

**NOTICE OF SALE
AND
BIDDING INSTRUCTIONS
ON
\$15,000,000*
CITY OF LOCKHART, TEXAS
(A political subdivision of the State of Texas located in Caldwell County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026**

Bids Due Tuesday, July 7, 2026 at 10:00 AM, CDT

THE SALE

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The City of Lockhart, Texas (the “City”), is offering for sale its \$15,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2026 (the “Certificates”). Bids may be submitted by either of two alternative procedures: (i) written bids; or (ii) electronic bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the City nor its Financial Advisor, Specialized Public Finance Inc. (the “Financial Advisor”), assume any responsibility or liability for a prospective bidding procedure.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Official Notice of Sale, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System (“PARITY”).

WRITTEN BIDS DELIVERED IN PERSON . . . Signed bids, plainly marked “Bid for Certificates,” should be addressed to “Mayor and City Council, City of Lockhart, Texas,” and delivered to the City’s Financial Advisor at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746 by 10:00 AM, CDT on July 7, 2026 (the “date of the bid opening”). All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Subscription to the i-Deal LLC’s BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Certificates on the terms provided in this Notice of Sale, and shall be binding upon the bidder as if made by a signed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder.

If any provision of the Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale shall control. Further information about PARITY, including any fee charged, may be obtained from Parity Customer Support, 40 West 23rd Street, 5th Floor, New York, New York 10010, (212) 404-8102.

For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the City, as described under “Basis for Award” below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and the Official Bid Form.

PLACE AND TIME OF BID OPENING . . . The bids for the Certificates will be publicly opened and read in the office of the Financial Advisor at 10:00 AM, CDT, Tuesday, July 7, 2026.

SIGNED OFFICIAL BID FORM . . . The bidder whose bid is the winning bid in accordance with this Notice of Sale will be notified immediately and must submit via email a Signed Official Bid Form in connection with the sale, by 10:30 AM CDT on the date of the sale to Monica Melvin, Specialized Public Finance Inc. at monica@spfmuni.com.

AWARD OF THE CERTIFICATES . . . The City Council will adopt an ordinance (the “Ordinance”) to authorize the sale of the Certificates and approve other related matters at a meeting scheduled to convene at 6:30 PM, CDT, on the date of the bid opening. In the Ordinance, the City Council will approve the sale of the Certificates to the qualifying bidder whose bid produces the lowest true interest cost rate on the Certificates (see “CONDITIONS OF THE SALE – BASIS FOR AWARD”). Sale of the Certificates will be made subject to the terms, conditions and provisions of the Ordinance. The City reserves the right to reject any and all bids and to waive any and all irregularities, except time of filing.

WITHDRAWAL OF THE BIDS . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for twelve hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION.” Preliminary, subject to change.

EXTENSION OF SALE DATE . . . The City reserves the right to extend the date and/or time for the receipt of bids by giving notice by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, CDT on Monday, July 6, 2026 of the new date and time of receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

THE CERTIFICATES

DESCRIPTION . . . The Certificates will be dated July 30, 2026 (the “Dated Date”). Interest will accrue from the Date of Initial Delivery (defined herein) of the Certificates and will be due on February 1, 2027, and each August 1 and February 1 thereafter until the earlier of maturity or prior redemption. The Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The Certificates will mature on August 1 in each year as follows:

MATURITY SCHEDULE*

Maturity (August 1)	Principal Amount	Maturity (August 1)	Principal Amount
2027	\$ 50,000	2037	\$ 800,000
***	***	2038	840,000
2029	295,000	2039	885,000
2030	540,000	2040	925,000
2031	570,000	2041	975,000
2032	630,000	2042	1,020,000
2033	660,000	2043	1,075,000
2034	690,000	2044	1,125,000
2035	725,000	2045	1,185,000
2036	765,000	2046	1,245,000

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION.” Preliminary, subject to change.

REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2036, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Purchaser (defined herein) elects to aggregate two or more consecutive maturities as Term Certificates.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES . . . Bidders may provide that all of the Certificates be issued as serial Certificates or may provide that any two or more consecutive annual principal amounts be combined into one or more Term Certificates.

BOOK-ENTRY-ONLY SYSTEM . . . The City intends to utilize the book-entry-only system of The Depository Trust Company (“DTC”) (see “THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM” in the Official Statement).

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar shall be BOKF, NA, Dallas, Texas (see “THE CERTIFICATES – PAYING AGENT/REGISTRAR” in the Official Statement).

SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from the levy and collection of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance.

Further details regarding the Certificates are set forth in the Official Statement.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES . . . **The Certificates will be sold in one block on an “All or None” basis, and at a price of not less than 102% of their par value and not more than 112% of their par value.** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 2.5% in rate. No coupon rate greater than 5.25% will be accepted. For Certificates having stated maturities on and after August 1, 2036, no reoffering yield producing a dollar price less than 97.5% for any individual maturity will be accepted. The high bidder will be

required to submit reoffering yields and dollar prices prior to award. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Certificates of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

POST BID MODIFICATION OF PRINCIPAL AMORTIZATION . . . After selecting the winning bid, the aggregate principal amount of the Certificates and the principal amortization schedule may be adjusted as determined by the City and its Financial Advisor in \$5,000 increments to reflect the actual interest rates. Such adjustments will not change the aggregate principal amount of the Certificates by more than 15% from the amount set forth herein. The dollar amount bid for the Certificates by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Certificates finally determined to be issued. The City will use its best efforts to communicate to the winning bidder any such adjustment within three (3) hours after the opening of bids. Purchaser's compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters.

In the event of any adjustment of the maturity schedule for the Certificates as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. The bid price for such an adjustment will reflect changes in the dollar amount of par amount of the Certificates from the selling compensation that would have been received based on the purchase price in the winning bid and the initial reoffering terms. Any such adjustment of the aggregate principal amount of the Certificates and/or the maturity schedule for the Certificates made by the City or its Financial Advisor shall be subsequent to the award of the Certificates to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE – BASIS FOR AWARD" herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

BASIS FOR AWARD . . . Subject to the City's right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Certificates will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the "Purchaser") making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the City. The True Interest Cost rate is that rate which, when used to compute the total present value as of the Date of Initial Delivery (defined herein) of all debt service payments on the Certificates on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Certificates plus any premium bid, if any. In the event of a bidder's error in interest cost rate calculations, the interest rates and premium, if any, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Purchaser will be required to provide the City with a breakdown of its "underwriting spread" including among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

ESTABLISHING THE ISSUE PRICE FOR THE CERTIFICATES . . . The City intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal bonds), which require, among other things, that the City receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the "Competitive Sale Requirement").

In the event that the bidding process does not satisfy the Competitive Sale Requirement, Bids will **not** be subject to cancellation and the winning bidder (i) agrees to promptly report to the City the first prices at which at least 10% of each maturity of the Certificates (the "First Price Maturity") have been sold to the Public on the Sale Date (the "10% Test") (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test) and (ii) agrees to hold-the-offering-price of each maturity of the Certificates that does not satisfy the 10% Test ("Hold-the-Price Maturity"), as described below.

In order to provide the City with information that enables it to comply with the establishment of the issue price of the Certificates under the Internal Revenue Code of 1986, as amended, the winning bidder agrees to complete, execute, and timely deliver to the City or to the City's municipal advisor, Specialized Public Finance Inc. (the "City's Financial Advisor") the appropriate certification as to the Certificates' "issue price" (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions, at least 5 business days before the Closing Date if the Competitive Sale Requirement is satisfied or within 5 business days of the date on which the 10% Test is satisfied with respect to all of the First Price Maturities. In the event the winning bidder will not reoffer any maturity of the Certificates for sale to the Public (as defined herein) by the Closing Date, the Issue Price Certificate may be modified in a manner approved by the City. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale and Bidding Instructions:

(i) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party,

(ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead

Underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public),

(iii) “Related Party” means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) “Sale Date” means the date that the Certificates are awarded by the City to the winning bidder.

All actions to be taken by the City under this Notice of Sale and Bidding Instructions to establish the issue price of the Certificates may be taken on behalf of the City by the City’s Financial Advisor, and any notice or report to be provided to the City may be provided to the City’s Financial Advisor.

The City will consider any bid submitted pursuant to this Notice of Sale and Bidding Instructions to be a firm offer for the purchase of the Certificates, as specified in the bid and, if so stated, in the Official Bid Form.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such third-party distribution agreement, as applicable, (A) to report the prices at which it sells to the Public the unsold Certificates of each maturity allocated to it until either all such Certificates have been sold or it is notified by the winning bidder that either the 10% Test has been satisfied as to the Certificates of that maturity, (B) to promptly notify the winning bidder of any sales of Certificates that, to its knowledge, are made to a purchaser who is a Related Party to an Underwriter, and (C) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder will assume that based on such agreement each order submitted by the underwriter, dealer or broker-dealer is a sale to the Public; and (ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Certificates to the Public to require each underwriter or dealer that is a party to such third-party distribution agreement to report the prices at which it sells to the Public the unsold Certificates of each maturity allocated to it until either all such Certificates have been sold or it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the public. Sales of any Certificates to any person that is a Related Party to an Underwriter shall not constitute sales to the public for purposes of this Notice of Sale.

By submitting a bid, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Certificates, that each Underwriter will neither offer nor sell any Hold-the-Price Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of (1) the close of the fifth (5th) business day after the Sale Date; or (2) the date on which the Underwriters have sold at least 10% of that Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public. The winning bidder shall promptly advise the City when the Underwriters have sold 10% of a Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

PROVISION OF TEXAS ETHICS COMMISSION FORM 1295 (“TEC FORM 1295”) . . . In accordance with Texas Government Code Section 2252.908 (the “Interested Party Disclosure Act”), the City may not award the Certificates to a bidder unless the winning bidder either:

(i) submits a Certificate of Interested Parties Form 1295 (the “TEC Form 1295”) to the City as prescribed by the Texas Ethics Commission (“TEC”), or

(ii) certifies in the Official Bid Form that it is exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

In the event that the bidder’s bid for the Certificates is the best bid received, the City, acting through its financial advisor, will promptly notify the winning bidder. That notification will serve as the City’s conditional verbal acceptance of the bid, and, unless the bidder is exempt from filing a TEC Form 1295, such notification will obligate the winning bidder to promptly file a completed TEC Form 1295, as described below, in order to allow the City to complete the award. The City reserves the right to reject any bid that does not comply with the requirements prescribed herein.

For purposes of completing the TEC Form 1295, box 2 is name of the governmental entity (*City of Lockhart, Texas*) and box 3 is the identification number assigned to this contract by the City (*Lockhart CO 2026*) and description of the goods or services

(Purchase of the City of Lockhart, Texas Combination Tax and Revenue Certificates of Obligation, Series 2026). **The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the “Disclosure Rules”)** require certain business entities contracting with the City to complete the TEC Form 1295 electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, complete the unsworn declaration, sign, and deliver, in physical form, the certified TEC Form 1295 that is generated by the TEC’s “electronic portal” to the City. The completed and signed TEC Form 1295 must be sent by email, to the City’s financial advisor at jennifer@spfmuni.com and bond counsel at jbfofowler@mphlegal.com as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the winning bidder must submit the TEC Form 1295 with original signatures by email to the City’s financial advisor at jennifer@spfmuni.com and Bond Counsel as follows: jbfofowler@mphlegal.com.

To the extent that the bidder is not exempt from filing a TEC Form 1295 and therefor makes such filing with the City, the Interested Party Disclosure Act and the TEC 1295 provide that such declaration is made “under oath and under penalty of perjury.” Consequently, a bidder should take appropriate steps prior to completion of the TEC Form 1295 to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the TEC Form 1295. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed TEC Form 1295 is received. The City reserves the right to reject any bid that does not satisfy the requirement of a completed TEC Form 1295, as described herein. Neither the City nor its consultants have the ability to verify the information included in a TEC Form 1295, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the TEC Form 1295. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC’s website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

VERIFICATIONS OF STATUTORY REPRESENTATIONS AND COVENANTS . . . The City will not award the Certificates to a bidder unless the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as amended (the “Government Code”), are included in the bid. As used in such verifications, “affiliate” means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. Liability for breach of any such verification during the term of this Agreement shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of the Official Bid Form or Official Notice of Sale, notwithstanding anything in the Official Bid Form or Official Notice of Sale to the contrary.

(i) No Boycott of Israel (Texas Government Code Chapter 2271): A bidder must verify that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and will not boycott Israel during the term of this Agreement. As used in the foregoing verification, “boycott Israel” has the meaning provided in Section 2271.001, Government Code.

(ii) Not a Sanctioned Company (Texas Government Code Chapter 2252): A bidder must represent that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Government Code. The foregoing representation excludes a bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

(iii) No Discrimination Against Firearm Entities or Firearm Trade Associations (Texas Government Code Chapter 2274): A bidder must verify that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and will not discriminate against a firearm entity or firearm trade association during the term of this Agreement. As used in the foregoing verification, “discriminate against a firearm entity or firearm trade association” has the meaning provided in Section 2274.001(3), Government Code.

(iv) No Boycott of Energy Companies (Texas Government Code Chapter 2276): A bidder must verify that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and will not boycott energy companies during the term of this Agreement. As used in the foregoing verification, “boycott energy companies” has the meaning provided in Section 2276.001(1), Government Code.

FURTHER STATE LAW COMPLIANCE AND STANDING LETTER REQUIREMENT . . . Each prospective bidder must have a standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General’s Office in the form included as Exhibit A to the All Bond Counsel Letter of the Texas Attorney General dated November 1, 2023 and any supplements thereto (the “All Bond Counsel Letter”). In submitting a bid, a bidder represents to the City that it has filed a standing letter in the form included as Exhibit A to the All Bond Counsel Letter without qualification and including current statutory citations and it has no reason to believe that the City may not be entitled to rely on the standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General’s Office. Bidder agrees that it will not rescind its standing letter at any time before the delivery of the Certificates unless same is immediately replaced with a standing letter meeting the requirements of the All Bond Counsel Letter.

The City will not accept a bid from a bidder (including each syndicate member listed on the Official Bid Form) that does not have such standing letter on file as of the deadline for bids for the Certificates. If requested by the City, the Purchaser agrees to provide such further representations, certifications or assurances in connection with the Covered Verifications (defined below), as of the

Delivery Date or such other date requested by the City including, but not limited to, a bring down certification as provided by the All Bond Counsel Letter.

THE CITY RESERVES THE RIGHT, IN ITS SOLE DISCRETION, TO REJECT THE BID OF ANY BIDDER WHO IS, OR WHOSE PARENT COMPANY, SUBSIDIARIES OR AFFILIATES ARE, ON A LIST MAINTAINED BY THE TEXAS COMPTROLLER OR THE TEXAS ATTORNEY GENERAL OF FINANCIAL COMPANIES BOYCOTTING ENERGY COMPANIES OR DISCRIMINATING AGAINST FIREARM ENTITIES.

BY SUBMITTING A BID, EACH BIDDER AGREES, SHOULD IT BE THE WINNING BIDDER, TO COOPERATE WITH THE CITY AND TAKE ANY ACTION NECESSARY TO FURTHER VERIFY AND CONFIRM COMPLIANCE WITH STATE LAW.

To the extent the Purchaser and each syndicate member listed on the Official Bid Form is unable to provide a Standing Letter in a form satisfactory to the Texas Office of the Attorney General, the City reserves the right to cash and accept the Good Faith Deposit (see “CONDITIONS OF THE SALE – GOOD FAITH DEPOSIT”).

THE LIABILITY OF THE BIDDER FOR BREACH OF ANY OF THE VERIFICATIONS MADE IN CONNECTION WITH CHAPTERS 2252, 2271, 2274, AND 2276, TEXAS GOVERNMENT CODE, AS AMENDED (COLLECTIVELY, THE “COVERED VERIFICATIONS”) SHALL SURVIVE UNTIL BARRED BY THE STATUTE OF LIMITATIONS, AND SHALL NOT BE LIQUIDATED OR OTHERWISE LIMITED BY ANY PROVISION OF THIS OFFICIAL NOTICE OF SALE OR THE OFFICIAL BID FORM. ADDITIONALLY, THE CITY RESERVES AND RETAINS ALL RIGHTS AND REMEDIES AT LAW AND IN EQUITY FOR PURSUIT AND RECOVERY OF DAMAGES, IF ANY, RELATING TO THE COVERED VERIFICATIONS.

IMPACT OF BIDDING SYNDICATE ON AWARD . . . For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

GOOD FAITH DEPOSIT . . . The winning bidder will be required to provide a deposit in the amount of \$300,000 to the City as bid security by 5:00 p.m. CDT on July 7, 2026. The bid security may be provided to the City (i) via wire transfer (the City or its financial advisor, Specialized Public Finance Inc., will provide wire instructions to the winning bidder), or (ii) in the form of a certified or cashier’s check made payable to the order of City in the amount of the deposit set forth above. The wire option will be retained by the City and: (a) will be applied, without allowance for interest, against the purchase price when the Certificates are delivered to and paid for by such winning bidder or (b) will be retained by the City as liquidated damages if the winning bidder defaults with respect to the terms of its bid or (c) will be returned to the winning bidder if the Certificates are not issued by the City for any reason which does not constitute a default by the winning bidder. If the check option is utilized, the check will be (a) returned uncashed to the winning bidder when the Certificates are delivered to and paid for by such winning bidder, (b) cashed by the City as liquidated damages if the winning bidder defaults with respect to the terms of its bid or (c) returned uncashed to the winning bidder if the Certificates are not issued by the City for any reason which does not constitute a default by the winning bidder.

DELIVERY OF THE CERTIFICATES AND ACCOMPANYING DOCUMENTS

CUSIP NUMBERS . . . It is anticipated that CUSIP identification numbers will appear on the Certificates, but neither the failure to print or type such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. The Financial Advisor will obtain CUSIP identification numbers from the CUSIP Service Bureau, New York, New York prior to the date of sale. CUSIP identification numbers will be made available to the purchaser at the time the Certificates are awarded or as soon thereafter as practicable. All expenses in relation to the assignment, printing or typing of CUSIP numbers on the Certificates shall be paid by the City.

DELIVERY OF CERTIFICATES . . . Delivery will be accomplished by the issuance of one Initial Certificate (also called the “Certificate” or “Certificates”), either in typed or printed form, in the aggregate principal amount of \$15,000,000*, payable in stated installments to the Purchaser, signed by the Mayor and City Clerk, approved by the Attorney General of Texas, and registered and manually signed by the Texas Comptroller of Public Accounts. Upon delivery of the Initial Certificate, it shall be immediately cancelled and one definitive Certificate for each maturity will be registered and delivered only to Cede & Co., and deposited with DTC in connection with DTC’s book-entry-only system. Delivery will be at a principal office of the Paying Agent/Registrar. Payment for the Certificates must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days’ notice of the time fixed for delivery of the Certificates. It is anticipated that delivery of the Certificates can be made on or about July 30, 2026 (the “Date of Initial Delivery”), and it is understood and agreed that the Purchaser will accept delivery and make payment for the Certificates by 10:00 AM, CDT, on July 30, 2026, or thereafter on the date the Certificate is tendered for delivery, up to and including August 13, 2026. If for any reason

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION.” Preliminary, subject to change.

the City is unable to make delivery on or before August 13, 2026, the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided such failure is due to circumstances beyond the City's reasonable control.

CONDITIONS TO DELIVERY . . . The obligation of the Purchaser to take up and pay for the Certificates is subject to the Purchaser's receipt of (a) the legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel for the City ("Bond Counsel") and (b) the no-litigation certificate, all as further described in the Official Statement. In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986 relating to the exemption of interest on the Certificates from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (no later than the close of business on the business day following the award of the bid) a certification as to their "issue price" substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions. In the event the successful bidder will not reoffer the Certificates for sale, such certificate may be modified in a manner approved by the City. In no event will the City fail to deliver the Certificates as a result of the Purchaser's inability to sell a substantial amount of the Certificates at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate not later than the close of business on the business day following the award of the bid, if its bid is accepted by the City. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

LEGAL OPINION . . . The Certificates are offered when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of and payment for the Certificates is subject to the receipt by the Purchaser of the approving opinion of the Attorney General of the State of Texas and the legal opinion of Bond Counsel, to the effect that the Certificates are valid and binding obligations of the City (except as the enforceability may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion) and that the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" in the Official Statement.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the City to deliver the Certificates and of the Purchaser to accept delivery of and pay for the Certificates are subject to the condition that at the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition of the City from those set forth in or contemplated by the "Preliminary Official Statement" as it may have been supplemented or amended through the date of sale.

