interest	821
Change of benefit terms	-
Difference between expected and actual experience	(4,972)
Changes of assumptions	1,640
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refunds of employee contributions	(171)
Administrative expense	-
Other changes	-
Net changes	3,630
Balance at 12/31/2021	\$ 41,609

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

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

	1% Decrease in Discount Rate (0.84%)	Discount Rate (1.84%)	1% Increase in Discount Rate (2.84%)
City's total OPEB liability	\$ 54,133	\$ 41,609	\$ 32,424

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to OPEBs**

For the year ended September 30, 2022, the City recognized OPEB expense in the amount of \$7,948.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 719	\$ 6,866
Changes in actuarial assumptions	13,365	1,280
Difference between projected and actual investment earnings (net of current year amortization)	-	-
Contributions subsequent to the measurement date	912	-
Total	\$ 14,996	\$ 8,146

\$912 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended September 30:	
2023	\$ 815
2024	815
2025	815
2026	815
2027	815
Thereafter	1,863

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

r. GASB 87

The City implemented GASB 87 for reporting leases during the reporting period. A right-to-use lease is defined as a contract that conveys control of another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a lease, the lease must meet the definition of a "longterm" lease provided in GASB 87 and must meet the capitalization level set by the Council. The right-to-use lease liability is reported in the government-wide statements. The lease liability is calculated as the present value of the reasonably certain expected payments to be made over the term of the lease and the interest included in the lease payment is recorded as an expense.

With GASB 87, the initial measure of a new right-to-use lease arrangement is reported in government fund types as an other financial source during the current period. Monthly payments are reported as principal and interest payments during the reporting period of the fund level statements.

The right-to-use lease asset capitalization level is determined by the City Council. The term of the lease must be the noncancelable period during which the City has the right to use the tangible assets of another entity plus any periods in which either the lessee or the lessor has the sole option to extend the lease if it is reasonably certain the option will be exercised, plus any periods in which either the lessee or the lessor has the sole option to terminate the lease if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a short-term lease under GASB 87. If the lease is in a governmental fund, the full amount of the lease asset will be reported as an expenditure in the fund level statements the year the agreement is made. This statement had no significant impact to the City.

s. Prior Period Adjustments

As of September 30, 2022, a prior period adjustment of \$247,045 was made to the General Fund to adjust balance sheet accounts, which increased the ending net position and fund balance. Additionally, an adjustment of \$228,824 was made to the Utility Fund to adjust balance sheet accounts, which increased the ending net position and fund balance.

t. Evaluation of Subsequent Events

The Council has evaluated subsequent events through August 6, 2024, the date which the financial statements were available to be issued

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF PENITAS, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,177,691	\$ 1,177,691	\$ 1,094,691	\$ (83,000)
General Sales and Use Taxes	1,312,500	1,312,500	919,927	(392,573)
Franchise Tax	158,500	158,500	206,679	48,179
Penalty and Interest on Taxes	50,000	50,000	48,835	(1,165)
Licenses and Permits	58,000	58,000	245,396	187,396
Intergovernmental Revenue and Grants	1,244,627	1,244,627	916,838	(327,789)
Fines	388,500	388,500	277,222	(111,278)
Contributions & Donations from Private Sources	2,400	2,400	20,805	18,405
Other Revenue	45,767	45,767	14,074	(31,693)
Total Revenues	<u>4,437,985</u>	<u>4,437,985</u>	<u>3,744,467</u>	<u>(693,518)</u>
EXPENDITURES:				
Current:				
General Government	1,137,477	1,137,477	2,210,332	(1,072,855)
Public Safety	1,760,447	1,760,447	1,516,214	244,233
Public Works:				
Highways and Streets	1,092,333	1,092,333	754,137	338,196
Culture and Recreation	164,773	164,773	288,369	(123,596)
Debt Service:				
Principal on Debt and Right-to-Use Leases	18,555	18,555	18,555	-
Total Expenditures	<u>4,173,585</u>	<u>4,173,585</u>	<u>4,787,607</u>	<u>(614,022)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>264,400</u>	<u>264,400</u>	<u>(1,043,140)</u>	<u>(1,307,540)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	300,000	300,000	540,666	240,666
Transfers Out	(564,400)	(564,400)	-	564,400
Total Other Financing Sources (Uses)	<u>(264,400)</u>	<u>(264,400)</u>	<u>540,666</u>	<u>805,066</u>
Net Change	-	-	(502,474)	(502,474)
Fund Balance - October 1 (Beginning)	(1,378,865)	(1,378,865)	(1,378,865)	-
Prior Period Adjustment	-	-	247,045	247,045
Fund Balance - September 30 (Ending)	<u>\$ (1,378,865)</u>	<u>\$ (1,378,865)</u>	<u>\$ (1,634,294)</u>	<u>\$ (255,429)</u>