NO-LITIGATION CERTIFICATE . . . On the date of delivery of the Certificates to the Purchaser, the City will deliver to the Purchaser a certificate, as of the same date, to the effect that to the best of the City's knowledge no litigation of any nature is pending or, to the best of the certifying officials' knowledge or belief, threatened against the City, contesting or affecting the Certificates; restraining or enjoining the authorization, execution, or delivery of the Certificates; affecting the provision made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Certificates; or affecting the validity of the Certificates or the title of the present officials of the City.

GENERAL

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

BLUE SKY LAWS . . . By submission of its bid, the Purchaser represents that the sale of the Certificates in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Certificates in accordance with the securities law of the states in which the Certificates are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Certificates or obtaining an exemption from registration in any state where such action is necessary, provided, however, that the City shall not be obligated to execute a general or special consent to service of process in any such jurisdiction.

NOT AN OFFER TO SELL . . . This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Certificates, but is merely notice of the sale of the Certificates. The offer to sell the Certificates is being made by means of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Certificates.

ISSUANCE OF ADDITIONAL DEBT . . . The City does not anticipate issuing additional tax supported bonds within the next twelve months. The City is in the process of issuing a series of bonds secured by revenues derived from the operation of its water and wastewater system.

RATING . . . The Certificates and the outstanding general obligation debt of the City has been rated “AA-” by S&P Global Ratings (“S&P”) without regard to credit enhancement. The City also has various issues outstanding which are rated based on insurance provided by various commercial insurance companies.

MUNICIPAL BOND INSURANCE . . . In the event the Certificates are qualified for municipal bond insurance, and the Purchaser desires to purchase such insurance, the cost therefor will be paid by the Purchaser. Any fees to be paid to the rating agencies as a result of said insurance will be paid by the City. It will be the responsibility of the Purchaser to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Certificates. Any rating downgrade by S&P of the bond insurance provider after the Bid Opening shall not relieve the Purchaser of its obligation under the heading “DELIVERY OF THE CERTIFICATES AND ACCOMPANYING DOCUMENTS”.

THE OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15C2-12 . . . The City has prepared the accompanying Official Statement and, for the limited purpose of complying with SEC Rule 15c2-12, deems such Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates. Representations made and to be made by the City concerning the absence of material misstatements and omissions in the Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the Official Statement.

The City will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven (7) business days from the sale date copies of the Official Statement reflecting interest rates and other terms relating to the initial reoffering of the Certificates. The cost of any Official Statement in excess of the number specified shall be prepared and distributed at the cost of the Purchaser. The Purchaser shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award. Except as noted above, the City assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement in connection with the offering or reoffering of the subject securities.

CONTINUING DISCLOSURE AGREEMENT . . . The City will agree in the Ordinance to provide certain periodic information and notices of specified events in accordance with Securities and Exchange Commission Rule 15c2-12, as described in the Official Statement under “CONTINUING DISCLOSURE OF INFORMATION.” The Purchaser’s obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

The City has approved the form and content of the Notice of Sale and Bidding Instructions, the Official Bid Form and Official Statement, and authorized the use thereof in its initial offering of the Certificates. On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Certificates, confirm its approval of the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Certificates by the Purchaser.

/s/ Lew White
Mayor, City of Lockhart, Texas

ATTEST:

/s/ Julie Bowerman
City Clerk, City of Lockhart, Texas

June 25, 2026

OFFICIAL BID FORM

Honorable Mayor and City Council
 City of Lockhart, Texas
 630 East Hopkins
 Lockhart, Texas 78666

July 7, 2026

Members of the City Council:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated June 25, 2026, of \$15,000,000* CITY OF LOCKHART, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026 (the "Certificates"), both of which constitute a part hereof.

For your legally issued Certificates, in the aggregate principal amount of \$15,000,000*, we will pay you a price of \$ _____, representing approximately _____% of the par value. Such Certificates mature August 1, in each of the years and in the amounts and interest rates shown below:

Maturity (August 1)	Principal Amount*	Interest Rate	Maturity (August 1)	Principal Amount*	Interest Rate
2027	\$ 50,000	%	2037	\$ 800,000	%
***	***	%	2038	840,000	%
2029	295,000	%	2039	885,000	%
2030	540,000	%	2040	925,000	%
2031	570,000	%	2041	975,000	%
2032	630,000	%	2042	1,020,000	%
2033	660,000	%	2043	1,075,000	%
2034	690,000	%	2044	1,125,000	%
2035	725,000	%	2045	1,185,000	%
2036	765,000	%	2046	1,245,000	%

Of the principal maturities set forth in the table above, Term Certificates have been created as indicated in the following table (which may include multiple Term Certificates, one term certificate or no term certificate if none is indicated). For those years which have been combined into Term Certificates, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term certificate maturity date shall mature in such year. The Term Certificates created are as follows:

Term Certificates Maturing August 1	Year of First Mandatory Redemption	Principal Amount	Interest Rate
_____	_____	\$ _____	%
_____	_____	\$ _____	%
_____	_____	\$ _____	%
_____	_____	\$ _____	%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TRUE INTEREST COST _____ %

The Initial Certificates shall be registered in the name of _____, which will, upon payment for the Certificates, be cancelled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the book-entry-only system.

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION." Preliminary, subject to change.

We are having the Certificates insured by _____ (the "Bond Insurer") at a premium of \$_____, said premium to be paid by the Purchaser. Any fees to be paid to the rating agency as a result of said insurance will be paid by the City.

A wire transfer or a cashiers or certified check to the City in the amount of \$300,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Certificates in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the City as complete liquidated damages against us. Please check the box below to designate your Good Faith Deposit option.

We agree to accept delivery of the Certificates utilizing the book-entry-only system through DTC and make payment for the Initial Certificate in immediately available funds in the Corporate Trust Division, BOKF, NA, Dallas, Texas, not later than 10:00 AM, CDT, on July 30, 2026, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the purchaser of the Certificates to complete the DTC Eligibility Questionnaire.

Upon notification of conditional verbal acceptance, the undersigned will either (1) complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Form 1295") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Form 1295 that is generated by the TEC's electronic portal will be printed, signed, notarized and sent by email to the City's Bond Counsel at jbfowler@mphlegal.com or (2) provide written confirmation of its exemption from such requirement to complete a Form 1295. The undersigned understands that, unless exempt, the failure to provide the certified Form 1295 will prohibit the City from awarding the enclosed bid.

The bidder makes the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as heretofore amended (the "Government Code"), in entering into this Official Bid Form. As used in the following verifications, "affiliate" means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. Liability for breach of any such verification through the delivery date of the Certificates shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of this Official Bid Form or the Notice of Sale, notwithstanding anything in this Official Bid Form or the Notice of Sale to the contrary.

(i) No Boycott of Israel Verification (Texas Government Code Chapter 2271). The Purchaser hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and will not boycott Israel during the term of this Agreement. As used in the foregoing verification, "boycott Israel" has the meaning provided in Section 2271.001, Government Code.

(ii) Not a Sanctioned Company (Texas Government Code Chapter 2252). The Purchaser represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Government Code. The foregoing representation excludes a bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

(iii) No Boycott of Energy Companies (Texas Government Code Chapter 2276). The Purchaser hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and will not boycott energy companies during the term of this Agreement. As used in the foregoing verification, "boycott energy companies" has the meaning provided in Section 2276.001(1), Government Code.

(iv) No Discrimination Against Firearm Entities or Firearm Trade Associations (Texas Government Code Chapter 2274). The Purchaser hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and will not discriminate against a firearm entity or firearm trade association during the term of this Agreement. As used in the foregoing verification, "discriminate against a firearm entity or firearm trade association" has the meaning provided in Section 2274.001(3), Government Code.

By submitting this bid, the Purchaser understands and agrees that if the Purchaser should fail or refuse to take up and pay for the Certificates in accordance with this bid, or it is determined that after the acceptance of this bid by the City that the Purchaser was found not to satisfy the requirements described in the Official Notice of Sale under the heading "CONDITIONS OF THE SALE" and as a result the Texas Attorney General will not deliver its approving opinion of the Certificates, then the check submitted herewith as the Purchaser's Good Faith Deposit shall be cashed and accepted by the City. IF THE CITY CASHES THE PURCHASER'S GOOD FAITH DEPOSIT AS DESCRIBED ABOVE, SUCH ACTION DOES NOT CONSTITUTE COMPLETE OR LIQUIDATED DAMAGES RELATED TO THE PURCHASER'S BREACH OF ANY OF THE COVERED VERIFICATIONS.

By submitting this bid, the Purchaser understands and agrees that the liability of the Purchaser for breach of any of the verifications made in connection with Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as amended and as described above

(collectively, the “Covered Verifications”) shall survive until barred by the statute of limitations, and shall not be liquidated or otherwise limited by any provision of this Official Bid Form or the Official Notice of Sale. Additionally, the Purchaser acknowledges and agrees that the City reserves and retains all rights and remedies at law and in equity for pursuit and recovery of damages, if any, relating to the Covered Verifications.

By submitting this bid, the Purchaser understands and agrees that it must have a standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General’s Office in the form included as Exhibit A to the All Bond Counsel Letter of the Texas Attorney General dated November 1, 2023 and any supplements thereto (the “All Bond Counsel Letter”). In submitting this bid, the Purchaser represents to the City that it has filed a standing letter in the form included as Exhibit A to the All Bond Counsel Letter without qualification and including current statutory citations and it has no reason to believe that the City may not be entitled to rely on the standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General’s Office. The Purchaser hereby further agrees that it will not rescind its standing letter at any time before the delivery of the Certificates unless same is immediately replaced with a standing letter meeting the requirements of the All Bond Counsel Letter.

The Purchaser agrees to provide such further representations, certifications or assurances in connection with the Covered Verifications, as of the delivery date of the Certificates or such other date requested by the City including, but not limited to, a bring down certification as provided by the All Bond Counsel Letter.

The Purchaser acknowledges that the City, in its sole discretion, has reserved the right to reject the bid of any bidder who is, or whose parent company, subsidiaries or affiliates are, on a list maintained by the Texas Comptroller or the Texas Attorney General of financial companies boycotting energy companies or discriminating against firearm entities.

The Purchaser understands and agrees that to the extent the Purchaser and each syndicate member listed on the Official Bid Form is unable to provide a Standing Letter in a form satisfactory to the Texas Office of the Attorney General, the City reserves the right to cash and accept the Good Faith Deposit (see “CONDITIONS OF THE SALE – Good Faith Deposit” in the Official Notice of Sale).

NOTWITHSTANDING ANYTHING CONTAINED HEREIN, THE REPRESENTATIONS AND COVENANTS CONTAINED IN THIS OFFICIAL BID FORM SHALL SURVIVE TERMINATION OF THIS OFFICIAL BID FORM OF THE PURCHASER TO PURCHASE THE CERTIFICATES UNTIL THE STATUTE OF LIMITATIONS HAS RUN.

By submitting this bid, the Purchaser understands and agrees that if Purchaser should fail or refuse to take up and pay for the Certificates in accordance with this bid, or it is determined that after the acceptance of this bid by the City that the Purchaser was found not to satisfy the requirements described in the Notice of Sale and Bidding Instructions under the heading “CONDITIONS OF SALE” and as a result the Texas Attorney General will not deliver its approving opinion of the Certificates, then the check submitted herewith as Purchaser’s Good Faith Deposit shall be cashed and accepted by the City as full and complete liquidated damages.

At the request of the City, the undersigned agrees to execute further written certification as may be necessary or convenient for the City to establish compliance with these laws.

The undersigned agrees to complete, execute, and deliver to the City, at least five business days prior to delivery of the Certificates, a certificate relating to the “issue price” of the Certificates in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the City and Bond Counsel.

The undersigned certifies that the Purchaser [is]/[is not] exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Name of Purchaser or Manager

Authorized Representative

Phone Number

Signature

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by City of Lockhart, Texas, this the 7th day of July, 2026.

ATTEST:

City Clerk
City of Lockhart, Texas

Mayor
City of Lockhart, Texas

ISSUE PRICE CERTIFICATE

(Sales where at least 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters (“Purchaser”), with respect to the purchase at competitive sale of the Combination Tax and Revenue Certificates of Obligation, Series 2026 issued by the City of Lockhart, Texas (“Issuer”) in the principal amount of \$15,000,000* (“Certificates”), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Certificates by the Purchaser, the Purchaser’s reasonably expected initial offering prices of each maturity of the Certificates with the same credit and payment terms (the “Expected Offering Prices”) to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Certificates, as attached to this Certificate as Schedule A. The Expected Offering Prices are the prices for the Certificates used by the Purchaser in formulating its bid to purchase the Certificates.

(b) The Purchaser had an equal opportunity to bid to purchase the Certificates and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Certificates.

(d) The Purchaser [has] [has not] purchased bond insurance for the Certificates. The bond insurance has been purchased from _____ (the “Insurer”) for a fee of \$ _____ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer’s commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm’s-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Certificates, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term “Underwriter” means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public) to participate in the initial sale of the Certificates to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Certificates. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this _____, 2026.

[NAME OF PURCHASER], as Purchaser

By: _____

Name: _____

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION.” Preliminary, subject to change.

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

ISSUE PRICE CERTIFICATE

(Form of Certificate if less than 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters (“Purchaser”), with respect to the purchase at competitive sale of the Combination Tax and Revenue Certificates of Obligation, Series 2026 issued by the City of Lockhart, Texas (“Issuer”) in the principal amount of \$15,000,000* (“Certificates”), hereby certifies and represents, based on its records and information, as follows:

(a) [Other than the Certificates maturing in _____ (“Hold-the-Price Maturities”), the][The] first prices at which at least ten percent (“Substantial Amount”) of the principal amount of each maturity of the Certificates having the same credit and payment terms (“Maturity”) was sold to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter (“Public”) are their respective initial offering prices, as listed in the pricing wire or equivalent communication for the Certificates that is attached to this Certificate as Schedule A.

(Add (b) and (c) only if winning bidder designates one or more maturities as Hold-the-Price Maturities)

(b) On or before the first day on which there is a binding contract in writing for the sale of the Certificates (“Sale Date”), the Purchaser offered to the Public each Maturity of the Hold-the-Price Maturities at their respective initial offering prices, as set forth in Schedule A hereto (“Initial Offering Price”).

(c) As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Initial Offering Price for each such Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells at least ten percent of a Hold-the-Price-Maturity of the Certificates to the Public at no higher price than the Initial Offering Price for such Maturity.

(d) The Purchaser [has] [has not] purchased bond insurance for the Certificates. The bond insurance has been purchased from _____ (the “Insurer”) for a fee of \$ _____ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer’s commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm’s-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Certificates, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term “Underwriter” means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public) to participate in the initial sale of the Certificates to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Certificates. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this _____, 2026.

[NAME OF PURCHASER], as Purchaser

By: _____

Name: _____

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION.” Preliminary, subject to change.

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

PRELIMINARY OFFICIAL STATEMENT
Dated June 25, 2026

Rating:
S&P: “AA-”
Insurance: Applied For
(See “OTHER INFORMATION - RATING”)

NEW ISSUE – BOOK-ENTRY-ONLY

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



\$15,000,000*
CITY OF LOCKHART, TEXAS
(A political subdivision of the State of Texas located in Caldwell County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026

Dated Date: July 30, 2026

Due: August 1, as shown page 2

Interest accrues from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the \$15,000,000* City of Lockhart, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026 (the “Certificates”) will accrue from the Date of Initial Delivery (defined below), will be payable February 1 and August 1 of each year commencing February 1, 2027, until maturity or earlier redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM”). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see “THE CERTIFICATES – PAYING AGENT/REGISTRAR”).

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued by the City of Lockhart, Texas (the “City”) pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, the City’s Home-Rule Charter, and an ordinance to be adopted by the City Council of the City of Lockhart, Texas on July 7, 2026 (the “Ordinance”). The Certificates are direct obligations of the City payable from the levy and collection of a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance. The Certificates will be additionally payable from a limited pledge of surplus revenues of the City’s water and wastewater system not to exceed \$1,000 (see “THE CERTIFICATES – AUTHORITY FOR ISSUANCE” and “THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT”).

PURPOSE . . . Proceeds from the sale of the Certificates will be used for paying contractual obligations incurred in connection with improving, constructing, equipping, acquiring, or designing the City’s: (1) parks and recreation facilities, to include an aquatics center, recreation center and improving Lions Park; (2) public safety facilities, including the acquisition of land for police and fire facilities; (3) existing administration building; and (4) the payment of professional services in connection therewith including fiscal and engineering fees and the costs of issuing the Certificates.

CUSIP PREFIX: 539753
MATURITY SCHEDULE
SEE PAGE 2 HEREOF

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Purchaser and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel (see “APPENDIX C – FORM OF BOND COUNSEL’S OPINION”).

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on July 30, 2026 (the “Date of Initial Delivery”).

BIDS DUE ON TUESDAY, JULY 7, 2026, BY 10:00 AM, CDT

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION” in the Notice of Sale. Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULE*

8/1 Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
2027	\$ 50,000			
***	***			
2029	295,000			
2030	540,000			
2031	570,000			
2032	630,000			
2033	660,000			
2034	690,000			
2035	725,000			
2036	765,000			
2037	800,000			
2038	840,000			
2039	885,000			
2040	925,000			
2041	975,000			
2042	1,020,000			
2043	1,075,000			
2044	1,125,000			
2045	1,185,000			
2046	1,245,000			

(Interest Accrues from the Date of Initial Delivery)

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION” in the Notice of Sale. Preliminary, subject to change.

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REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2036, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – OPTIONAL REDEMPTION”). Additionally, the Certificates may be subject to mandatory redemption in the event the Purchaser elects to aggregate two or more consecutive maturities as Term Certificates.

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For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission, this document constitutes a Preliminary Official Statement of the City with respect to the Certificates that has been deemed “final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover pages and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the City 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. This Official Statement does not constitute an offer to sell Certificates in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

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

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

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

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

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

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

CITY OFFICIALS, STAFF AND CONSULTANTS

Policy making and supervisory functions are the responsibility of and are vested in a seven-member City Council (“Council”). The Council serves three-year staggered terms with elections being held in November of each year. The City’s Home Rule Charter delegates administrative responsibilities to the City Manager. Various support services are provided by independent consultants and advisors.

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>
Lew White Mayor	14 Years	November 2026
Jeffry Michelson Mayor Pro-Tem	11 Years	November 2026
Taylor Burge Council Member	6 Months	November 2028
Juan Mendoza Council Member	14 Years	November 2028
John Castillo Council Member	15 Years	November 2028
John Lairsen Council Member	2½ Years	November 2026
Brad Westmoreland Council Member	10½ Years	November 2027

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>
Joseph Resendez	City Manager
Keeli Michna	Director of Finance
Julie Bowermon	City Secretary

CONSULTANTS AND ADVISORS

Auditors Brooks Watson & Co.
Houston, Texas

Bond Counsel McCall, Parkhurst & Horton L.L.P.
Austin, Texas

Financial Advisor..... Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Keeli Michna Director of Finance City of Lockhart, Texas 308 West San Antonio Street Lockhart, Texas 78644 512/398-3461	or	Jennifer Ritter Douglas Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 512/275-7300
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OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Lockhart, Texas (the “City”) is a political subdivision located in Caldwell County, and operating as a home-rule city under the laws of the State of Texas and a charter originally approved by voters in 1973. The City operates under the City Council/Manager form of government where the Mayor and six Councilmembers are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer.
- The City is approximately 11.20 square miles in area (see “APPENDIX A – GENERAL INFORMATION REGARDING THE CITY”).
- THE CERTIFICATES** The \$15,000,000* City of Lockhart, Texas Combination Tax and Revenue Certificates of Obligation, Series 2026 (the “Certificates”) are issued as serial Certificates maturing on August 1 in the years 2027 and 2029 through and including 2046 unless any maturities are designated as Term Certificates (see “THE CERTIFICATES – GENERAL”).
- PAYMENT OF INTEREST** Interest on the Certificates will accrue from the Date of Initial Delivery and is payable February 1, 2027, and each August 1 and February 1 thereafter until maturity or prior redemption (see “THE CERTIFICATES – GENERAL”).
- AUTHORITY FOR ISSUANCE** The Certificates are being issued by the City of Lockhart, Texas (the “City”) pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, the City’s Home-Rule Charter, and an ordinance to be adopted by the City Council of the City (the “Ordinance”) on July 7, 2026 authorizing and establishing the terms of sale of the Certificates and finalizing certain characteristics thereof related to final pricing (see “THE CERTIFICATES – AUTHORITY FOR ISSUANCE”).
- SECURITY FOR THE CERTIFICATES.** The Certificates constitute direct obligations of the City, payable from the levy and collection of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City and a limited pledge of surplus revenues of the City’s water and wastewater system not to exceed \$1,000 as provided in the Ordinance (see “THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT”).
- REDEMPTION** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2036, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – OPTIONAL REDEMPTION”). Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Purchaser elects to aggregate two or more consecutive maturities as Term Certificates.
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption “TAX MATTERS” herein including the alternative minimum tax on certain corporations.
- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used for paying contractual obligations incurred in connection with improving, constructing, equipping, acquiring, or designing the City’s: (1) parks and recreation facilities, to include an aquatics center, recreation center and improving Lions Park; (2) public safety facilities, including the acquisition of land for police and fire facilities; (3) existing administration building; and (4) the payment of professional services in connection therewith including fiscal and engineering fees and the costs of issuing the Certificates (see “THE CERTIFICATES – PURPOSE”).
- MUNICIPAL BOND RATING** The Certificates and the outstanding general obligation debt of the City has been rated “AA-” by S&P Global Ratings (“S&P”) without regard to credit enhancement. The City also has various issues outstanding which are rated by S&P based on municipal bond insurance policies issued by various commercial insurance companies (see “OTHER INFORMATION – RATING”).

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION” in the Notice of Sale. Preliminary, subject to change.

MUNICIPAL BOND INSURANCE The City has applied for bond insurance on the Certificates. If qualified, the purchase of municipal bond insurance for the Certificates will be at the option and expense of the Purchaser. Any fees to be paid to the rating agencies as a result of such insurance will be paid by the City

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

PAYMENT RECORD The City has never defaulted on payment of its debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year ⁽²⁾	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita	% Total Collections to Date
2022	14,379	\$ 1,225,108,223	\$ 85,201	\$ 18,650,000	1.52%	\$ 1,297	99.44%
2023	14,985	1,246,509,432	83,184	20,585,000	1.65%	1,374	99.05%
2024	15,318	1,464,219,844	95,588	18,410,000	1.26%	1,202	98.11%
2025	15,960	1,696,468,091	106,295	35,110,000	2.07%	2,200	97.21%
2026	18,591	1,927,572,514	103,683	47,755,000 ⁽³⁾	2.48%	2,569	97.62% ⁽⁴⁾

(1) Source: The City.

(2) Includes Self-Supporting Debt (as defined herein). See “Table 1 – VALUATION, EXEMPTION AND AD VALOREM TAX DEBT, FOOTNOTE 3.”

(3) Projected; includes the Certificates. Preliminary, subject to change.

(4) Partial collections as of May 31, 2026

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**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$15,000,000*
CITY OF LOCKHART, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$15,000,000* City of Lockhart, Texas Combination Tax and Revenue Certificates of Obligation, Series 2026 (the “Certificates”). The Certificates are being issued pursuant to an ordinance to be approved by the City Council on the date of sale of the Certificates (the “Ordinance”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City of Lockhart, Texas (the “City”) and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s financial advisor, Specialized Public Finance Inc., Austin, Texas (the “Financial Advisor”), by electronic mail or upon payment of reasonable copying, handling, and delivery charges. Contact information for the Financial Advisor can be found on page 4 hereof.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the City’s undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City first adopted its Home Rule Charter in 1973. The City operates under the City Council/Manager form of government where the Mayor and six Councilmembers are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The estimated 2025 population is 15,960. The City covers approximately 11.20 square miles. For more information regarding the City, see “APPENDIX A – GENERAL INFORMATION REGARDING THE CITY.”

THE CERTIFICATES

GENERAL . . . The Certificates are dated July 30, 2026 and mature on August 1 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the Date of Initial Delivery, will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 1 and August 1 of each year until maturity or earlier redemption commencing February 1, 2027.

The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein (“Book-Entry-Only-System”). **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See “BOOK-ENTRY-ONLY SYSTEM.”

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued by the City pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, the City’s Home-Rule Charter, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from the levy and collection of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance. In addition, the Certificates also have a limited pledge of surplus revenues of the City’s water and wastewater system not to exceed \$1,000.

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION” in the Notice of Sale. Preliminary, subject to change.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt ("Tax Debt") of the City within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits the City's maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for ad valorem tax debt service. The City's Fiscal Year 2026 tax rate is \$0.5541, of which \$0.1428 is for debt service.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2036, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot or any other customary random method the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Purchaser elects to aggregate two or more consecutive maturities as Term Certificates.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first-class, postage prepaid, to the registered owners of the Certificate to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificates, will send any notice of redemption, notice of proposed amendment to an Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificate called for redemption or any other action premised or any such notice.

Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificate held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificate from the beneficial owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificates for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

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

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar and the City so long as a book-entry-only system is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Certificates and such redemption will

not be conducted by the City or the Paying/Agent Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Certificates for redemption.

DEFEASANCE . . . General. The Ordinance provides for the defeasance of the Certificates and the termination of the pledge of taxes and all other general covenants in the Ordinance under certain circumstances. Any Certificate and the interest thereon shall be deemed to be paid, retired and no longer outstanding (“Defeased Certificate”) within the meaning of an Ordinance, except to the extent provided below for the Paying Agent/Registrar to continue payments and for the City to retain the right to call Defeased Certificates to be paid at maturity, when the payment of all principal and interest payable with respect to such Defeased Certificates to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (1) 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 (2) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or a commercial bank or trust company for such payment (a) lawful money of the United States of America sufficient to make such payment, (b) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the City with the Paying Agent/Registrar for the payment of its services until after all Defeased Certificates shall have become due and payable or (c) any combination of (a) and (b). At such time as a Certificate shall be deemed to be a Defeased Certificate, such Certificate and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged as provided in the Ordinance, and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (2) above shall be deemed a payment of a Certificate when proper notice of redemption of such Certificates shall have been given, in accordance with the Ordinance. Any money so deposited with the Paying Agent/Registrar or a commercial bank or trust company may at the discretion of the City also be invested in Defeasance Securities, as hereinafter defined, maturing in the amounts and at the times as set forth in the Ordinance, and all income from such Defeasance Securities received by the Paying Agent/Registrar or a commercial bank or trust company that is not required for the payment of the Certificates and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Ordinance for the payment of principal of the Certificates and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Certificates and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Certificates shall have become due and payable, the Paying Agent/Registrar or a commercial bank or trust company shall perform the services of Paying Agent/Registrar for such Defeased Certificates the same as if they had not been defeased, and the City shall make proper arrangements to provide and pay for such services as required by an Ordinance.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or a commercial bank or trust company for the payment of Certificates and such Certificates shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Ordinance shall be made without the consent of the registered owner of each Certificate affected thereby.

Retention of Rights. To the extent that, upon the defeasance of any Defeased Certificates to be paid at its maturity, the City retains the right under State law to later call any Defeased Certificates which is subject to redemption (i.e. the Certificates) in accordance with the provisions of the Ordinance, the City may call such Defeased Certificates for redemption upon complying with the provisions of State law and upon the satisfaction of the provisions set forth above regarding such Defeased Certificates as though it was being defeased at the time of the exercise of the option to redeem the Defeased Certificates and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Certificates.

Investments. Any escrow agreement or other instrument entered into between the City and the Paying Agent/Registrar or a commercial bank or trust company pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar or a commercial bank or trust company for the payment of Defeased Certificates may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent/Registrar or a commercial bank or trust company which is not required for the payment of the Certificates and interest thereon, with respect to which such money has been so deposited, will be remitted to the City.

For the purposes of these provisions, “Defeasance Securities” means (i) Federal Securities, (ii) noncallable Certificates of an agency or instrumentality of the United States of America, including Certificates that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the Certificates are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Certificates, are rated as to investment quality by a nationally recognized investment rating firm no less than “AAA” or its equivalent and (iv) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Certificates. For the purposes of these provisions, “Federal

Securities” means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporation).

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

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

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

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

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

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit

notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Certificates held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The City may decide to discontinue 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 to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but neither the City nor the Purchaser take any responsibility for the accuracy thereof.

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

Information concerning DTC and the book-entry-only system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, or the Purchaser.

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

TRANSFER, EXCHANGE AND REGISTRATION . . . If the book-entry-only system should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or

in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT. . . The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the fifteenth calendar day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date,” which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Holder of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

CERTIFICATEHOLDERS’ REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or an Ordinance and the City’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 Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

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

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by the city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 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 City’s sovereign immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

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

Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificateholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail

itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS TO THE ORDINANCE . . . In the Ordinance, the City has reserved the right to amend such Ordinance without the consent of any owners for the purpose of amending or supplementing such Ordinance to (1) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the owners, (2) grant additional rights or security for the benefit of the owners, (3) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the owners, (4) qualify an Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (5) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interest of the owners.

The Ordinance further provides that the owners of the respective Certificates aggregating in principal amount 51% of the outstanding Certificates for such series shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the owners in original principal amount of the then outstanding Certificates for such series no amendment may be made of the purpose of: (1) making any change in the maturity of any of the outstanding respective series of Certificates; (2) reducing the rate of interest borne by any of the outstanding respective series of Certificates; (3) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding respective series of Certificates; (4) modifying the terms of payment of principal or of interest or redemption premium on outstanding respective series of Certificates, or imposing any condition with respect to such payment; or (5) changing the minimum percentage of principal amount of the respective series of Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

PURPOSE . . . Proceeds from the sale of the Certificates will be used for paying contractual obligations incurred in connection with improving, constructing, equipping, acquiring, or designing the City's: (1) parks and recreation facilities, to include an aquatics center, recreation center and improving Lions Park; (2) public safety facilities, including the acquisition of land for police and fire facilities; (3) existing administration building; and (4) the payment of professional services in connection therewith including fiscal and engineering fees and the costs of issuing the Certificates.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Certificates will be applied approximately as follows:

SOURCES:

Par Amount of Certificates	
Reoffering Premium	_____
Total Sources	=====

USES:

Deposit to Construction Fund	
Deposit to Debt Service Fund	
Purchaser's Compensation	
Costs of Issuance	_____
Total Uses	=====

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TAX INFORMATION

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

2025 LEGISLATIVE SESSION . . . The regular session of the 89th Texas Legislature convened on January 14, 2025 and concluded on June 2, 2025 (the "89th Regular Session"). The Texas Legislature (the "Legislature") meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded two special sessions since the conclusion of the 89th Regular Session.

During the 89th Regular Session, the Legislature adopted a general appropriations act and legislation affecting ad valorem taxation procedures and the procedures of issuing debt affecting cities among other legislation affecting cities. Adopted legislation affecting ad valorem taxation procedures includes legislation that (i) changes the procedure for the adoption of and imposes limits on the amount of an M&O tax increase that may be adopted in response to declared disasters, (ii) makes technical modifications to the tax rate setting process, and (iii) makes intangible personal property exempt from ad valorem taxation. The City is reviewing the impact of the legislation approved during the 89th Regular Session and the two called special sessions and cannot make any representations regarding the likelihood of future legislative sessions or the full impact of the legislation approved during the 89th Regular Session or the two called special sessions at this time.

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

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

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

Through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2025 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,160,000 (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. After the 2025 tax year, through December 31, 2026 (unless extended by the Legislature), the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "TAX INFORMATION – CITY AND TAXPAYER REMEDIES."

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

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

Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable.

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

PERSONAL PROPERTY . . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. Pursuant to voter approval at a Statewide election held on November 4, 2025, legislation passed by the Legislature and signed by the Governor during the 89th Regular Session will provide a person to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

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

OTHER EXEMPT PROPERTY . . . Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property. Beginning with the 2026 tax year, all intangible personal property is exempt from State taxation.

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

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

For a discussion of how the various exemptions described above are applied by the City, see “TAX INFORMATION – CITY APPLICATION OF TAX CODE” herein.

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

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

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

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

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

“unused increment rate” means greater of (i) zero; or (ii) the sum of the foregone revenue amount for each of the tax years 2022 through 2024 divided by the current total value.

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

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

A city must annually calculate its “voter-approval tax rate” and “no-new-revenue tax rate” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year. Furthermore, beginning for tax year 2026, if the Texas Attorney General determines that a city did not have its audited annual financial statements on file with its city secretary before the 180th day after the city’s fiscal year end, the city may not adopt an ad valorem tax rate that exceeds the city’s no-new-revenue tax rate.

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

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

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

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

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

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

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

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

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

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount,” as determined by the State Comptroller, and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$61,349.201 for the 2025 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

DEBT TAX RATE LIMITATIONS . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

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

CITY APPLICATION OF TAX CODE . . . The City grants a freeze to the market value of the residence homestead of persons 65 years of age or older; the disabled are also granted a freeze on their homestead.

The City has **not** granted an additional exemption of the market value of residence homesteads; minimum exemption of \$5,000.

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

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

The City does not tax nonbusiness personal property.

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

The City does collect the additional one-half cent sales tax for economic development.

The City has adopted a tax abatement policy.

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TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT

2025/26 Market Valuation Established by the Caldwell County Appraisal District (excluding totally exempt property)		\$ 2,239,270,563
Less Exemptions/Reductions at 100% Market Value:		<u>311,698,049</u>
2025/26 Taxable Assessed Valuation		\$ 1,927,572,514
City Funded Debt Payable from Ad Valorem Taxes (as of 6-1-2026)	\$ 35,110,000	(1)
The Certificates	<u>15,000,000</u>	(2)
Total Debt Payable from Ad Valorem Taxes		\$ 50,110,000
Less: Self-Supporting Debt		<u>(7,682,520)</u>
Net Debt Payable from Ad Valorem Taxes		\$ 42,427,480
Interest and Sinking Fund (as of 6-1-2026)		\$ 3,864,377
Ratio Tax Supported Debt to Taxable Assessed Valuation		2.20%

2026 Estimated Population - 18,591
 Per Capita Taxable Assessed Valuation - \$103,683
 Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$2,282⁽²⁾

- (1) Includes self-supporting debt. Preliminary, subject to change.
 (2) See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION” in the Notice of Sale. Preliminary, subject to change.
 (3) Self-supporting debt payable from a combination of Utility System, economic development corporation, Electric system, Drainage System, Hotel and Airport revenue, including the Series 2015 Combination Tax and Limited Revenue Certificates of Obligation, the Series 2016 General Obligation Refunding Bonds and the 2022 Limited Tax Notes. Preliminary, subject to change.

TABLE 2 – VALUATION AND AD VALOREM TAX DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Fiscal Year ⁽²⁾	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2022	14,379	\$ 1,225,108,223	\$ 85,201	\$ 18,650,000	1.52%	\$ 1,297
2023	14,985	1,246,509,432	83,184	20,585,000	1.65%	1,374
2024	15,318	1,464,219,844	95,588	18,410,000	1.26%	1,202
2025	15,960	1,696,468,091	106,295	35,110,000	2.07%	2,200
2026	18,591	1,927,572,514	103,683	47,755,000 ⁽³⁾	2.48%	2,569

- (1) Source: The City.
 (2) Includes Self-Supporting Debt. See “Table 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT, FOOTNOTE 3.”
 (3) Projected; includes the Certificates. Preliminary, subject to change.

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TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2022	\$ 0.6354	\$ 0.5297	\$ 0.1057	\$ 5,752,038	97.78%	99.44%
2023	0.6006	0.4504	0.1502	7,059,211	97.32%	99.05%
2024	0.5348	0.4136	0.1212	7,497,410	96.17%	98.11%
2025	0.5093	0.4067	0.1026	8,304,453	97.21%	97.21%
2026	0.5541	0.4113	0.1428	10,141,629	95.56% ⁽¹⁾	97.62% ⁽¹⁾

(1) Partial collections as of May 31, 2026.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2025/26	% of Total
	Taxable Assessed Valuation	Taxable Assessed Valuation
F3 Lockhart Owner LLC	\$ 27,997,610	1.45%
Exeter 130 Cahill LP	22,125,000	1.15%
Legacy-Lockhart Partner LP	20,000,000	1.04%
Wal-Mart Stores Texas LP	19,195,910	1.00%
Wild Canyon Lockhart Owner LLC	18,841,764	0.98%
Pilot-Legacy Stanton II LLC	15,015,000	0.78%
Pilot-Legacy Stanton LLC	14,985,000	0.78%
Economy Realty Ltd.	12,909,440	0.67%
Sunchase Square Apartments LLC	10,565,329	0.55%
Lockhart Village Partners LP	9,276,749	0.48%
	<u>\$ 170,911,802</u>	<u>8.87%</u>

GENERAL OBLIGATION DEBT LIMITATION . . . The City has no legal debt limit established by its Home Rule Charter or Ordinance. For a description of limitations on the City’s maximum ad valorem tax rate, see “THE CERTIFICATES – TAX RATE LIMITATION.”

TABLE 5 – TAX ADEQUACY⁽¹⁾

2026 Principal and Interest Requirements	\$ 2,579,943
\$0.1380 Tax Rate at 97% Collection Produces	\$ 2,580,249
Average Annual Principal and Interest Requirements, 2026-2046	\$ 3,125,027
\$0.1672 Tax Rate at 97% Collection Produces	\$ 3,126,214

(1) Includes the Certificates and self-supporting debt. See “TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT.”

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TABLE 6 – ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt as of 5/31/2026
Caldwell County	\$ 64,820,000	29.03%	\$ 18,817,246
Austin Community College District	657,685,000	0.46%	3,025,351
Lockhart Independent School District	206,374,856	51.96%	107,232,375
City of Lockhart	42,427,480 ⁽¹⁾	100.00%	42,427,480
Total Direct and Overlapping Tax Supported Debt			\$ 171,502,452
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			8.90%
Per Capita Overlapping Tax Supported Debt			\$ 9,225

(1) Includes the Certificates and excludes Self-Supporting Debt. Preliminary, subject to change. See “Table 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT, FOOTNOTE 3.”

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DEBT INFORMATION

TABLE 7 – PRO-FORMA AD VALOREM TAX DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Ad Valorem Tax Debt ⁽¹⁾			The Certificates ⁽²⁾			Less: System-Supported Debt Service ⁽³⁾	Total Tax-Supported Debt Service
	Principal	Interest	Total	Principal	Interest	Total		
2026	\$ 2,355,000	\$ 1,430,165	\$ 3,785,165	\$ -	\$ -	\$ -	\$ 1,205,221	\$ 2,579,943
2027	2,520,000	1,387,521	3,907,521	50,000	752,083	802,083	1,203,098	3,506,506
2028	2,745,000	1,303,411	4,048,411	-	747,500	747,500	1,208,044	3,587,867
2029	2,415,000	1,209,644	3,624,644	295,000	747,500	1,042,500	991,016	3,676,128
2030	1,855,000	1,133,388	2,988,388	540,000	732,750	1,272,750	720,987	3,540,151
2031	1,930,000	1,061,263	2,991,263	570,000	705,750	1,275,750	721,323	3,545,689
2032	2,005,000	984,625	2,989,625	630,000	677,250	1,307,250	720,306	3,576,569
2033	2,085,000	904,850	2,989,850	660,000	645,750	1,305,750	721,371	3,574,229
2034	2,170,000	820,263	2,990,263	690,000	612,750	1,302,750	720,919	3,572,093
2035	2,260,000	732,075	2,992,075	725,000	578,250	1,303,250	722,435	3,572,890
2036	1,015,000	638,500	1,653,500	765,000	542,000	1,307,000	-	2,960,500
2037	1,065,000	587,750	1,652,750	800,000	503,750	1,303,750	-	2,956,500
2038	1,120,000	534,500	1,654,500	840,000	463,750	1,303,750	-	2,958,250
2039	1,175,000	478,500	1,653,500	885,000	421,750	1,306,750	-	2,960,250
2040	1,235,000	419,750	1,654,750	925,000	377,500	1,302,500	-	2,957,250
2041	1,295,000	358,000	1,653,000	975,000	331,250	1,306,250	-	2,959,250
2042	1,360,000	293,250	1,653,250	1,020,000	282,500	1,302,500	-	2,955,750
2043	1,430,000	225,250	1,655,250	1,075,000	231,500	1,306,500	-	2,961,750
2044	1,500,000	153,750	1,653,750	1,125,000	177,750	1,302,750	-	2,956,500
2045	1,575,000	78,750	1,653,750	1,185,000	121,500	1,306,500	-	2,960,250
2046	-	-	-	1,245,000	62,250	1,307,250	-	1,307,250
	<u>\$ 35,110,000</u>	<u>\$ 14,735,202</u>	<u>\$ 49,845,202</u>	<u>\$ 15,000,000</u>	<u>\$ 9,715,083</u>	<u>\$ 24,715,083</u>	<u>\$ 8,934,720</u>	<u>\$ 65,625,565</u>

(1) Includes Self-Supporting Debt. See “Table 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT, Footnote 3.”