CITY OF PENITAS, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
A. Total Pension Liability			
Service Cost	\$ 155,933	\$ 144,093	\$ 140,351
Interest (on the Total Pension Liability)	67,852	57,636	45,755
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(64,708)	(19,091)	2,615
Changes of Assumptions	-	-	(434)
Benefit Payments, Including Refunds of Employee Contributions	(65,100)	(9,306)	(19,000)
Net Change in Total Pension Liability	\$ 93,977	\$ 173,332	\$ 169,287
Total Pension Liability - Beginning	959,801	786,469	617,182
Total Pension Liability - Ending	\$ 1,053,778	\$ 959,801	\$ 786,469
B. Total Fiduciary Net Position			
Contributions - Employer	\$ 66,505	\$ 68,575	\$ 65,765
Contributions - Employee	102,363	95,321	91,833
Net Investment Income	105,009	45,827	62,128
Benefit Payments, Including Refunds of Employee Contributions	(65,100)	(9,306)	(19,000)
Administrative Expense	(482)	(294)	(348)
Other	3	(11)	(10)
Net Change in Plan Fiduciary Net Position	\$ 208,298	\$ 200,112	\$ 200,368
Plan Fiduciary Net Position - Beginning	798,341	598,230	397,863
Plan Fiduciary Net Position - Ending	\$ 1,006,639	\$ 798,342	\$ 598,231
C. Net Pension Liability	\$ 47,139	\$ 161,459	\$ 188,238
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.53%	83.18%	76.07%
E. Covered Payroll	\$ 1,706,051	\$ 1,588,676	\$ 1,530,542
F. Net Pension Liability as a Percentage of Covered Payroll	2.76%	10.16%	12.30%

Note: GASB Codification, Vol. 2, P20.146 requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

As required by GASB 68, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

FY 2019 Plan Year 2018		FY 2018 Plan Year 2017		FY 2017 Plan Year 2016		FY 2016 Plan Year 2015	
\$	126,587	\$	133,868	\$	-	\$	-
	38,702		28,807		-		-
	-		-		-		-
	(55,292)		(9,547)		-		-
	-		-		-		-
	(5,773)		-		-		-
\$	104,224	\$	153,128	\$	-	\$	-
	512,958		359,830		-		-
\$	617,182	\$	512,958	\$	0	\$	0
\$	64,047	\$	76,517	\$	-	\$	-
	82,377		86,274		-		-
	(8,022)		12,550		-		-
	(5,773)		-		-		-
	(154)		(65)		-		-
	(7)		(3)		-		-
\$	132,468	\$	175,273	\$	-	\$	-
	265,395		90,122		-		-
\$	397,863	\$	265,395	\$	0	\$	0
\$	219,319	\$	247,563	\$	-	\$	-
	64.46%		51.74%		-		-
\$	1,372,956	\$	1,437,895	\$	-	\$	-
	15.97%		17.22%		-		-

CITY OF PENITAS, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE FISCAL YEAR 2022

	2022	2021	2020
Actuarially Determined Contribution	\$ 70,424	\$ 67,841	\$ 61,776
Contributions in Relation to the Actuarially Determined Contributions	(70,424)	(67,841)	(61,776)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,783,749	\$ 1,692,393	\$ 1,503,056
Contributions as a Percentage of Covered Payroll	3.95%	4.01%	4.11%

Note: GASB Codification, Vol. 2, P20.146 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

As required by GASB 68, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

	2019	2018	2017	2016
\$	65,765	\$ 64,047	\$ 76,517	\$ 42,559
	(65,765)	(64,047)	(76,517)	(42,559)
\$	-	\$ -	\$ -	\$ -
\$	1,530,542	\$ 1,372,956	\$ 1,437,895	\$ 792,715
	4.30%	4.66%	5.32%	5.37%

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CITY OF PENITAS, TEXAS
 NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Valuation Date: 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	14 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(1) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information: There were no benefit changes during the year.