(2) Interest calculated at an assumed rate for purposes of illustration. Preliminary, subject to change.

(3) Preliminary, subject to change.

ANTICIPATED ISSUANCE OF AD VALOREM TAX DEBT . . . The City does not anticipate issuing additional general obligation debt within the next twelve months.

AUTHORIZED BUT UNISSUED DEBT – NONE

TABLE 8 – INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated General Bond Debt Service Requirements, Fiscal Year Ending 9-30-2026.....	\$ 3,785,165
2025 Interest and Sinking Fund Tax Levy @ 96% Collection.....	\$ 2,642,471
2025 Interest and Sinking Fund Balance (as of 9-30-2025).....	1,764,912
Self-Supported Debt Service ⁽¹⁾	<u>1,205,221</u>
Estimated Balance, 9-30-2026.....	<u>\$ 1,827,439</u>

(1) See “Table 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT.”

OTHER OBLIGATIONS . . . The City has other lease obligations totaling \$736,263 as of June 30, 2026. See “Notes to the Financial Statements” in APPENDIX B.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (“TMRS”), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see “APPENDIX B – EXCERPTS FROM THE CITY’S ANNUAL FINANCIAL REPORT”.)

FINANCIAL INFORMATION

TABLE 9 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ending September 30,				
	2025	2024	2023	2022	2021
<u>Revenues:</u>					
Property Taxes	\$ 6,279,835	\$ 5,745,973	\$ 5,269,471	\$ 4,795,142	\$ 4,580,385
Sales and Other Taxes	3,680,995	3,440,587	3,116,773	2,788,296	2,514,148
Fines, Fees and Forfeitures	308,495	197,611	219,121	249,589	375,031
Licenses and Permits	695,752	1,655,574	1,218,468	422,933	301,370
Intergovernmental and Grants	503,642	444,667	444,063	428,420	507,585
Charges for Services	130,306	207,149	163,321	251,869	88,883
Investment	585,702	703,726	599,520	82,355	13,171
Miscellaneous	93,710	73,997	249,470	227,179	166,781
Total Revenues	\$ 12,278,437	\$ 12,469,284	\$ 11,280,207	\$ 9,245,783	\$ 8,547,354
<u>Expenditures:</u>					
General Government	\$ 2,511,288	\$ 1,976,953	\$ 1,753,222	\$ 1,951,658	\$ 1,653,335
Public Safety	8,229,238	7,034,019	6,270,986	6,498,281	5,864,676
Public Works	5,552,959	2,316,893	2,124,476	1,256,222	2,085,802
Health and Welfare	28,920	33,778	9,086	114,006	20,539
Culture and Recreation	1,678,071	1,474,707	1,803,531	1,038,779	1,242,185
Community Development	1,238,878	1,993,255	1,933,286	955,377	707,075
Debt Service	284,826	226,010	183,604	137,519	55,861
Capital Outlay	2,979,583	-	-	-	-
Total Expenses	\$ 22,503,763	\$ 15,055,615	\$ 14,078,191	\$ 11,951,842	\$ 11,629,473
Excess (Deficiency) of Revenues over Expenditures	\$ (10,225,326)	\$ (2,586,331)	\$ (2,797,984)	\$ (2,706,059)	\$ (3,082,119)
Operating Transfers In	\$ 4,466,180	\$ 4,348,354	\$ 4,362,999	\$ 3,319,534	\$ 3,369,050
Sale of Capital Assets	201	7,300	34,000	-	251,942
Capital Lease Issuances	-	-	-	-	383,923
Bond Issuance	-	-	-	2,330,000	-
Lease Issuance	320,354	320,532	-	322,861	-
Operating Transfers Out	(58,447)	(70,730)	(71,560)	(65,459)	(137,620)
Total Other Financing Sources	\$ 4,728,288	\$ 4,605,456	\$ 4,325,439	\$ 5,906,936	\$ 3,867,295
Net Increase (Decrease)	\$ (5,497,038)	\$ 2,019,125	\$ 1,527,455	\$ 3,200,877	\$ 785,176
Fund Equity at Beginning of Year	14,426,095	12,406,970	10,879,515	7,678,638	6,893,462 ⁽¹⁾
Adjustments to Fund Balance	-	-	-	-	-
Fund Equity at End of Year	\$ 8,929,057	\$ 14,426,095	\$ 12,406,970	\$ 10,879,515	\$ 7,678,638

Source: The City's audited financial statements.

(1) Restated.

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TABLE 10 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1.0% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, which remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

In addition, the Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the estimated amount of the sales tax revenues to be generated in the current year.

Subject to the approval of a majority of the voters in a local option election, state law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues.

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

In addition to the one percent (1%) local sales and use tax referred to above, voters in the City have approved the imposition of an additional one-half percent (½%) sales and use tax for property tax reduction. The following table sets forth the City’s historical collections of sales and uses taxes.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2022	\$ 3,522,934	61.25%	\$ 0.2876	\$ 245
2023	3,993,513	56.57%	0.3204	267
2024	4,452,635	59.39%	0.3041	291
2025	4,927,415	59.33%	0.2905	309
2026	3,261,541 ⁽²⁾	32.16%	0.1692	175

Source: Texas State Comptroller’s Office.

(1) Effective May 31, 2020, the Comptroller amended 34 Texas Administrative Code Section 3.334 to change how sales tax on certain internet and telephone orders are collected. Currently, the City is evaluating the amendments, however, there is the potential for a significant negative impact on total sales tax collected in future years.

(2) Partial collections as of May 31, 2026.

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INVESTMENTS

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . . Under State law the City is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State 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 City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City 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 City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as its custodian of the banking deposits issued for its 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 SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA") that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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; (12) 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 United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described under this heading, or (b) 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, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the City and deposited with the City or a third party selected and approved by the City.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed

through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

An eligible political subdivision such as the City may enter into hedging transactions, including hedging contracts, related security, credit, and insurance agreements in connection with commodities used the political subdivision in its general operations, with the acquisition or construction of a capital project, or with an eligible project. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the SEC. The political subdivision may pledge to such contracts or agreements any general or special revenues or funds it is authorized by law to pledge to the payment of any other obligations. The political subdivision's cost under such contract or agreement may be considered an operations and maintenance expense, an acquisition costs, a project cost, or a construction expense.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

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

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

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

Under State law, the City 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 family relationships with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City, (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement attesting to these requirements, (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) restrict the investment in no-load money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, (9) provide specific investment training for the treasurer, the chief financial officer (if not the treasurer) and the investment officer, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

The City's current investment policy is in compliance with the State law requirements described above.

TABLE 11 – CURRENT INVESTMENTS . . . As of March 31, 2026, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Book Value</u>	<u>Percentage</u>
Cash	\$ 272,507	0.03%
Investment Pools	<u>58,576,635</u>	<u>99.07%</u>
TOTAL	<u>\$ 59,123,822</u>	<u>100.00%</u>

As of such date, the market value of the investment portfolio was approximately 100.00% of its book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (“MSRB”). This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS . . . The City shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the City, financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 11 and (2) if not provided as part such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in APPENDIX B hereto or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in the official statement, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall 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. If the City 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 City otherwise would be required to provide financial information and operating data pursuant to this section.

NOTICE OF CERTAIN EVENTS . . . The City will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The City will provide notice of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of Beneficial Owners of the Certificates, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement or a trustee.

“Financial Obligation” means (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

The City intends the words used in (i)(7) and (ii)(10) above and the definition of financial obligation in this Section to have the meanings as when they are used in the Rule, as evidenced by Securities and Exchange Commission Release No. 34-83885, dated August 20, 2018.

The City will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under “Annual Reports.”

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under “ANNUAL REPORTS” and “NOTICE OF CERTAIN EVENTS” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

Financial information and operating data to be provided as set forth above under the subcaption “ANNUAL REPORTS” 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 web site or filed with the SEC.

Should the Rule be amended to obligate the City to make filing with or provide notices to entities other than the MSRB, the City agrees to undertake such obligation with respect to the Certificates in accordance with the Rule as amended.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above.

The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

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

COMPLIANCE WITH PRIOR AGREEMENTS . . . During the last five years, the City has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule, with the submission of their Annual Comprehensive Financial Report (“ACFR”). In previous continuing disclosure undertakings, the City has agreed to supply financial information and operating data with respect to the City of the general type of information contained in specified tables of the applicable Official Statement. The annual financial information filings made by the City as a result of these undertakings for the last year has consisted of the related City’s ACFR, which the City believes contains the information of the general type of information contained in the specified tables. Please note that certain information in the specified tables is not presented explicitly in the ACFRs but can be derived from information in the ACFRs.

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LEGAL MATTERS

LEGAL OPINIONS . . . Issuance of the Certificates is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial certificates are valid and binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, and a limited pledge of surplus revenues of the City's water and wastewater system not to exceed \$1,000, upon all taxable property within the City. Issuance of the Certificates is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Certificates, to the effect that the Certificates are valid and binding obligations of the City payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described herein under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Certificates. In connection with the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the City. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are based upon a percentage of Certificates actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Certificates.

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

NO-LITIGATION CERTIFICATE . . . The City will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Certificates, executed by both the Mayor and City Manager of the City, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the Initial Purchaser to take and pay for the Certificates, and of the City to deliver the Certificates, are subject to the condition that, up to the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition (financial or otherwise) of the City from that set forth or contemplated in the Official Statement.

CYBERSECURITY RISKS

The City, like other municipalities in the State, utilizes technology in conducting its operations. As a user of technology, the City potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the City may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the City. The City employs a multi-layered approach to combating cybersecurity threats. While the City deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the City's finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial. Further, cybersecurity breaches could expose the City to litigation and other legal risks, which could cause the City to incur other costs related to such legal claims or proceedings.

OTHER INFORMATION

RATING . . . The Certificates and the outstanding general obligation debt of the City has been rated "AA-" by S&P Global Ratings ("S&P") without regard to credit enhancement. The City also has various issues outstanding which are rated by S&P based on municipal bond insurance policies issued by various commercial insurance companies. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflects only the respective views of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Certificates.

LITIGATION . . . The City is a defendant in various tort claims and lawsuits involving general liability, civil rights actions, and various contractual matters. In the opinion of the City's management and the City Attorney's office, the outcome of the pending litigation will not have a material adverse effect on the City's financial position or operations of the City.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE . . . The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor

have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – RATING” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor’s fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Specialized Public Finance Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and 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 Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City’s actual results could differ materially from those in such forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

INITIAL PURCHASER . . . After requesting competitive bids for the Certificates, the City accepted the bid of _____ (the “Purchaser”) to purchase the Certificates at the interest rates shown on page 2 of the Official Statement at a price of approximately _____ % of par. The Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

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

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

UPDATING THE OFFICIAL STATEMENT DURING THE UNDERWRITING PERIOD . . . If, subsequent to the date of the Official Statement to and including the date the Purchaser of a series of Certificates is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the City learns or is notified by the Purchaser of a series of Certificates of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the City will promptly prepare and supply to the Purchaser of a series of Certificates a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Purchaser of a series of Certificates, unless the Purchaser of a series of Certificates elects to terminate its obligation to purchase the Certificates as described in the notice of sale accompanying this Official Statement. The obligation of the City to update or change the Official Statement will terminate when the City delivers the Certificates to the Purchaser of a series of Certificates (the "end of the underwriting period" within the meaning of the Rule), unless the Purchaser of a series of Certificates provides written notice to the City that less than all of the Certificates have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Certificates have been sold to ultimate customers. In the event the Purchaser of a series of Certificates provides written notice to the City that less than all of the Certificates have been sold to ultimate customers, the Purchaser of a series of Certificates agrees to notify the City in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

CERTIFICATION AS TO OFFICIAL STATEMENT . . . The City, acting by and through its City Council in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the City and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the City, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the City has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the City delivers the Certificates to the Purchaser of a series of Certificates at closing, unless extended by the Purchaser. All information with respect to the resale of the Certificates subsequent to the "end of the underwriting period" is the responsibility of the Purchaser.

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

Mayor
City of Lockhart, Texas

ATTEST:

City Clerk
City of Lockhart, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City of Lockhart (the “City”) is a residential and retail center located 30 miles south of Austin, Texas on U.S. Highway 183. The City is the county seat of Caldwell County, which borders Travis County’s southeastern boundary.

Lockhart ISD has one kindergarten, five grammar schools, one junior high, one freshman campus and one high school. Plans are presently taking place to build an additional grammar school to meet our growing population. Two hospitals serve the Lockhart area, the Seton Edgar B. Davis Hospital in Luling, and Central Texas Medical Center in San Marcos. The Lockhart Caldwell County Emergency Medical Service is second to none, with three mobile intensive care units in the fleet.

INDUSTRY AND TRADE

Historically, the City has been an agricultural trade center for the county and the surrounding area, but in recent years the City has become increasingly industrial and commercially oriented with principal manufacturers producing special scientific laboratory equipment, clothing and livestock and poultry feeds. Many residents are employed in the Austin area, particularly in the southeast industrial area of Austin where Dell Computer, Motorola, Tracor and various other industries are located.

Among the major employers in the City are the following:

<u>Company Name</u>	<u>Employment</u>
Lockhart ISD	790
Walmart	225
MTC (Lockhart Correctional)	175
H.E.B. Food Store	170
Pegasus School, Inc.	149
City of Lockhart	149
Ziegenfelder	100
Student Transportation Specialist	85
Pure Castings Company	75
Fashion Glass & Mirror	70

In 1973, the Lockhart Industrial Foundation and Industrial Park were founded. Located in southeast Lockhart on Farm-to-Market Highway 20, the park consists of 61.4 acres. The park is now totally occupied by a cookie factory, machine shop and a manufacturer of scientific equipment.

Also located in the Industrial Park is a 1,000 bed secured community residential work program facility (prison) which includes a detention complex of approximately 110,000 square feet operated by the Wackenhut Corporation for the State of Texas. The 28-acre tract upon which the project is constructed also includes, within the secure perimeter of the project, a separate 50,000 square foot industries building housing various industries.

LABOR MARKET PROFILE

<u>Caldwell County</u>		
	<u>May 2026</u>	<u>May 2025</u>
Total Civilian Labor Force	26,322	26,053
Total Employment	25,330	25,167
Total Unemployment	992	886
Percent Unemployed	3.8%	3.4%
<u>State of Texas</u>		
	<u>May 2026</u>	<u>May 2025</u>
Total Civilian Labor Force	15,915,979	15,807,386
Total Employment	15,238,091	15,182,232
Total Unemployment	677,888	625,154
Percent Unemployed	4.3%	4.0%

Source: Texas Employment Commission, Austin, Texas

RECREATION AND TOURISM

The City has five (5) City parks totaling 58 acres which provide a swimming pool, four (4) basketball courts, two (2) large softball fields, four (4) little league size baseball fields, one (1) senior/big league baseball field, two (2) large soccer fields, five (5) covered pavilions, an amphitheater with stage, a one (1) acre fishing lake with covered pier, and numerous covered and uncovered picnic tables with barbecue pits. Three (3) parks have spring fed creeks running through part of the park.

Lockhart State Park located just outside the City covers 263 acres and includes a swimming pool, camp grounds, a recreation hall and a nine-hole golf course.

APPENDIX B

EXCERPTS FROM THE
CITY OF LOCKHART, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2025

The information contained in this APPENDIX consists of excerpts from the City of Lockhart, Texas Annual Financial Report for the Year Ended September 30, 2025, 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.

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Lockhart, Texas:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lockhart, Texas (the "City") as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lockhart, Texas, as of September 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 City of Lockhart, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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, 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'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'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.

Emphasis of Matter

As discussed in Note V.G. to the financial statements, the City restated beginning net position for the business-type activities and EMS fund to correct prior year accounting errors. In addition, the City restated beginning net position for governmental activities due to the implementation of GASB 101-Compensated Absences. Our opinion was not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, schedules of changes in other postemployment benefits liability and related ratios, and budgetary comparison information for the general fund 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

This accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
March 17, 2026



City of Lockhart, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2025

As management of the City of Lockhart, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2025. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources (net position) at September 30, 2025 by \$71,828,755. Of this amount, \$9,458,366 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$2,231,199. Approximately 61% of the City's net position is invested in capital assets and restricted for specific purposes.
- The City's governmental funds reported combined ending fund balances of \$37,128,521 at September 30, 2025, an increase of \$14,882,821 from the prior fiscal year; this includes a decrease of \$5,497,038 in the general fund, an increase of \$20,002,853 in the 2025 CO fund, and an increase of \$377,006 in the nonmajor governmental funds.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$6,843,781 or 30% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements themselves.

Government-Wide Statements

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

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

City of Lockhart, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, culture and recreation, community development, public safety, and public works. The business-type activities of the City include electric, water, wastewater, sanitation, airport, and EMS operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate component unit, the Lockhart Economic Development Corporation, of which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 30-35 of this report.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

City of Lockhart, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

The City maintains twenty-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and 2025 CO fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in a separate section of the report.

The City adopts an annual appropriated budget for its general and debt service funds. A budgetary comparison statement has been provided for each governmental fund with an adopted budget to demonstrate compliance with their respective budget.

The basic governmental fund financial statements can be found on pages 36-39 of this report.

Proprietary Funds

The City's proprietary funds are all enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its electric, water and wastewater utilities, sanitation, EMS, and airport operations. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, and wastewater funds, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 40-49 of this report.

Component Units

The City maintains the accounting and financial statements for one component unit. The Lockhart Economic Development Corporation is a discretely presented component unit, which is displayed on the government-wide financial statements.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 53-103 of this report.

City of Lockhart, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The required RSI includes a budgetary comparison schedule for the general fund, schedule of changes in the net pension liability and related ratios and schedule of employer contributions for the Texas Municipal Retirement System and schedule of changes in the OPEB liabilities. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Lockhart, Texas, assets and deferred outflows exceeded liabilities and deferred inflows by \$71,828,755 as of September 30, 2025, in the primary government.

A portion of the City's net position, \$43,972,261 reflects its investments in capital assets (e.g., land, buildings, improvements other than buildings, machinery and equipment, construction in progress), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Lockhart, Texas's net position of \$18,398,128 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,458,366 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City of Lockhart, Texas is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

City of Lockhart, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2025			2024		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and						
other assets	\$ 40,334,455	\$ 22,001,344	\$ 62,335,799	\$ 24,274,785	\$ 24,844,338	\$ 49,119,123
Capital assets, net	33,616,666	67,247,447	100,864,113	27,585,771	65,094,607	92,680,378
Total Assets	73,951,121	89,248,791	163,199,912	51,860,556	89,938,945	141,799,501
Deferred						
Outflows of	1,057,019	321,187	1,378,206	1,381,277	641,125	2,022,402
Other liabilities	3,321,743	4,970,268	8,292,011	1,778,647	3,759,228	5,537,875
Long-term liabilities	33,464,554	50,317,728	83,782,282	14,731,018	53,257,447	67,988,465
Total Liabilities	36,786,297	55,287,996	92,074,293	16,509,665	57,016,675	73,526,340
Deferred Inflows						
of Resources	484,363	190,707	675,070	313,732	216,818	530,550
Net Position:						
Net investment in						
capital assets	24,274,707	19,697,554	43,972,261	18,662,311	18,379,583	37,041,894
Restricted	8,857,884	9,540,244	18,398,128	7,465,102	8,202,139	15,667,241
Unrestricted	4,604,889	4,853,477	9,458,366	10,291,023	6,764,855	17,055,878
Total Net Position	\$ 37,737,480	\$ 34,091,275	\$ 71,828,755	\$ 36,418,436	\$ 33,346,577	\$ 69,765,013

Current and other assets of the governmental activities increased by \$16,059,670, or 66%, primarily due to greater cash on hand resulting proceeds received from new debt issuance in the current year. Current and other assets of the business-type activities decreased by \$2,842,994, or 11%, primarily due to less cash on hand resulting from capital improvement expenditures exceeding revenues during the year. Capital assets for the primary government increased \$8,183,735, or 9%, due to capital improvements during the year. Other liabilities for the primary government increased \$2,754,136, or 50%, primarily attributable to greater payables due at the end of the current year and timing of payments. Long-term liabilities for governmental activities increased by \$18,733,536, or over 100%, which is primarily related to debt issuances in the current year. Long-term liabilities for business-type activities decreased by \$2,939,719, or 6%, primarily due to principal payments made towards debt in the current year. Total deferred outflows of the primary government decreased and total deferred inflows of the primary government increased by \$644,196 and \$144,520, respectively. These changes are strictly due to actuarial changes in the City's pension inputs over the course of the year.

City of Lockhart, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

Statement of Activities:

The following table provides a summary of the City's changes in net position:

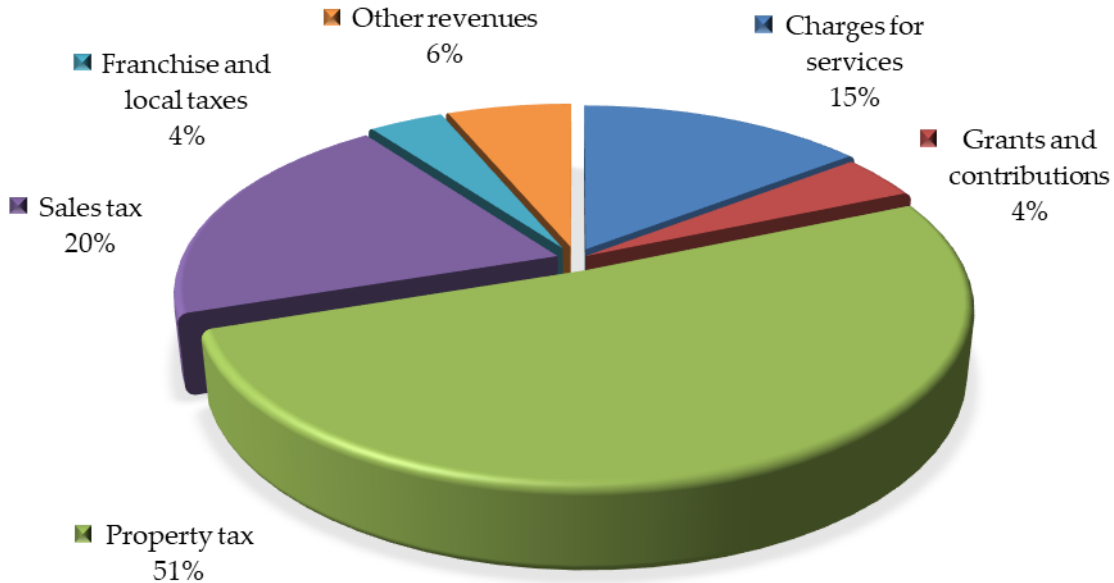
	For the Year Ended September 30, 2025			For the Year Ended September 30, 2024		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 2,381,935	\$ 29,148,395	\$ 31,530,330	\$ 3,749,190	\$ 27,803,120	\$ 31,552,310
Operating grants	532,505	-	532,505	475,639	-	475,639
Capital contributions	128,235	462,408	590,643	171,997	53,111	225,108
General revenues:						
Property tax	8,390,241	-	8,390,241	7,610,224	-	7,610,224
Sales tax	3,284,944	-	3,284,944	3,009,942	-	3,009,942
Franchise & local taxes	616,953	-	616,953	625,958	-	625,958
Investment income	937,800	1,000,060	1,937,860	1,083,776	1,131,268	2,215,044
Other revenues	93,911	112,688	206,599	86,124	106,454	192,578
Total Revenues	16,366,524	30,723,551	47,090,075	16,812,850	29,093,953	45,906,803
Expenses						
General government	2,945,892	-	2,945,892	2,383,519	-	2,383,519
Public safety	8,309,527	-	8,309,527	6,628,423	-	6,628,423
Public works	4,018,383	-	4,018,383	2,826,765	-	2,826,765
Health and welfare	38,098	-	38,098	42,956	-	42,956
Culture and recreation	1,727,577	-	1,727,577	1,632,347	-	1,632,347
Comm. development	1,257,404	-	1,257,404	1,963,799	-	1,963,799
Interest on long-term debt	745,842	1,429,409	2,175,251	348,098	1,442,071	1,790,169
Electric	-	12,559,940	12,559,940	-	11,150,785	11,150,785
Water	-	6,904,661	6,904,661	-	5,626,174	5,626,174
Wastewater	-	2,075,377	2,075,377	-	1,667,732	1,667,732
Nonmajor enterprise	-	2,846,766	2,846,766	-	4,433,842	4,433,842
Total Expenses	19,042,723	25,816,153	44,858,876	15,825,907	24,320,604	40,146,511
Change in Net Position						
Before Transfers	(2,676,199)	4,907,398	2,231,199	986,943	4,773,349	5,760,292
Transfers	4,162,700	(4,162,700)	-	4,044,759	(4,044,759)	-
Total	4,162,700	(4,162,700)	-	4,044,759	(4,044,759)	-
Change in Net Position	1,486,501	744,698	2,231,199	5,031,702	728,590	5,760,292
Beginning Net Position						
(restated) *	36,250,979	33,346,577	69,597,556	31,386,734	32,617,987	64,004,721
Ending Net Position	\$ 37,737,480	\$ 34,091,275	\$ 71,828,755	\$ 36,418,436	\$ 33,346,577	\$ 69,765,013

* Includes restatement for New Acct. Standard GASB 101

City of Lockhart, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

Governmental Activities - Revenues



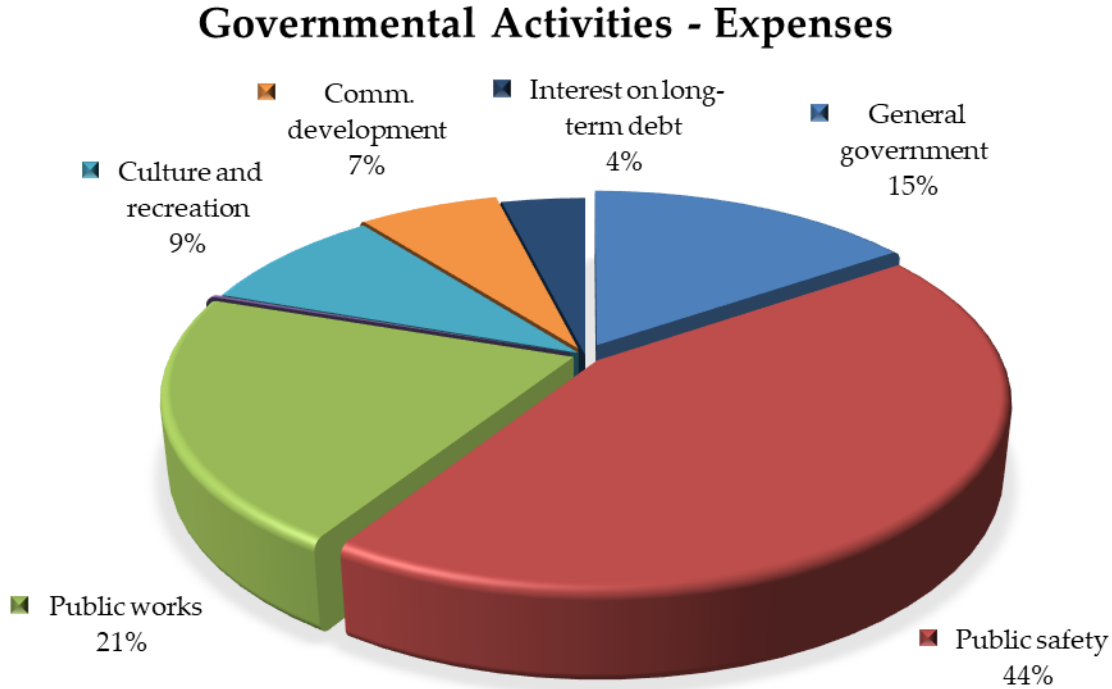
For the year ended September 30, 2025, revenues from governmental activities totaled \$16,366,524. Property tax, charges for services, and sales tax are the City's largest general revenue sources. Overall revenue decreased \$446,326, or 3%, from the prior year. Charges for services decreased by \$1,367,255, or 36%, due to a decline in building and zoning permit revenue, resulting from the completion of two subdivisions in the prior year. Property taxes increased by \$780,017, or 10%, primarily due to greater appraised values and an increase in property tax rates. Sales taxes increased by \$275,002, or 9%, due to economic growth fueled by local purchases. Investment income decreased by \$145,976, or 13%, primarily due to the realization of lower interest rates during the year. All other revenues remained relatively stable when compared to the previous year.

City of Lockhart, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

This graph shows the governmental function expenses of the City:

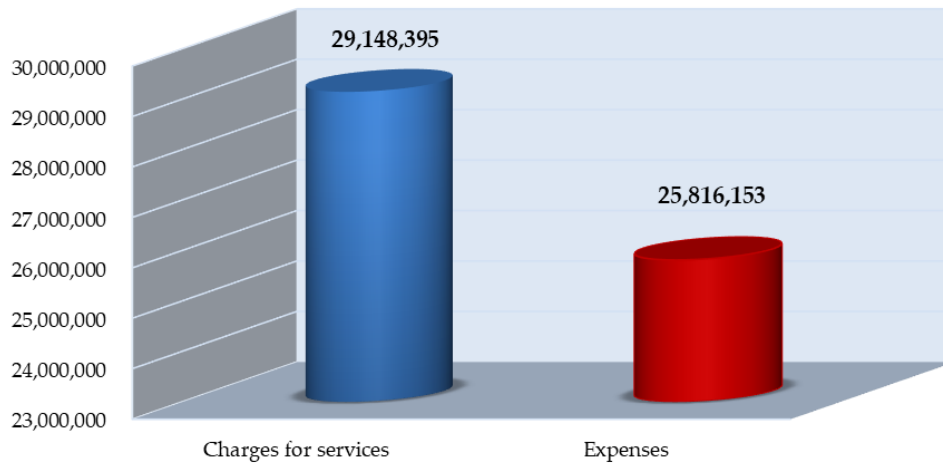


For the year ended September 30, 2025, expenses for governmental activities totaled \$19,042,723. This represents an increase of \$3,216,816, or 20%, from the prior year. The City's largest functional expense is public safety totaling \$8,309,527. Public safety increased \$1,681,104, or 25%, due to greater personnel costs resulting from vacancies being filled in the current year, greater architectural/engineering expense, and nonrecurring changes in the City's pension valuation inputs in the current year. General government expenses increased by \$562,373, or 24%, primarily due to greater personnel costs related to a full year's salary and benefits being paid in the current year to the Public Information Officer and Finance Director that was hired late in the prior year. In addition, there were greater downtown promotion expenses and architectural/engineering costs in the current year. Public works expenses increased \$1,191,618, or 42%, primarily due to nonrecurring TXDOT grant related expenses. Culture and recreation expenses increased by \$95,230, or 6%, primarily due to greater personnel costs due to new hires and market retention adjustments and nonrecurring employee benefit costs resulting from changes in the City's pension valuation inputs in the current year. Community development expenses decreased by \$706,395, or 36%, due primarily to outsourcing building and health inspection services in the current year. Interest and fiscal charges increased by \$397,744, or over 100%, primarily due to nonrecurring bond issuance costs in the current year. All other governmental activities expenses remained relatively consistent with the prior year.

City of Lockhart, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2025, charges for services by business-type activities totaled \$29,148,395. This represents an increase of \$1,345,275, or 5%, from the previous year, which is a direct result of greater water service rates and increased utility service consumption in the current year. Capital contributions increased by \$409,297, or over 100%, as a result of nonrecurring capital grant contributions received in the current year. Investment income decreased \$131,208, or 12%, due to the realization of lower interest rates during the year. All other revenues remained relatively consistent with the prior year.

Total business-type activity expenses increased by \$1,495,549, or 6%, to a total of \$25,816,153. Electric expenses totaled \$12,559,940, while water and wastewater operations totaled \$6,904,661 and \$2,075,377, respectively. Electric expenses increased \$1,409,155, or 13%, due to greater personnel costs, resulting from filling prior year vacancies in the current year. In addition, greater demand consumption resulted in higher wholesale power costs and credit card usage fees. Water expenses increased by \$1,278,487, or 23%, due to higher consumption and related treatment plant and GBRA costs. Wastewater expenses increased by \$407,645, or 24%, due to greater personnel costs, resulting from filling prior year vacancies in the current year. In addition, higher consumption resulted in greater treatment plant costs. Nonmajor enterprise expenses decreased by \$1,587,076, or 36%, primarily due to the sale of EMS services to Caldwell County at the end of January 2025.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the

City of Lockhart, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

At September 30, 2025, the City's governmental funds reported combined fund balances of \$37,128,521, an increase of \$14,882,821 in comparison with the prior year. Approximately 18% of this amount, \$6,653,293, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, committed or restricted* to indicate that it is 1) not in spendable form \$95,894 2) committed for particular purposes \$366,675 or 3) restricted for particular purposes \$30,012,659.

As of the end of the year the general fund reflected a total fund balance of \$8,929,057. Of this, \$438,280 is considered not in spendable form and committed. Restricted fund balance totaled \$1,646,996 and \$6,843,781 is unassigned. General fund balance decreased by \$5,497,038 during the current year as compared to a final budgeted increase of \$69,794. The decrease in fund balance was primarily a result of higher than expected capital expenditures and public works expenses.

As a measure of the general fund's liquidity, it may be useful to compare total unassigned fund balance to total fund expenditures. The unassigned (the amount available for spending) fund balance of the general fund of \$6,843,781 is 30% of total general fund expenditures. Overall revenue in the general fund decreased by \$190,847 when compared to the prior year. Property tax, sales tax, and charges for services showed the largest increase due to a growing local economy, greater appraisal values, and an increase in the property tax rates. General fund expenditures increased by \$7,448,148 when compared to the prior year. The largest increases were in public works and capital outlay of \$3,236,066, and \$2,979,583, respectively.

As of the end of the year the 2025 CO fund reflected a total fund balance of \$20,002,853. This fund was added in fiscal year 2025. The increase is a direct result of bond issuance proceeds recognized in the current year. There have been no expenditures recorded in the current year.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at the close of the fiscal year for all proprietary funds amounted to \$4,853,477, a decrease of \$1,911,378 from the previous year. Total investment in capital assets, net of related debt was \$19,697,554, and capital assets, net of depreciation totaled \$67,206,994.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total budgeted revenues of \$11,551,015 were less than actual revenues of \$12,278,437, resulting in a total positive revenue variance of \$727,422. All actual revenues were greater than the budgeted amounts, with the exception of franchise and local taxes, intergovernmental and license and permits.

Total budgeted expenditures of \$15,901,212, were less than actual expenditures of \$22,503,763, resulting in a total negative expenditure variance of \$6,602,551. Actual expenditures for the current year

City of Lockhart, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2025

exceeded appropriations at the legal level of control by \$6,595,998, including transfers out. No budget amendments were made during the year.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$33,616,666 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested \$67,206,994 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles, equipment, park improvements, and infrastructure.

Major capital asset additions during the current year include the following:

- Purchased land at 120 W MLK Jr Industrial Blvd for \$236,483
- Purchased building at 120 W MLK Jr Industrial Blvd for \$1,503,430.
- Purchased Dell Powerstore 500T with touchscreen for city wide IT storage totaling \$92,850.
- Concrete slab at fire station for \$29,400.
- Purchased two 2024 Ford F150 police vehicles totaling \$108,562.
- Purchased two 2025 Ford Explorer police vehicles totaling \$110,180.
- Purchased laptops and mobile radio units for police totaling \$188,963.
- Purchased Fire Apparatus Spartan Truck for \$1,229,670.
- Purchased a 2025 Ford F-550 Super Cab 4x4 police vehicle for \$59,840.
- Purchased SCBA fill station with SCBA cylinders for \$23,125.
- Purchased two 2025 Ford F-250 for parks totaling \$100,905.
- Purchased four police vehicles totaling \$289,771 through lease financing.
- Continued Lockhart Downtown revitalization for \$3,900,737.
- Continued Fire Station 1 project for \$129,308.
- Continued animal shelter upgrade project for \$96,207.
- Began Aquatics Center project for \$143,999.
- Purchased five electrical easements totaling \$159,516.
- Continued LK 30 Ash St. copper replacement for \$324,001.
- Began Project 7 – electric system improvements totaling \$67,500.
- Continued CF 100 Clear Fork copper replacement for \$83,705.
- County Wide Alley project electric utility for \$150,000.
- Terex Hi-Ranger bucket truck for electric utility for \$271,154.
- DTK 300 (ES-12) with Kubota D1105 engine for electric utility for \$49,000.
- Purchased four water easements totaling \$113,371.
- Continued water meter replacement project for \$224,240.
- Continued Lockhart Downtown revitalization utility project for \$3,740,328.
- Began Lockhart COG-MOD waterline engineering for \$68,480.
- Purchased six wastewater easements totaling \$151,928.

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

City of Lockhart, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2025

LONG-TERM DEBT

The City's outstanding bonds, tax notes, lease liabilities and certificates of obligation payable, net of all premiums, increased by \$16,711,129 from the prior year. The total bonds, leases and certificates of obligation payable at the close of the fiscal year was \$79,110,680, net of all premiums.

There is no direct limit on debt in the City Charter. Statutes of the State of Texas do not provide any limitations on the dollar amount of debt cities issue, however, Article XI, Section 5 of the Texas Constitution, applicable to cities with a population of more than 5,000, limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation. The City's current tax rate is well below the maximum allowable tax rate and poses no impact on financing of planned facilities or services.

More detailed information about the City's long-term liabilities is presented in note IV.E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Lockhart has seen a steady growth in tax revenue over the last five years. Sales tax revenue has increased by 57% since 2021 and property tax revenue has increased by 45%. Even with the 57% increase, the City continues to forecast sales tax in a conservative position. The total sales tax payments received in 2025 fiscal year equaled \$4,927,415. The City anticipates a continued increase for 2026.

Property valuations have increased due to new additions and property on the tax roll, along with the appraisal district reassessing valuations. The certified assessed taxable property valuations for the 2026 fiscal year (2025 tax roll) total \$1,659,352,251 with a tax rate of \$0.4113 per \$100 valuation for maintenance and operations and \$0.1428 per \$100 valuation for the interest and sinking fund. The total tax rate of \$0.5541.

The City's capital plan for 2025-2026 continues to focus on infrastructure upgrades and improvements to streets, the electric distribution system and water and wastewater lines.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lockhart, Texas, Finance Department, 308 W. San Antonio Street, Lockhart, Texas 78644. This information can also be accessed on the City's website at www.lockhart-tx.org.