CITY OF PENITAS, TEXAS
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
Total OPEB Liability			
Service Cost	\$ 6,312	\$ 4,607	\$ 3,673
Interest on the Total OPEB Liability	821	829	633
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(4,972)	(2,189)	1,001
Changes of Assumptions	1,640	6,976	7,384
Benefit Payments*	(171)	(159)	-
Net Change in Total OPEB Liability	3,630	10,064	12,691
Total OPEB Liability - Beginning	37,979	27,915	15,224
Total OPEB Liability - Ending	\$ 41,609	\$ 37,979	\$ 27,915
Covered Payroll	\$ 1,706,051	\$ 1,588,676	\$ 1,530,542
Total OPEB Liability as a Percentage of Covered Payroll	2.44%	2.39%	1.82%

*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

<u>FY 2019</u>		<u>FY 2018</u>	
<u>Plan Year 2018</u>		<u>Plan Year 2017</u>	
\$	3,432	\$	3,163
	522		399
	-		-
	(871)		-
	(1,928)		1,540
	-		-
	<u>1,155</u>		<u>5,102</u>
	<u>14,069</u>		<u>8,967</u>
\$	<u>15,224</u>	\$	<u>14,069</u>
\$	1,372,956	\$	1,437,895
	1.11%		0.98%

CITY OF PENITAS, TEXAS
 NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Valuation Date: 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	N/A
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	N/A
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	2.00%
Retirement Age	N/A
Mortality	<p>Service retirees: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.</p> <p>Disabled retirees: 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.</p>

Other Information: There were no benefit changes during the year.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF PENITAS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2022

	Crime Control & Prevention Fund	Police Dept Asset Forf Fund	Urban County Program Fund	GLO-CDR Grant Fund
ASSETS				
Cash and Cash Equivalents	\$ 71,003	\$ 23,013	\$ -	\$ -
Taxes Receivable	-	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-	-
Accounts Receivable, Net	76,983	-	-	35,875
Due from Other Governments	-	-	1,521	-
Due from Other Funds	-	1,667	-	-
Total Assets	\$ 147,986	\$ 24,680	\$ 1,521	\$ 35,875
LIABILITIES				
Due to Other Funds	\$ -	\$ -	\$ -	\$ 35,875
Unearned Revenues	-	-	1,521	-
Total Liabilities	-	-	1,521	35,875
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
FUND BALANCES				
Restricted Fund Balance:				
Retirement of Long-Term Debt	-	-	-	-
Other Restricted Fund Balance	147,986	24,680	-	-
Total Fund Balances	147,986	24,680	-	-
Total Liabilities, Deferred Inflows & Fund Balances	\$ 147,986	\$ 24,680	\$ 1,521	\$ 35,875

Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ 94,016	\$ 3,668	\$ 97,684
-	45,493	45,493
-	(2,275)	(2,275)
112,858	-	112,858
1,521	-	1,521
1,667	-	1,667
<u>\$ 210,062</u>	<u>\$ 46,886</u>	<u>\$ 256,948</u>
\$ 35,875	\$ -	\$ 35,875
1,521	-	1,521
<u>37,396</u>	<u>-</u>	<u>37,396</u>
-	43,218	43,218
<u>-</u>	<u>43,218</u>	<u>43,218</u>
-	3,668	3,668
172,666	-	172,666
<u>172,666</u>	<u>3,668</u>	<u>176,334</u>
<u>\$ 210,062</u>	<u>\$ 46,886</u>	<u>\$ 256,948</u>

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

	Crime Control & Prevention Fund	Police Dept Asset Forf Fund	Urban County Program Fund	GLO-CDR Grant Fund
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
General Sales and Use Taxes	457,747	-	-	-
Intergovernmental Revenue and Grants	-	-	415,527	35,875
Investment Earnings	292	66	-	-
Other Revenue	-	56,370	-	15
Total Revenues	<u>458,039</u>	<u>56,436</u>	<u>415,527</u>	<u>35,890</u>
EXPENDITURES:				
Current:				
General Government	-	-	415,527	35,890
Public Safety	223	7,148	-	-
Total Expenditures	<u>223</u>	<u>7,148</u>	<u>415,527</u>	<u>35,890</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>457,816</u>	<u>49,288</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out	(391,591)	(38,000)	-	-
Total Other Financing Sources (Uses)	<u>(391,591)</u>	<u>(38,000)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	66,225	11,288	-	-
Fund Balance - October 1 (Beginning)	<u>81,761</u>	<u>13,392</u>	<u>-</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 147,986</u>	<u>\$ 24,680</u>	<u>\$ -</u>	<u>\$ -</u>

Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 324,929	\$ 324,929
457,747	-	457,747
451,402	-	451,402
358	30	388
56,385	-	56,385
<u>965,892</u>	<u>324,959</u>	<u>1,290,851</u>
451,417	-	451,417
7,371	-	7,371
<u>458,788</u>	<u>-</u>	<u>458,788</u>
<u>507,104</u>	<u>324,959</u>	<u>832,063</u>
(429,591)	(324,175)	(753,766)
<u>(429,591)</u>	<u>(324,175)</u>	<u>(753,766)</u>
77,513	784	78,297
95,153	2,884	98,037
<u>172,666</u>	<u>3,668</u>	<u>176,334</u>

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REPORT ON INTERNAL CONTROL

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Raul Hernandez & Company, P.C.
Certified Public Accountants
5402 Holly Rd. Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditors' Report

City of Penitas, Texas
Penitas, Texas 78576

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Penitas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 6, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Penitas's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Penitas's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001, 2022-002 and 2022-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2022-001, 2022-002 and 2022-003 to be significant deficiencies.

Compliance and Other Matters

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

City of Penitas's Response to Findings

City of Penitas's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Penitas's response was not subjected to the auditing procedures applied in the audit and of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Raul Hernandez & Company, P.C.

Corpus Christi, Texas

August 6, 2024

**CITY OF PENTAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards - N/A

Internal control over major programs:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
N/A	

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

**CITY OF PENITAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

B. Financial Statement Findings

Finding No. 2022-001

Criteria: Controls relative to timely close-out of financial statements at year-end should be in place, in order to provide management with the necessary financial information to make appropriate decisions, and to ensure compliance with federal, state, and local reporting deadlines. Finding is a repeat from prior year.

Condition: A significant amount of time lapsed after year-end, before the financial statements were closed-out. Interfund liabilities, accounts payable, operating transfers, bank reconciliations and fund equities were not reconciled at year-end. General Fund budget variances for year-end expenditures were significantly overbudget. Additionally, the balance Due to the Economic Development Corporations continues to increase.

Effect: Timely financial statements were not available during the year, and at year-end. As such, monitoring of budget versus actual activity in the expenditures incurred and revenues realized may have been compromised, as well as other key decision-making processes, based on financial statements.

Recommendations: The City should review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements are prepared and available for management use, as well as for audit purposes.

Managements Response: The City Manager will review internal controls related to this area and will make recommendations to the City Council. The City Manager is the contact person and will oversee the corrective action.

Finding No. 2022-002

Criteria: Generally accepted accounting principles of the United States of America require that general infrastructure asses of the Governmental and Proprietary Funds be capitalized and depreciated. Finding is a repeat from prior year.

Condition: The City was unable to confirm the value of the capital assets acquired in prior years.

Effect: Potential misstatement of capital assets, accumulated depreciation and depreciation expense.

Recommendations: The City should review and amend their internal controls policies and procedures to ensure compliance with all applicable accounting requirements. The City should review the fixed asset schedule throughout the year and implement procedures to ensure asset additions and deletions are properly tracked and recorded.

Managements Response: The City Manager will review internal controls related to this area and will make recommendations to the City Council. The City Manager is the contact person and will oversee the corrective action.

**CITY OF PENITAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Finding No. 2022-003

Criteria: The City is required to maintain expenditures within budget.

Condition: The City overspent in several budgeted expenditure functions. This resulted in the large operating loss during the fiscal year as well as continue to increase the City's general fund deficit.

Effect: The City did not provide timely and accurate financials which prevented the City from monitoring their budget regularly and allocating resources effectively. Many material corrections were noted.

Recommendations: The City should review its internal controls relating to financial statement reporting and budgeting to ensure that timely financial statements are prepared and available for management use, as well as for audit purposes. The City cannot continue to experience further operating losses and must take immediate action to improve its operations and replenish the general fund balance.

Managements Response: The City Manager will review internal controls related to this area and will make recommendations to the City Council. The City Manager is the contact person and will oversee the corrective action.

C. Federal Award Findings and Questioned Costs
NONE

**CITY OF PENITAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Finding No. 2021-001

Criteria: Controls relative to timely close-out of financial statements at year-end should be in place, in order to provide management with the necessary financial information to make appropriate decisions, and to ensure compliance with federal, state, and local reporting deadlines. Finding is a repeat from prior year.

Condition: A significant amount of time lapsed after year-end, before the financial statements were closed-out. Interfund liabilities, accounts payable, operating transfers, bank reconciliations and fund equities were not reconciled at year-end. General Fund budget variances for year-end expenditures were significantly overbudget. Additionally, the balance Due to the Economic Development Corporations continues to increase.

Effect: Timely financial statements were not available during the year, and at year-end. As such, monitoring of budget versus actual activity in the expenditures incurred and revenues realized may have been compromised, as well as other key decision-making processes, based on financial statements.

Recommendations: The City should review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements are prepared and available for management use, as well as for audit purposes.