BASIC FINANCIAL STATEMENTS

City of Lockhart, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 34,554,898	\$ 19,909,714	\$ 54,464,612
Receivables, net	1,625,698	5,336,629	6,962,327
Lease receivable, current	-	21,830	21,830
Internal balances	3,978,745	(3,978,745)	-
Due from component unit	79,220	-	79,220
Inventories	13,998	711,916	725,914
Prepaid and other assets	81,896	-	81,896
Total Current Assets	40,334,455	22,001,344	62,335,799
Noncurrent assets:			
Lease receivable, noncurrent	-	40,453	40,453
Capital assets:			
Non-depreciable	7,415,559	5,881,504	13,297,063
Net depreciable capital assets	26,201,107	61,325,490	87,526,597
Total Noncurrent Assets	33,616,666	67,247,447	100,864,113
Total Assets	73,951,121	89,248,791	163,199,912
Deferred Outflows of Resources			
Pension outflows-TMRS	948,796	251,562	1,200,358
OPEB outflows-TMRS	14,454	3,833	18,287
Deferred charge on refunding	93,769	65,792	159,561
Total Deferred Outflows of Resources	1,057,019	321,187	1,378,206

**Component
Unit**

**Lockhart
EDC**

\$ 8,496,020
263,968
-
-
-
-
10,364

8,770,352

-

1,049,431
4,212,886

5,262,317

14,032,669

19,643
299
-

19,942

City of Lockhart, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Accounts payable	\$ 1,568,432	\$ 3,190,552	\$ 4,758,984
Accrued liabilities	732,724	206,688	939,412
Due to primary government	-	-	-
Due to other governments	41,037	-	41,037
Customer deposits	-	766,176	766,176
Compensated absences, current	783,340	143,249	926,589
Accrued interest payable	196,210	663,603	859,813
Long-term debt due in one year	1,649,355	2,303,426	3,952,781
Total Current Liabilities	4,971,098	7,273,694	12,244,792
Noncurrent liabilities:			
Net pension liability	2,980,090	790,134	3,770,224
OPEB liability-TMRS	356,269	94,464	450,733
OPEB liability-Retiree healthcare	274,824	72,866	347,690
Compensated absences	87,038	15,917	102,955
Long-term debt due in more than one year	28,116,978	47,040,921	75,157,899
Total Noncurrent Liabilities	31,815,199	48,014,302	79,829,501
Total Liabilities	36,786,297	55,287,996	92,074,293
<u>Deferred Inflows of Resources</u>			
Pension inflows	395,710	104,917	500,627
OPEB inflows-TMRS	65,063	17,252	82,315
OPEB inflows-Retiree Healthcare	23,590	6,255	29,845
Deferred inflows -lease related	-	62,283	62,283
Total Deferred Inflows of Resources	484,363	190,707	675,070
<u>Net Position</u>			
Net investment in capital assets	24,274,707	19,697,554	43,972,261
Restricted for:			
General government	679,019	-	679,019
Public safety	25,392	-	25,392
Municipal court	181,650	-	181,650
Tourism	87,496	-	87,496
Capital projects	6,119,415	9,540,244	15,659,659
Debt service	1,764,912	-	1,764,912
Economic development	-	-	-
Unrestricted	4,604,889	4,853,477	9,458,366
Total Net Position	\$ 37,737,480	\$ 34,091,275	\$ 71,828,755

See Notes to Financial Statements.

Component
Unit
Lockhart
EDC
\$ 1,275,111
-
79,220
-
-
3,021
8,708
117,172
<u>1,483,232</u>
61,697
7,376
-
336
<u>1,123,943</u>
<u>1,193,352</u>
<u>2,676,584</u>
8,193
1,347
-
-
<u>9,540</u>
4,021,202
-
-
-
-
-
-
7,345,285
-
<u>\$ 11,366,487</u>

City of Lockhart, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2025

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 2,945,892	\$ -	\$ 138,662	\$ -
Public safety	8,309,527	428,207	393,843	128,235
Public works	4,018,383	758,836	-	-
Health and welfare	38,098	-	-	-
Culture and recreation	1,727,577	130,306	-	-
Community development	1,257,404	1,064,586	-	-
Interest on long-term debt	745,842	-	-	-
Total Governmental Activities	19,042,723	2,381,935	532,505	128,235
Business-Type Activities				
Electric	12,559,940	14,062,850	-	-
Water	6,904,661	8,146,651	-	438,511
Wastewater	2,075,377	4,191,724	-	-
* Nonmajor enterprise	2,846,766	2,747,170	-	23,897
Interest on long-term debt	1,429,409	-	-	-
Total Business-Type Activities	25,816,153	29,148,395	-	462,408
Total Primary Government	\$ 44,858,876	\$ 31,530,330	\$ 532,505	\$ 590,643
Component Units				
Lockhart EDC	1,891,621	-	-	-
Total Component Units	\$ 1,891,621	\$ -	\$ -	\$ -
			General Revenues:	
			Taxes	
			Property taxes	
			Sales taxes	
			Franchise and local taxes	
			Investment income	
			Gain on sale of capital assets	
			Other revenues	
			Transfers	
			Total General Revenues and Transfers	
			Change in Net Position	
			Beginning Net Position, as previously reported	
			New Acct. Standard - GASB 101	
			Error correction	
			Beginning Net Position, as adjusted	
			Ending Net Position	

See Notes to Financial Statements.

* Includes sanitation, airport, and EMS activities

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-Type Activities	Total	Lockhart EDC
\$ (2,807,230)	\$ -	\$ (2,807,230)	\$ -
(7,359,242)	-	(7,359,242)	-
(3,259,547)	-	(3,259,547)	-
(38,098)	-	(38,098)	-
(1,597,271)	-	(1,597,271)	-
(192,818)	-	(192,818)	-
(745,842)	-	(745,842)	-
<u>(16,000,048)</u>	<u>-</u>	<u>(16,000,048)</u>	<u>-</u>
-	1,502,910	1,502,910	-
-	1,680,501	1,680,501	-
-	2,116,347	2,116,347	-
-	(75,699)	(75,699)	-
-	(1,429,409)	(1,429,409)	-
<u>-</u>	<u>3,794,650</u>	<u>3,794,650</u>	<u>-</u>
<u>(16,000,048)</u>	<u>3,794,650</u>	<u>(12,205,398)</u>	<u>-</u>
			(1,891,621)
			<u>(1,891,621)</u>
8,390,241	-	8,390,241	-
3,284,944	-	3,284,944	1,642,472
616,953	-	616,953	-
937,800	1,000,060	1,937,860	314,177
201	-	201	-
93,710	112,688	206,398	10,100
4,162,700	(4,162,700)	-	-
<u>17,486,549</u>	<u>(3,049,952)</u>	<u>14,436,597</u>	<u>1,966,749</u>
1,486,501	744,698	2,231,199	75,128
36,418,436	33,404,189	69,822,625	11,291,359
(167,457)	-	(167,457)	-
-	(57,612)	(57,612)	-
<u>36,250,979</u>	<u>33,346,577</u>	<u>69,597,556</u>	<u>11,291,359</u>
<u>\$ 37,737,480</u>	<u>\$ 34,091,275</u>	<u>\$ 71,828,755</u>	<u>\$ 11,366,487</u>

City of Lockhart, Texas

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2025

	General	2025 CO's	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 5,991,250	\$ 20,002,853	\$ 8,560,795	\$ 34,554,898
Accounts receivable, net	1,282,642	-	343,056	1,625,698
Due from other funds	4,216,873	-	-	4,216,873
Due fom component unit	79,220	-	-	79,220
Inventories	13,998	-	-	13,998
Prepays	57,607	-	24,289	81,896
Total Assets	\$ 11,641,590	\$ 20,002,853	\$ 8,928,140	\$ 40,572,583
<u>Liabilities</u>				
Accounts payable	\$ 1,266,042	\$ -	\$ 302,390	\$ 1,568,432
Accrued liabilities	692,171	-	40,553	732,724
Due to other governments	41,037	-	-	41,037
Due to other funds	-	-	238,128	238,128
Total Liabilities	1,999,250	-	581,071	2,580,321
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	500,852	-	141,979	642,831
Unavailable revenue-fines	186,039	-	8,479	194,518
Unavailable revenue - notes receivable	26,392	-	-	26,392
Total Deferred Inflows of Resources	713,283	-	150,458	863,741
<u>Fund Balances</u>				
Nonspendable:				
Inventories	13,998	-	-	13,998
Prepaid items	57,607	-	24,289	81,896
Committed for:				
Sidewalks	62,266	-	-	62,266
Industrial park	304,409	-	-	304,409
Restricted for:				
Debt service	-	-	1,764,912	1,764,912
General government	583,330	-	95,689	679,019
Public safety	-	-	25,392	25,392
Municipal court	-	-	181,650	181,650
Tourism	-	-	87,496	87,496
Capital projects	1,063,666	20,002,853	6,207,671	27,274,190
Unassigned	6,843,781	-	(190,488)	6,653,293
Total Fund Balances	8,929,057	20,002,853	8,196,611	37,128,521
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 11,641,590	\$ 20,002,853	\$ 8,928,140	\$ 40,572,583

See Notes to Financial Statements.

City of Lockhart, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2025

Fund Balances - Total Governmental Funds	\$ 37,128,521
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	7,415,559
Capital assets - net depreciable	26,201,107
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax	642,831
Fines and fees	194,518
Other receivables	26,392
Deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time	
Pension inflows	(395,710)
OPEB inflows-TMRS	(65,063)
OPEB inflows-Retiree Healthcare	(23,590)
Deferred outflows of resources, represent a consumption of net assets that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditures) until then	
Pension outflows	948,796
OPEB outflows-TMRS	14,454
Deferred charge on refunding	93,769
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(196,210)
Deferred charges:	
Bond premium	(1,602,589)
Net pension liability	(2,980,090)
OPEB liability-TMRS	(356,269)
OPEB liability-Retiree healthcare	(274,824)
Compensated absences	(870,378)
Non-current liabilities due in one year	(1,649,355)
Non-current liabilities due in more than one year	(26,514,389)
Net Position of Governmental Activities	\$ 37,737,480

See Notes to Financial Statements.

City of Lockhart, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2025

	General	2025 CO's	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property tax	\$ 6,279,835	\$ -	\$ 2,160,480	\$ 8,440,315
Sales tax	3,284,944	-	-	3,284,944
Franchise and local taxes	396,051	-	220,902	616,953
Fines and forfeitures	308,495	-	32,718	341,213
License and permits	695,752	-	368,834	1,064,586
Charges for services	130,306	-	758,836	889,142
Intergovernmental	503,642	-	157,098	660,740
Investment income	585,702	-	352,098	937,800
Other revenue	93,710	-	-	93,710
Total Revenues	12,278,437	-	4,050,966	16,329,403
Expenditures				
Current:				
General government	2,511,288	-	303,532	2,814,820
Public safety	8,229,238	-	246,188	8,475,426
Public works	5,552,959	-	2,687	5,555,646
Health and welfare	28,920	-	-	28,920
Culture and recreation	1,678,071	-	1,262	1,679,333
Community development	1,238,878	-	-	1,238,878
Debt Service:				
Principal	245,900	-	1,332,622	1,578,522
Interest and fiscal charges	38,926	-	332,560	371,486
Bond issuance costs	-	278,056	-	278,056
Capital outlay	2,979,583	-	1,210,076	4,189,659
Total Expenditures	22,503,763	278,056	3,428,927	26,210,746
Revenues Over (Under) Expenditures	(10,225,326)	(278,056)	622,039	(9,881,343)
Other Financing Sources (Uses)				
Bond issuance	-	18,955,000	-	18,955,000
Bond premium	-	1,325,909	-	1,325,909
Lease issuance	320,354	-	-	320,354
Sale of capital assets	201	-	-	201
Transfers in	4,466,180	-	437,110	4,903,290
Transfers (out)	(58,447)	-	(682,143)	(740,590)
Total Other Financing Sources	4,728,288	20,280,909	(245,033)	24,764,164
Net Change in Fund Balances	(5,497,038)	20,002,853	377,006	14,882,821
Beg. fund balances	14,426,095	-	7,819,605	22,245,700
Ending Fund Balances	\$ 8,929,057	\$ 20,002,853	\$ 8,196,611	\$ 37,128,521

See Notes to Financial Statements.

City of Lockhart, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2025

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

Net changes in fund balances - total governmental funds	\$	14,882,821
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay		8,362,466
Depreciation expense		(2,331,571)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property tax		(50,074)
Fines and fees		86,994
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		(125,069)
Accrued interest		(139,894)
Pension expense		(191,000)
OPEB expense-TMRS		(39,584)
OPEB expense-retiree healthcare		10,559
<p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Debt issuance		(18,955,000)
Debt premium		(1,325,909)
Lease issuance		(320,354)
Amortization of deferred charge on refunding		(23,442)
Amortization of premium		67,036
Principal payments		1,578,522
Change in Net Position of Governmental Activities	\$	<u>1,486,501</u>

See Notes to Financial Statements.

City of Lockhart, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (Page 1 of 2)
September 30, 2025

	Business-Type Activities		
	Electric	Water	Wastewater
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 3,480,320	\$ 6,850,583	\$ 8,280,474
Accounts receivable, net	2,835,794	1,437,336	651,538
Lease receivable	-	21,830	-
Due from other funds	-	-	400,251
Inventories	711,916	-	-
Total Current Assets	7,028,030	8,309,749	9,332,263
<u>Noncurrent Assets</u>			
Lease receivable	-	40,453	-
Capital assets:			
Non-depreciable	696,449	4,498,573	493,912
Net depreciable capital assets	5,913,963	47,460,210	6,848,881
Total Noncurrent Assets	6,610,412	51,999,236	7,342,793
Total Assets	13,638,442	60,308,985	16,675,056
<u>Deferred Outflows of Resources</u>			
Pension outflows-TMRS	154,257	38,861	34,395
OPEB outflows-TMRS	2,350	592	524
Deferred loss on refunding	-	57,035	8,757
Total Deferred Outflows of Resources	156,607	96,488	43,676

See Notes to Financial Statements.

Business-Type Activities

Business-Type Activities	
Nonmajor Funds	Total
\$ 1,298,337	\$ 19,909,714
411,961	5,336,629
-	21,830
-	400,251
-	711,916
<u>1,710,298</u>	<u>26,380,340</u>
-	40,453
192,570	5,881,504
1,102,436	61,325,490
<u>1,295,006</u>	<u>67,247,447</u>
<u>3,005,304</u>	<u>93,627,787</u>
24,049	251,562
367	3,833
-	65,792
<u>24,416</u>	<u>321,187</u>

City of Lockhart, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (Page 2 of 2)
September 30, 2025

	Business-Type Activities		
	Electric	Water	Wastewater
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable	\$ 1,262,753	\$ 1,571,871	\$ 190,988
Accrued liabilities	177,043	-	18,668
Customer deposits	526,540	234,536	-
Compensated absences, current	61,554	44,041	17,610
Lease liabilities, current	9,125	6,642	6,651
Long-term debt, current	117,874	1,842,134	317,594
Due to other funds	2,754,165	1,609,537	15,294
Accrued interest	5,504	650,746	7,353
Total Current Liabilities	4,914,558	5,959,507	574,158
<u>Noncurrent Liabilities</u>			
Compensated absences, noncurrent	6,839	4,893	1,957
Long-term debt, noncurrent	632,556	44,809,807	1,598,558
Net pension liability	484,511	122,057	108,030
OPEB liability-TMRS	57,923	14,592	12,915
OPEB liability-retiree healthcare	44,681	11,256	9,963
Total Noncurrent Liabilities	1,226,510	44,962,605	1,731,423
Total Liabilities	6,141,068	50,922,112	2,305,581
<u>Deferred Inflows of Resources</u>			
Pension inflows-TMRS	64,335	16,208	14,345
OPEB inflows-TMRS	10,578	2,665	2,359
OPEB inflows-retiree healthcare	3,836	966	855
Deferred inflows -lease related	-	62,283	-
Total Deferred Inflows of Resources	78,749	82,122	17,559
<u>Net Position</u>			
Net investment in capital assets	5,850,862	7,244,430	5,310,662
Restricted for:			
Capital projects	167,997	4,690,826	4,681,421
Unrestricted	1,556,373	(2,534,017)	4,403,509
Total Net Position	\$ 7,575,232	\$ 9,401,239	\$ 14,395,592

See Notes to Financial Statements.

Business-Type Activities

Nonmajor			
Funds		Total	
\$ 164,940	\$	3,190,552	
10,977		206,688	
5,100		766,176	
20,045		143,249	
3,406		25,824	
-		2,277,602	
-		4,378,996	
-		663,603	
<u>204,468</u>		<u>11,652,690</u>	
2,227		15,917	
-		47,040,921	
75,536		790,134	
9,034		94,464	
6,966		72,866	
<u>93,763</u>		<u>48,014,302</u>	
<u>298,231</u>		<u>59,666,992</u>	
10,029		104,917	
1,650		17,252	
598		6,255	
-		62,283	
<u>12,277</u>		<u>190,707</u>	
1,291,600		19,697,554	
-		9,540,244	
1,427,612		4,853,477	
<u>\$ 2,719,212</u>	<u>\$</u>	<u>34,091,275</u>	

City of Lockhart, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2025

	Business-Type Activities		
	Electric	Water	Wastewater
<u>Operating Revenues</u>			
Charges for services	\$ 14,062,850	\$ 8,146,651	\$ 4,191,724
Other revenue	8,019	-	15
Total Operating Revenues	14,070,869	8,146,651	4,191,739
<u>Operating Expenses</u>			
Personnel services	1,639,271	487,555	414,514
Supplies	102,095	48,329	108,198
Maintenance and repairs	168,640	641,822	60,968
Contractual services	461,042	2,610,659	69,537
Power, water, and water treatment	8,620,092	1,094,347	1,096,587
Non-departmental	-	-	61,660
Miscellaneous	1,025,654	5,408	-
Depreciation and amortization	543,146	2,016,541	263,913
Total Operating Expenses	12,559,940	6,904,661	2,075,377
Operating Income (Loss)	1,510,929	1,241,990	2,116,362
<u>Nonoperating Revenues (Expenses)</u>			
Gain(loss) on sale of assets	-	-	-
Investment earnings	147,777	396,822	400,221
Interest expense	(16,691)	(1,350,667)	(61,603)
Total Nonoperating Revenues (Expenses)	131,086	(953,845)	338,618
Income (Loss) Before Capital Contributions and Transfers			
Transfers	1,642,015	288,145	2,454,980
<u>Capital Contributions and Transfers</u>			
Capital grants	-	438,511	-
Transfers in	-	532,787	-
Transfers (out)	(2,390,930)	(298,136)	(1,534,912)
Total Capital Contributions and Transfers	(2,390,930)	673,162	(1,534,912)
Change in Net Position	(748,915)	961,307	920,068
Beg. net position, as previously presented	8,324,147	8,439,932	13,475,524
Error correction	-	-	-
Beg. net position, as adjusted	8,324,147	8,439,932	13,475,524
Ending Net Position	\$ 7,575,232	\$ 9,401,239	\$ 14,395,592

See Notes to Financial Statements.

Business-Type Activities

Nonmajor	
Funds	Total
\$ 2,747,170	\$ 29,148,395
104,654	112,688
<u>2,851,824</u>	<u>29,261,083</u>
436,729	2,978,069
10,057	268,679
2,008,139	2,879,569
106,251	3,247,489
-	10,811,026
-	61,660
10,117	1,041,179
105,732	2,929,332
<u>2,677,025</u>	<u>24,217,003</u>
<u>174,799</u>	<u>5,044,080</u>
(169,741)	(169,741)
55,240	1,000,060
(448)	(1,429,409)
<u>(114,949)</u>	<u>(599,090)</u>
59,850	4,444,990
23,897	462,408
-	532,787
(471,509)	(4,695,487)
<u>(447,612)</u>	<u>(3,700,292)</u>
(387,762)	744,698
3,164,586	33,404,189
(57,612)	(57,612)
3,106,974	33,346,577
<u>\$ 2,719,212</u>	<u>\$ 34,091,275</u>

City of Lockhart, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2025

	Business-Type Activities		
	Electric	Water	Wastewater
<u>Cash Flows from Operating Activities</u>			
Payments to employees	\$ (1,605,206)	\$ (454,015)	\$ (373,083)
Payments to suppliers	(8,016,875)	(3,571,935)	(1,891,788)
Receipts from customers	13,592,575	7,634,493	4,035,773
Net Cash Provided (Used) by Operating Activities	3,970,494	3,608,543	1,770,902
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers in	-	532,787	-
Transfers (out)	(2,390,930)	(298,136)	(1,534,912)
Net Cash Provided (Used) by Noncapital Financing	(2,390,930)	234,651	(1,534,912)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition and construction of capital assets	(1,172,016)	(3,692,874)	(165,243)
Sale of capital assets	-	-	-
Capital grants	-	438,511	-
Principal paid on capital debt	(135,822)	(1,803,601)	(321,286)
Interest paid on capital debt	(16,928)	(1,384,781)	(65,335)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,324,766)	(6,442,745)	(551,864)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	147,777	396,822	400,221
Net Cash Provided by Investing Activities	147,777	396,822	400,221
Net Increase (Decrease) in Cash and Cash Equivalents	402,575	(2,202,729)	84,347
Beginning cash and cash equivalents	3,077,745	9,053,312	8,196,127
Ending Cash and Cash Equivalents	\$ 3,480,320	\$ 6,850,583	\$ 8,280,474

See Notes to Financial Statements.