Managements Response: The City Manager will review internal controls related to this area and will make recommendations to the City Council. The City Manager is the contact person and will oversee the corrective action.

See current year finding 2022-001.

Finding No. 2021-002

Criteria: Generally accepted accounting principles of the United States of America require that general infrastructure assets of the Governmental and Proprietary Funds be capitalized and depreciated. Finding is a repeat from prior year.

Condition: The City was unable to confirm the value of the capital assets acquired in prior years.

Effect: Potential misstatement of capital assets, accumulated depreciation and depreciation expense.

Recommendations: The City should review and amend their internal controls policies and procedures to ensure compliance with all applicable accounting requirements. The City should review the fixed asset schedule throughout the year and implement procedures to ensure asset additions and deletions are properly tracked and recorded.

Managements Response: The City Manager will review internal controls related to this area and will make recommendations to the City Council. The City Manager is the contact person and will oversee the corrective action.

See current year finding 2022-002.

**CITY OF PENITAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Managements Response: City Manager will review internal controls related to this area and will make recommendations to the City Council. The City Manager is the contact person and will oversee the corrective action.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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112 E. Pecan Street
Suite 725
San Antonio, Texas 78205

210.277.6800 OFFICE
210.277.6810 FAX
winstead.com

September 30, 2024

**DEVELOPMENT CORPORATION OF PEÑITAS, INC.
SALES TAX REVENUE BONDS, TAXABLE SERIES 2024
DATED SEPTEMBER 15, 2024
IN THE ORIGINAL PRINCIPAL AMOUNT OF \$ _____**

We have acted as Bond Counsel for the Development Corporation of Peñitas, Inc. (the “Corporation”) in connection with the issuance of the bonds described above (the “Bonds”) for the sole purpose of providing legal advice and traditional legal services to the Corporation including rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and the laws of the State of Texas. We have not investigated or verified original proceedings, any records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial conditions or capabilities of the Corporation. We have relied solely on information and certifications furnished to us by the Corporation with respect to revenues of the Corporation pledged to the payment of the Bonds.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the Board of Directors of the Corporation (the “Board”); a resolution of the Board authorizing the Bonds adopted on September 18, 2024 (the “Resolution”); the Trust Agreement by and between the Corporation and BOKF, National Association (the “Trustee”) dated September 15, 2024 (the “Trust Agreement”); the “Purchase Contract” dated September 18, 2024 between the Underwriter named therein and the Corporation; the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the Corporation and other public officials; and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have examined executed Bond No. I-1.

Based on said examination, and in accordance with customary legal opinion practice, it is our opinion that:

1. The Corporation is a duly created and existing body corporate and instrumentality of the State of Texas with power to adopt the Resolution, perform its agreements therein, and issue the Bonds.
2. The Bonds have been authorized, sold, and delivered in accordance with law.
3. The Bonds constitute valid and legally binding obligations of the Corporation enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors’ rights generally and the exercise of judicial discretion in accordance with general principles of equity.

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Municipal Advisory Services
Provided By



4. The principal of and interest on the Bonds are payable solely from, and secured by a pledge and assignment of, the sales and use tax revenues collected by the City of Peñitas, Texas (the “City”) on behalf of the Corporation.

5. The Resolution, the Trust Agreement, and the Purchase Contract have been duly and lawfully authorized, executed, and delivered by, and are a valid and legally binding obligations of, the parties thereto in accordance with the respective terms and conditions.

The Corporation has reserved the right, subject to restrictions stated and adopted by reference in the Resolution to issue additional revenue bonds which may be made payable from and secured by a lien on and pledge of the sales tax on a parity with, or subordinate to, the lien on and pledge of the sales tax securing payment of the Bonds.

We do not, however, express any opinion nor make any comment with respect to the sufficiency of the security for or the marketability of the Bonds and have relied solely on certificates executed by officials of the Corporation with respect to the adequacy of the sales tax pledge for the payment of the Bonds.

The owners of the Bonds shall never have the right to demand payment thereof out of any funds raised or to be raised by ad valorem taxes, and the Bonds are payable solely from the sources described in the Resolution, and the Bonds and the interest thereon do not constitute, and shall never be considered as, obligations of the State of Texas, the City or any other political subdivision or agency of the State of Texas or of the Board of Directors of the Corporation, either individually or collectively.

In rendering these opinions, we have relied upon representations and certifications of the Corporation, the Corporation’s Financial Advisor, and the Underwriter of the Bonds with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified. 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 Corporation, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto.

Except as stated above, we express no opinion as to any federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,