Business-Type Activities

Nonmajor Funds	Total
\$ (909,162)	\$ (3,341,466)
(2,316,186)	(15,796,784)
3,618,619	28,881,460
<u>393,271</u>	<u>9,743,210</u>
-	532,787
(471,509)	(4,695,487)
<u>(471,509)</u>	<u>(4,162,700)</u>
-	(5,030,133)
341,018	341,018
23,897	462,408
(5,733)	(2,266,442)
<u>(448)</u>	<u>(1,467,492)</u>
<u>358,734</u>	<u>(7,960,641)</u>
55,240	1,000,060
<u>55,240</u>	<u>1,000,060</u>
335,736	(1,380,071)
<u>962,601</u>	<u>21,289,785</u>
<u>\$ 1,298,337</u>	<u>\$ 19,909,714</u>

City of Lockhart, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2025

	Business-Type Activities		
	Electric	Water	Wastewater
<u>Reconciliation of Operating Income (Loss)</u>			
<u>to Net Cash Provided (Used) by Operating Activities</u>			
Operating Income (Loss)	\$ 1,510,929	\$ 1,241,990	\$ 2,116,362
Adjustments to reconcile operating income (loss) to net cash provided (used):			
Depreciation	543,146	2,016,541	263,913
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(412,794)	(569,021)	(155,966)
Inventory	(24,692)	-	-
Deferred outflows:			
Pension	53,071	16,787	759
OPEB	(1,002)	(230)	(295)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	290,258	706,934	(144,838)
Accrued interest	-	-	-
Customer deposits	(65,500)	56,863	-
Compensated absences	5,575	34,290	9,400
Due to other funds	2,095,082	121,696	(350,000)
Deferred inflows:			
Pension	27,885	6,425	8,165
OPEB	(929)	(487)	613
Net pension liability	(55,492)	(22,884)	16,468
OPEB Liability	4,957	(361)	6,321
Net Cash Provided (Used) by Operating Activities	\$ 3,970,494	\$ 3,608,543	\$ 1,770,902

Schedule of Non-Cash Capital and Related Financing Activities

Lease issuance	\$ 19,275	\$ 14,485	\$ 14,503
Capital related accounts payable	\$ -	\$ (266,048)	\$ (223,146)

See Notes to Financial Statements.

Business-Type Activities

Business-Type Activities	
Nonmajor Funds	Total
\$ 174,799	\$ 5,044,080
105,732	2,929,332
766,695	(371,086)
-	(24,692)
233,095	303,712
1,306	(221)
(123,078)	729,276
(10,013)	(10,013)
100	(8,537)
(12,164)	37,101
(48,531)	1,818,247
(35,179)	7,296
(11,628)	(12,431)
(594,218)	(656,126)
(53,645)	(42,728)
<u>\$ 393,271</u>	<u>\$ 9,743,210</u>

\$ 5,863	\$ 54,126
\$ -	\$ (489,194)

City of Lockhart, Texas
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
September 30, 2025

	Private Purpose Trusts	Custodial Funds
<u>Assets</u>		
Cash and cash equivalents	\$ 653	\$ 63,413
Prepays	-	1,211
Total Assets	\$ 653	\$ 64,624
<u>Liabilities</u>		
Due to others	-	30,535
Total Liabilities	-	30,535
<u>Net Position</u>		
Restricted for various purposes:	\$ 653	\$ 34,089
Total Net Position	\$ 653	\$ 34,089

See Notes to Financial Statements.

City of Lockhart, Texas
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended September 30, 2025

	Private Purpose Trusts	Custodial Funds
<u>Additions</u>		
Investment income	\$ 30	\$ 2,940
Other revenue	-	741
Total Additions	30	3,681
Net Change in Net Position	30	3,681
Beginning Net Position	623	30,408
Ending Net Position	\$ 653	\$ 34,089

See Notes to Financial Statements.

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City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lockhart, Texas (the “City”) is a municipal corporation operating under a home rule charter as authorized in Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a Council-Manager form of government in which all powers of the City are vested in an elective council. The City Council consists of the mayor and six council members. The mayor and two council members are elected at large with the remaining council members elected by district. The City provides services related to the following: public safety, public works, sanitation, health and welfare, culture and recreation, economic development, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) applicable to government units. The following is a summary of the more significant accounting policies.

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

For financial reporting purposes, management has considered all potential component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The criteria used are as follows:

Financial Accountability – The primary government is deemed to be financially accountable if it appoints a voting majority of the organization’s governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits or impose specific financial burdens on the primary government. Additionally, the primary government may be financially accountable if an organization is fiscally dependent on the primary government and there is a potential for the organization to provide specific financial benefits or impose specific financial burdens on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government or a jointly appointed board.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

Discretely Presented Component Unit

Lockhart Economic Development Corporation (“LEDC”)

The LEDC is a nonprofit corporation that was incorporated under the Development Corporation Act of 1979, Texas Revised Civil Statutes Annotated, Article 5190.6 Section (a), to receive and account for the proceeds of a designated sales tax levied to benefit the economic development of Lockhart. Under the Act, the Board of Directors consists of seven members appointed by and who serve at the pleasure of the City Council of the City for two-year terms.

LEDC may enter into any project authorized by the Act including, but not limited to, such projects as promotion and development of new and expanded business enterprises, job training centers, infrastructure improvements, public safety, municipal buildings, civic centers, recreation facilities, and other related facilities.

The LEDC meets the criteria of a discretely presented component unit and is presented as a governmental fund type. Complete financial statements for the Lockhart Economic Development Corporation may be obtained at City Hall. No other organizations met the necessary criteria for inclusion as component units for the year ended September 30, 2025.

This component unit is discretely presented in the financial statements. Complete financial statements of the individual component unit can be obtained from Keelie Michna, Finance Director, at 308 W. San Antonio St. Lockhart, TX 78644.

C. Basis of Presentation - Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As discussed earlier, the government has one discretely presented component unit which is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government’s funds, including its fiduciary funds and blended component units. Separate statements for each fund category;

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, health and welfare, culture and recreation, and community development.

2025 CO Fund

The 2025 CO fund is used to account for paying contractual obligations incurred in connection with improving, constructing, equipping, acquiring, or designing the City's: (1) parks and recreation facilities, to include an aquatics center, recreation center and improving Lions Park; (2) public safety facilities, including the acquisition of land for police and fire facilities; (3) existing administration building; and (4) the payment of professional services and bond issuances costs.

The government reports the following major enterprise funds:

Electric Fund

The electric fund accounts for the activities of the City related to its provision of electricity. Activities of the fund include administration, operation and maintenance of the electric 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 electric debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the funds.

Water Fund

The water fund is used to account for the establishment and maintenance of water facilities within the municipal boundaries of the City. Activities of the fund include administration, operation and maintenance of the water system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

principal and interest for water debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the funds.

Wastewater Fund

The wastewater fund is used to account for the establishment and maintenance of sewage and drainage facilities within the municipal boundaries of the City. Activities of the fund include administration, operation and maintenance of the wastewater 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 wastewater debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the funds.

Additionally, the government reports the following fund types:

Debt Service Funds

The City accounts for the accumulation of financial resources for the payments of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance is restricted exclusively for debt service expenditures.

Capital Project Funds

The capital project funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund. As of September 30, 2025, the City is maintaining eighteen special revenue funds.

Fiduciary Funds

Private Purpose Trust Funds - These funds are used to account for resources legally held in trust for use by organizations that are separate from the City. All resources of these funds, including any earnings on invested resources, may be used to support the organizations' activities. There is no requirement that any portion of these resources be preserved as capital. These funds include the Glosserman Trust and Brock Cabin Trust fund.

Custodial Funds are custodial in nature and are used to account for the receipt, temporary investment, and remittance of resources to third parties. Custodial funds use the economic

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

resources measurement focus. The custodial funds include the confiscated property, unclaimed property, and bicycle helmet funds.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary, pension, custodial and other postemployment benefit trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

E. Assets, Liabilities, Deferred Outflows/Inflows, and Fund Equity or Net Position

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. Government
Fully collateralized certificates of deposit and money market accounts
Statewide investment pools
SEC registered, no load money market mutual funds

2. Fair Value

The City has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as “due to/from component unit/primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a nonspendable fund balance account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Inventories and Prepaid Items

Inventory of the general fund and the electric fund consists of supplies held for the City's use and are carried at cost. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

5. Restricted Assets

Certain proceeds of re classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants or other restrictions.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

6. Capital Assets

Capital assets, are tangible and intangible assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and rights to water access are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art, and capital items received in a service concession arrangement are reported at acquisition value. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Building and improvements	10 to 50 years
Machinery and equipment	5 to 10 years
Public domain infrastructure	10 to 40 years
Utility system infrastructure	30 to 50 years
Intangible assets	5 to 40 years
Right-to-use lease assets	3 to 7 years
Right-to-use SBITA assets	10 years

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows / inflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has three items that qualify for reporting in this category. One example is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, fines and forfeitures and ambulance fees. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumption used within the pension actuarial valuation model.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, pension and OPEB liabilities and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed when incurred.

The net pension liability is included within long term debt. This liability is valued using an actuarial model and represents the difference between the plan fiduciary net position and the net pension liability consistent with GASB statement no. 68. The portion of this liability presented as a current liability is based on actuarial calculations for estimated future payments of benefits and refunds over the twelve months following yearend.

Assets acquired under the terms of leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

inception of the lease. In the year of acquisition, lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

9. Pensions

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

10. Other Postemployment Benefits ("OPEB")

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

In addition to providing pension benefits, the City provides medical benefits to eligible retirees and dependents with postemployment health care benefits through a single-employer postemployment healthcare plan (the "plan") administered by Texas Municipal League Multistate Intergovernmental Employee Benefits Pool. A separate audited financial report is not issued on the plan. In order for a City employee to be eligible for this benefit, he or she needs 20 years of service and/or attained the age of 60 with five years of service. Medical benefits are available with

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

four coverage tiers depending on dependent status and continue until Medicare eligible. A Medicare supplement policy is available to Medicare eligible retirees with the retiree paying the full premium.

11. Leases

Lessee: The City and LEDC are lessees for noncancellable leases of building and equipment. The City and LEDC recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the full-accrual financial statements. The City and LEDC recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the City and LEDC initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City and LEDC determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City and LEDC uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City and LEDC uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City and LEDC is reasonably certain to exercise.

The City and LEDC monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor: The City is a lessor for a noncancellable lease of a cell tower. The City recognizes a lease receivable and a deferred inflow of resources in the governmentwide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

12. Subscription Based Information Technology Arrangements (“SBITA”)

The City has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 96, entitled Subscription-Based Information Technology Arrangements (“SBITA”). The City has noncancellable contracts with SBITA vendors for the right to use information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). The City recognizes a subscription liability, reported with long-term debt, and a right-to-use subscription asset (an intangible asset), reported with other capital assets, in the government-wide financial statements. The City recognizes subscription liabilities with an initial, individual value of \$5,000 or more.

At the commencement of an SBITA, the City initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of SBITA payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for SBITA payments made at or before the SBITA commencement date, plus certain initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying IT assets.

Key estimates and judgments related to SBITAs include how the City determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The City uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for SBITAs.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

- The subscription term includes the noncancellable period of the SBITA.
- Subscription payments included in the measurement of the subscription liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, termination penalties if the City is reasonably certain to exercise such options, subscription contract incentives receivable from the SBITA vendor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

The City monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

13. Net Position Flow Assumption

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

14. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

15. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The City will maintain a minimum unassigned fund balance in its General Fund of 25 percent of the subsequent year's budgeted expenditures and outgoing transfers. This minimum fund

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment. When fund balance falls below the 25 percent range, the City will replenish shortages/deficiencies. Should unassigned fund balance of the General Fund ever exceed the maximum 25 percent range, the City will consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (Council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

16. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

F. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

2. 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 in conformity with Subtitle E, Texas 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. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

3. Compensated Absences

The City accounts for vacation and sick leave in accordance with the provisions of GASB Statement No. 101, Compensated Absences. Under GASB Statement No. 101, the City recognizes a liability for compensated absences for vacation leave that is attributable to services already rendered and for which the City has a present obligation to provide compensation through paid time off or cash settlement. Vacation leave is reported as a liability regardless of whether it is expected to be paid within one year. The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

Sick leave is considered a non-separation benefit and is recognized as a liability only to the extent it is probable that the leave will be used for qualifying absences and the amount can be reasonably estimated. Because unused sick leave is not paid upon separation from employment, the City does not record a liability for sick leave beyond amounts expected to be taken as paid absences in the future.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund, golf course fund, and storm water utility funds are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, hotel/motel tax, and the enterprise funds. The legal level of control as defined by the City Charter is the fund level. No funds can be transferred or added which affect the total fund expenditures without City Council approval. Appropriations lapse at the end of the year. One supplemental budget amendment was made during the year. The following funds exceeded appropriations at the level of control:

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

General Fund	\$6,595,998
Debt Service Fund	\$5,245

No other funds exceeded appropriations at the legal level of control.

A. Restricted Fund Balance

The City records restricted fund balance on amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation. Total restricted fund balance for governmental funds was \$30,379,334, of which, \$207,042 is restricted by enabling legislation.

B. Deficit Fund Equity

As of September 30, 2025, three nonmajor governmental funds, court technology, radio system maintenance, and drainage, reported deficit fund balances of \$16,179, 74,105, and \$75,915, respectively. The deficits will be replenished through interfund transfers and future operating surpluses.

C. Public Funds Investment & Collateral Acts

State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2025, the market values of pledged securities and FDIC exceeded bank balances. In addition, the City is required to adopt certain standards as it relates to the investment and maintenance of public funds. The City was in compliance with the requirement Public Funds Investment Act and the Public Funds Collateral Act.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits - The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Public Funds Investment Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City's and the depository bank's agent bank. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance. The City's deposits, as well as those of the City's component unit were fully insured or collateralized as required by the state statutes at September 30, 2025.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

As of September 30, 2025, the primary government had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
External investment pools	\$ 53,806,973	0.12
Total value	\$ 53,806,973	
Portfolio weighted average maturity		0.12

As of September 30, 2025, the component unit had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
External investment pools	\$ 8,098,957	0.12
Total value	\$ 8,098,957	
Portfolio weighted average maturity		0.12

Following the criteria for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, TexPool and TexStar use amortized cost and Texas CLASS uses the fair value method to value portfolio assets. The pools operate in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pool is the State of Texas. Investments in the pools are classified as cash and cash equivalents for reporting purposes.

Interest rate risk: In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments in nonoperating funds to less than five years from the time of purchase. The weighted average maturity of investments of the City's operating funds cannot exceed one year from the time of purchase. The weighted average maturities of the investment pools did not exceed 60 days.

Credit risk: The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk. It is LEDC policy to limit its investment to those that are authorized under the Texas Public Funds Investment Act. Additionally, any money market mutual funds or local government investment pools must be rated no lower than AAA by at least one nationally recognized rating service. As of September 30, 2025, the investment pools were rated AAAM by Standard and Poor's.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's and LEDC's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized. The City's deposits are therefore not subject to custodial credit risk at September 30, 2025.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. At September 30, 2025, the fair value of the portion in TexPool approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

TexSTAR

TexSTAR has been established for governmental entities pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR's governing body is a five-member Board consisting of three representatives of participants and one member designated by each of the co-administrators. The Board holds legal title to all money, investments, and assets and has the authority to employ personnel, contract for services, and engage in other administrative activities necessary or convenient to accomplish the objectives of TexSTAR. Board oversight of TexSTAR is maintained through daily, weekly, and monthly reporting requirements. TexSTAR is rated

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

AAAm by Standard & Poor's. The City's fair value position is stated at the value of the position upon withdrawal. There were no limitations or restrictions on withdrawals.

Texas CLASS

MBIA is a participant of the Texas CLASS program. Texas CLASS has been established for governmental entities pursuant to the Public Funds Investment Act, Chapter 2256 of the Texas Government Code and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Texas CLASS is supervised by a Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian and the Program Administrator. The Board administers the affairs of the Trust and enters into contracts and agreements on behalf of the Trust in order to effectuate the terms of the Trust Agreement. It also selects consultants for Texas CLASS, including the Program Administrator and the Custodian. MBIA's Texas CLASS is rated AAA by Fitch. There were no limitations or restrictions on withdrawals.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	Governmental Activities				
	Nonmajor			Total	
	General	Governmental			
Property taxes	\$ 563,956	\$ 141,978	\$ 705,934		
Sales tax	527,937	-	527,937		
Other taxes	29,564	25,613	55,177		
Fines & fees	602,486	131,815	734,301		
Accounts	-	43,650	43,650		
GBRA funds	302,455		302,455		
Property liens	180,138		180,138		
Other	(262,587)	-	(262,587)		
Allowance	(661,307)	-	(661,307)		
	\$ 1,282,642	\$ 343,056	\$ 1,625,698		

	Business-Type Activities				Total
	Electric	Water	Wastewater	Nonmajor	
Accounts	\$ 3,063,733	\$ 1,520,382	\$ 704,803	\$ 431,744	\$ 5,720,662
Lease	-	62,283	-	-	62,283
EMS	-	-	-	192,008	192,008
Allowance	(227,939)	(83,046)	(53,265)	(211,791)	(576,041)
	\$ 2,835,794	\$ 1,499,619	\$ 651,538	\$ 411,961	\$ 5,398,912

The component unit receivables balance consisted entirely of sales tax.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

Lease Receivable

The City is a lessor of a contract in which the City receive lease payments from AT&T for the use of an existing cell tower. The lease commenced on August 1, 2023, with a term of months. Monthly lease payments of \$2,000 will be paid through July 31, 2028. As of September 30, 2025, the lease receivable and offsetting deferred inflows amounted to \$62,283 and \$62,283, respectively. The below is the future amortization schedule for the receivable:

Year ending September 30,	Lease Receivable	
	Principal	Interest
2026	\$ 21,830	\$ 2,170
2027	22,719	1,281
2028	17,734	362
	\$ 62,283	\$ 3,813

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,587,394	\$ 246,483	\$ -	\$ 1,833,877
Construction in progress	1,311,430	4,270,252	-	5,581,682
Total capital assets not being depreciated	<u>2,898,824</u>	<u>4,516,735</u>	<u>-</u>	<u>7,415,559</u>
Capital assets, being depreciated:				
Machinery and equipment	8,550,578	1,992,547	(6,824)	10,536,301
Buildings and improvements	14,464,576	1,532,830	-	15,997,406
Infrastructure	87,111,679	-	-	87,111,679
Right to use assets-leases	1,074,899	320,354	-	1,395,253
Right to use assets-SBITA	151,988	-	-	151,988
Total capital assets being depreciated	<u>111,353,720</u>	<u>3,845,731</u>	<u>(6,824)</u>	<u>115,192,627</u>
Less accumulated depreciation				
Machinery and equipment	7,046,152	493,023	(6,824)	7,532,351
Buildings and improvements	6,242,285	412,084	-	6,654,369
Infrastructure	72,801,316	1,141,933	-	73,943,249
Right to use assets-leases	546,622	269,332	-	815,954
Right to use assets-SBITA	30,398	15,199	-	45,597
Total accumulated depreciation	<u>86,666,773</u>	<u>2,331,571</u>	<u>(6,824)</u>	<u>88,991,520</u>
Net capital assets being depreciated	<u>24,686,947</u>	<u>1,514,160</u>	<u>-</u>	<u>26,201,107</u>
Total Capital Assets	<u>\$ 27,585,771</u>	<u>\$ 6,030,895</u>	<u>\$ -</u>	<u>\$ 33,616,666</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 252,595
Public safety	664,207
Public works	1,153,459
Health and welfare	9,178
Culture and recreation	252,132
Total Governmental Activities Depreciation Expense	<u>\$ 2,331,571</u>

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 574,710	\$ 424,815	\$ -	\$ 999,525
Construction in progress	1,378,115	4,518,394	(1,014,530)	4,881,979
Total capital assets not being depreciated	<u>1,952,825</u>	<u>4,943,209</u>	<u>(1,014,530)</u>	<u>5,881,504</u>
Capital assets, being depreciated:				
Machinery and equipment	8,314,651	327,349	(1,391,886)	7,250,114
Buildings and improvements	4,151,722	-	-	4,151,722
Infrastructure	50,736,165	248,769	1,014,530	51,999,464
Right to use assets-leases	348,816	54,126	-	402,942
Intangibles	44,455,000	-	-	44,455,000
Total capital assets being depreciated	<u>108,006,354</u>	<u>630,244</u>	<u>(377,356)</u>	<u>108,259,242</u>
Less accumulated depreciation				
Machinery and equipment	6,821,203	216,021	(881,127)	6,156,097
Buildings and improvements	3,329,399	14,223	-	3,343,622
Infrastructure	25,771,045	1,142,630	-	26,913,675
Right to use assets-leases	282,332	56,240	-	338,572
Intangibles	8,681,568	1,500,218	-	10,181,786
Total accumulated depreciation	<u>44,885,547</u>	<u>2,929,332</u>	<u>(881,127)</u>	<u>46,933,752</u>
Net capital assets being depreciated	63,120,807	(2,299,088)	503,771	61,325,490
Total Capital Assets	<u>\$ 65,073,632</u>	<u>\$ 2,644,121</u>	<u>\$ (510,759)</u>	<u>\$ 67,206,994</u>

Depreciation and amortization was charged to business-type activities as follows:

Electric	\$ 543,146
Water	2,016,541
Wastewater	263,913
EMS	31,512
Sanitation	18,371
Airport	55,849
Total Business-type Activities Depreciation Expense	<u>\$ 2,929,332</u>

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

A summary of changes in component unit (LEDC) capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 821,888	\$ -	\$ -	\$ 821,888
Construction in progress	186,194	41,349	-	227,543
Total capital assets not being depreciated	<u>1,008,082</u>	<u>41,349</u>	<u>-</u>	<u>1,049,431</u>
Capital assets, being depreciated:				
Buildings	4,477,872	27,250	-	4,505,122
Right to use assets	56,020	96,656	(56,020)	96,656
Total capital assets being depreciated	<u>4,533,892</u>	<u>123,906</u>	<u>(56,020)</u>	<u>4,601,778</u>
Less accumulated depreciation				
Buildings	292,345	90,102	-	382,447
Right to use assets	48,018	14,447	(56,020)	6,445
Total accumulated depreciation	<u>340,363</u>	<u>104,549</u>	<u>(56,020)</u>	<u>388,892</u>
Net capital assets being depreciated	<u>4,193,529</u>	<u>19,357</u>	<u>-</u>	<u>4,212,886</u>
Total Capital Assets	<u><u>\$ 5,201,611</u></u>	<u><u>\$ 60,706</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,262,317</u></u>

Depreciation was charged to the following activities as follows:

Lockhart EDC	\$ 104,549
Total Depreciation Expense	<u><u>\$ 104,549</u></u>

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

D. Long-term Debt

The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2025. In general, the City uses the general fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 2,548,302	\$ -	\$ (594,978)	\$ 1,953,324	\$ 624,914
Certificates of Obligation	5,548,135	18,955,000	(412,595)	24,090,540	433,340
Tax notes	1,708,666	-	(325,049)	1,383,617	333,679
Less deferred amounts:					
For premiums	343,716	1,325,909	(67,036)	1,602,589	-
Total Bonds Payable	<u>10,148,819</u>	<u>20,280,909</u>	<u>(1,399,658)</u>	<u>29,030,070</u>	<u>1,391,933</u>
SBITA liabilities	127,202	-	(14,099)	113,103	15,328
Lease liabilities	534,607	320,354	(231,801)	623,160	242,094
Total Governmental Activities	<u>\$ 10,810,628</u>	<u>\$ 20,601,263</u>	<u>\$ (1,645,558)</u>	<u>\$ 29,766,333</u>	<u>\$ 1,649,355</u>
				<u>\$ 28,116,978</u>	
Business-Type Activities:					
General Obligation Bonds	\$ 856,696	\$ -	\$ (200,022)	\$ 656,674	\$ 210,086
Certificates of Obligation	6,486,867	-	(482,405)	6,004,462	506,660
Tax Notes	1,261,334	-	(239,950)	1,021,384	246,321
Less deferred amounts:					
For premiums	242,466	-	(32,260)	210,206	-
Total Bonds Payable	<u>8,847,363</u>	<u>-</u>	<u>(954,637)</u>	<u>7,892,726</u>	<u>963,067</u>
Lease liabilities	25,850	54,126	(54,152)	25,824	25,824
Notes payable	1,840,710	-	(184,913)	1,655,797	189,535
GBRA Obligations	40,875,000	-	(1,105,000)	39,770,000	1,125,000
Total Business-Type Activities	<u>\$ 51,588,923</u>	<u>\$ 54,126</u>	<u>\$ (2,298,702)</u>	<u>\$ 49,344,347</u>	<u>\$ 2,303,426</u>
				<u>\$ 47,040,921</u>	
Component Unit Activities (LEDC):					
Lease liabilities	\$ 8,754	\$ 96,656	\$ (14,295)	\$ 91,115	\$ 17,172
Revenue bonds	1,250,000	-	(100,000)	1,150,000	100,000
Total Component Unit Activities	<u>\$ 1,258,754</u>	<u>\$ 96,656</u>	<u>\$ (114,295)</u>	<u>\$ 1,241,115</u>	<u>\$ 117,172</u>
				<u>\$ 1,123,943</u>	

Long-term debt applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

expenditure when due. The City intends to retire all of its general long-term liabilities, plus accrued interest, from property taxes and other current revenues from the debt service fund as has been done in prior years. The proprietary fund type long-term debt will be repaid, plus accrued interest, from operating revenues of the respective fund. The general fund has typically been used to liquidate the liability for compensated absences for governmental activities. Leases are secured by the underlying asset. In the event of default, the lender may demand immediate payment or take possession of the asset.

Lockhart-Luling Water Delivery System

The Guadalupe-Blanco River Authority (GBRA) contracted with the City in 2002 to provide a reliable quantity of treated water through the Luling Water Treatment Plant. For the mutual benefit of the parties, GBRA, the City of Luling, and the City of Lockhart, Texas entered into an agreement that enabled GBRA to pump treated water from the Luling Water Treatment Plant to the Lockhart Treatment Plant ground storage reservoir through the water delivery system.

GBRA issued \$4,950,000 in Contract Revenue Refunding Bonds in fiscal year 2014 for the water delivery system. As of September 30, 2025, there was \$1,845,000 bonds outstanding.

Carrizo Groundwater Supply Project

The Guadalupe-Blanco River Authority (GBRA) has contracted with the City to assist with the financing for the development of the Carrizo Groundwater Supply Project. This groundwater development project will generate 15,000 acre-feet per year of groundwater which will be distributed to three customers that have contracts with GBRA – New Braunfels Utilities, City of Lockhart, and Goforth Special Utility District. The City is responsible for its proportional share of the contract revenue and board participation loans associated with the financing of the project. As of September 30, 2025, there was \$37,925,000 of obligations outstanding.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

Primary government long-term debt at year end was comprised of the following debt issues:

	Governmental Activities	Business - Type Activities	Total
General Obligation Bonds:			
\$6,530,000 General Obligation Refunding Bond, Series 2016, due in annual installments through August 2028, interest at 3.6%	\$ 1,953,324	\$ 656,674	\$ 2,609,998
Total General Obligation Bonds	\$ 1,953,324	\$ 656,674	\$ 2,609,998
Certificates of Obligation:			
\$16,685,000 Certificates of Obligation, Series 2015, due in annual installments through August 2035 interest at 3.39%	\$ 5,135,540	\$ 6,004,462	\$ 11,140,002
\$18,955,000 Certificates of Obligation, Series 2025, due in annual installments through 2045, interest at 5%	18,955,000	-	18,955,000
Total Certificates of Obligation	\$ 24,090,540	\$ 6,004,462	\$ 30,095,002
Notes Payable:			
\$3,600,000 2013 State Infrastructure Bank Loan due in annual installments through June 2033, interest at 2.50%	\$ -	\$ 1,655,797	\$ 1,655,797
Total Notes Payable	\$ -	\$ 1,655,797	\$ 1,655,797
Tax Notes:			
\$4,050,000 Limited Tax Note, Series 2022, due in annual installments through 2029, interest at 2.61%	\$ 1,383,617	\$ 1,021,384	\$ 2,405,001
Total Tax Notes	\$ 1,383,617	\$ 1,021,384	\$ 2,405,001
GBRA Obligations:			
\$4,950,000 GBRA Revenue Bond, Series 2014, due in installments through 2030, interest at 3.45%	\$ -	\$ 1,845,000	\$ 1,845,000
\$7,095,000 2018 Board Participation Loan due in installments through 2053, interest at 4.24%	-	7,095,000	7,095,000
\$2,405,000 Contract Revenue Bond, Series 2018A, due in installments through 2048, interest at 3.96%	-	2,285,000	2,285,000
\$2,095,000 Contract Revenue Bond, Series 2018B, due in installments through 2048, interest at 3.23%	-	1,730,000	1,730,000
\$6,260,000 2019 Board Participation Loan due in installments through 2054, interest at 3.39%	-	6,260,000	6,260,000
\$1,720,000 Contract Revenue Bond, Series 2019, due in installments through 2049, interest at 2.47%	-	1,470,000	1,470,000
\$8,250,000 Contract Revenue Bond, Series 2020, due in installments through 2050, interest at 2.08%	-	6,920,000	6,920,000
\$14,485,000 Contract Revenue Bond, Series 2021, due in installments through 2050, interest at 2.75%	-	12,165,000	12,165,000
Total GBRA Obligations	\$ -	\$ 39,770,000	\$ 39,770,000

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

	Governmental Activities	Business - Type Activities	Total
Lease Liabilities:			
\$322,861 lease payable for building, due in monthly installments of \$5,315 to \$6,218 through 2027, interest at 2.61%	\$ 131,781	\$ -	\$ 131,781
\$610,998 lease payable to Enterprise Fleet, due in monthly installments of \$13,106 through 2025, interest at 1.5%	491,379	25,824	517,203
Total Lease Liabilities	\$ 623,160	\$ 25,824	\$ 648,984
SBITA Liabilities:			
\$64,352 SBITA payable to Eforce Records Management, due in annual installments of \$6,862 through 2031, interest at 4.5%	\$ 42,781	\$ -	\$ 42,781
\$105,777 SBITA payable to Eforce Records License, due in annual installments of \$11,966-\$14,717 through 2031, interest at 4.5%	70,322	-	70,322
Total SBITA Liabilities	\$ 113,103	\$ -	\$ 113,103
Premiums	1,602,589	210,206	1,812,795
Total Debt	\$ 29,766,333	\$ 49,344,347	\$ 79,110,680

The component unit long-term debt at year end was comprised of the following debt issues:

	Lockhart EDC
Sales Tax Revenue Bonds:	
\$1,645,000 Sales Tax Revenue Bond, Series 2020, due in semi-annual installments through August 2035, interest at 2.47%	\$ 1,150,000
Total Sales Tax Revenue Bonds	\$ 1,150,000
Lease liabilities:	
\$96,656 lease payable for building, due in monthly installments of \$5,978-\$6,218 through March 2027, interest at 2.61%	\$ 91,115
Total Lease Liabilities	\$ 91,115
Total Debt	\$ 1,241,115

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

The annual requirements to amortize the City's governmental long-term activities debt issues outstanding at year end were as follows:

Year ending September 30,	2015 Tax & Rev CO		2025 Tax & Rev CO		2016 GO Refunding	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 433,340	\$ 164,594	\$ -	\$ 913,526	\$ 624,914	\$ 78,133
2027	447,170	151,594	95,000	947,750	647,366	53,136
2028	461,000	138,179	225,000	943,000	681,044	27,242
2029	493,270	124,349	720,000	931,750	-	-
2030	507,100	109,551	755,000	895,750	-	-
2031-2035	2,793,660	290,810	4,390,000	3,872,250	-	-
2036-2040	-	-	5,610,000	2,659,000	-	-
2041-2045	-	-	7,160,000	1,109,000	-	-
	<u>\$ 5,135,540</u>	<u>\$ 979,077</u>	<u>\$ 18,955,000</u>	<u>\$ 12,272,026</u>	<u>\$ 1,953,324</u>	<u>\$ 158,511</u>

Year ending September 30,	2022 Tax Note		Leases	
	Principal	Interest	Principal	Interest
2026	\$ 333,679	\$ 31,758	\$ 242,094	\$ 42,655
2027	339,432	22,974	198,861	25,340
2028	350,938	13,964	53,251	15,813
2029	359,568	4,692	58,920	9,602
2030	-	-	70,034	2,782
	<u>\$ 1,383,617</u>	<u>\$ 73,389</u>	<u>\$ 623,160</u>	<u>\$ 96,192</u>

Year ending September 30,	SBITA		
	Principal	Interest	Total
2026	\$ 15,328	\$ 5,090	\$ 20,418
2027	16,630	4,400	21,030
2028	18,010	3,652	21,662
2029	19,470	2,841	22,311
2030	21,015	1,965	22,980
2031	22,650	1,019	23,669
Total	<u>\$ 113,103</u>	<u>\$ 18,967</u>	<u>\$ 132,070</u>

The City entered into leases to finance the use of building and equipment. The property is classified as right to use asset with a total carrying value as of yearend for governmental activities of \$106,391.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

The City entered into IT based subscription agreements for records management. The present value of the subscription payments is classified as right to use asset with a total carrying value as of yearend for governmental activities of \$106,391.

The annual requirements to amortize the City's business-type long-term activities debt issues outstanding at year end were as follows:

Year ending September 30,	2015 Tax & Rev CO		2016 GO Refunding		2022 Tax Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 506,660	\$ 192,443	\$ 210,086	\$ 26,267	\$ 246,321	\$ 23,444
2027	522,830	177,243	217,634	17,864	250,568	16,959
2028	539,000	161,559	228,954	9,158	259,062	10,309
2029	576,730	145,389	-	-	265,433	3,464
2030	592,900	128,087	-	-	-	-
2031	611,765	109,558	-	-	-	-
2032	630,630	89,676	-	-	-	-
2033	652,190	69,181	-	-	-	-
2034	673,750	47,169	-	-	-	-
2035	698,007	24,430	-	-	-	-
	<u>\$ 6,004,462</u>	<u>\$ 1,144,735</u>	<u>\$ 656,674</u>	<u>\$ 53,289</u>	<u>\$ 1,021,384</u>	<u>\$ 54,176</u>

Year ending September 30,	State Infrastructure Loan		Leases	
	Principal	Interest	Principal	Interest
2026	\$ 189,535	\$ 41,395	\$ 25,824	\$ 365
2027	194,273	36,657	-	-
2028	199,130	31,800	-	-
2029	204,108	26,821	-	-
2030	209,211	21,719	-	-
2031	214,441	16,489	-	-
2032	219,802	11,127	-	-
2033	225,297	5,632	-	-
	<u>\$ 1,655,797</u>	<u>\$ 191,640</u>	<u>\$ 25,824</u>	<u>\$ 365</u>

The City entered into leases to finance the use of equipment. The property is classified as right to use asset with a total carrying value as of yearend for business-type activities of \$64,370.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

Year ending September 30,	Guadelupa-Blanco River Authority		
	Principal	Interest	Total
2026	\$ 1,125,000	\$ 1,121,587	\$ 1,676,666
2027	1,140,000	1,102,995	1,680,790
2028	1,165,000	1,082,839	1,678,995
2029	1,185,000	1,061,242	1,681,122
2030	1,205,000	1,038,043	1,682,354
2031-2035	4,280,000	4,958,459	1,677,396
2036-2040	5,825,000	4,473,644	1,273,454
2041-2045	9,245,000	3,401,223	1,280,093
2046-2050	10,200,000	1,823,633	1,275,529
2051-2054	4,400,000	351,721	1,280,100
	<u>\$ 39,770,000</u>	<u>\$ 20,415,385</u>	<u>\$ 15,186,498</u>

The annual requirements to amortize the City's component unit long-term activities debt issues outstanding at year end were as follows:

Year ending September 30,	Leases	
	Principal	Interest
2026	\$ 17,172	\$ 2,176
2027	18,411	1,713
2028	19,711	1,217
2029	21,078	686
2030	14,743	145
	<u>\$ 91,115</u>	<u>\$ 5,937</u>

The LEDC entered into a lease to finance the use of a building. The property is classified as right to use asset with a total carrying value as of yearend for component unit activities of \$90,211.

Year ending September 30,	2020 Sales Tax and Revenue	
	Bonds	
	Principal	Interest
2026	\$ 100,000	\$ 28,405
2027	105,000	25,935
2028	110,000	23,342
2029	110,000	20,625
2030	115,000	17,908
2031-2035	610,000	46,067
	<u>\$ 1,150,000</u>	<u>\$ 162,282</u>

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

G. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. In general, the City uses the general fund and utility fund to liquidate compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Compensated absences	\$ 745,309	\$ 795,847	\$ (670,778)	\$ 870,378	\$ 783,340
Total Governmental Activities	\$ 745,309	\$ 795,847	\$ (670,778)	\$ 870,378	\$ 783,340
Other long-term liabilities due in more than one year				\$ 87,038	
Business-Type Activities:					
Compensated absences	\$ 122,065	\$ 146,959	\$ (109,859)	\$ 159,166	\$ 143,249
Total Business-Type Activities	\$ 122,065	\$ 146,959	\$ (109,859)	\$ 159,166	\$ 143,249
Other long-term liabilities due in more than one year				\$ 15,917	
EDC Activities:					
Compensated absences	\$ 1,587	\$ 3,198	\$ (1,428)	\$ 3,357	\$ 3,021
Total Business-Type Activities	\$ 1,587	\$ 3,198	\$ (1,428)	\$ 3,357	\$ 3,021
Other long-term liabilities due in more than one year				\$ 336	

H. Deferred Charges on Refunding

Deferred charges resulting from the issuance of series 2016 GO revenue refunding bonds have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding certificates of obligation. Current year balances for governmental and business-type activities totaled \$93,769 and \$65,792, respectively. Current year amortization expense for governmental and business-type activities totaled \$23,442 and \$16,448, respectively.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

I. Interfund Transactions

The compositions of interfund advances to/from balances as of the year ended September 30, 2025 were as follows:

Due to:	Due from:		
	General Fund	Wastewater Fund	Total
Electric	\$ 2,727,972	\$ 26,193	\$ 2,754,165
Water	1,235,479	374,058	1,609,537
Wastewater	15,294	-	15,294
Nonmajor govt.	238,128	-	238,128
Total	\$ 4,216,873	\$ 400,251	\$ 4,617,124

Interfund receivables and payables relate to various amounts used to cover operational and capital expenditures. All balances are expected to be resolved in the subsequent year.

The LEDC recorded a total payable of \$79,220 to the general fund during the year.

Transfers between the primary government during the 2025 year were as follows:

Transfers In:	Transfers Out:						Total
	General	Electric	Water	Wastewater	Nonmajor governmental	Nonmajor bus.-type	
General	\$ -	\$ 2,390,930	\$ 298,136	\$ 755,605	\$ 550,000	\$ 471,509	\$ 4,466,180
Nonmajor govt	58,447	-	-	246,520	132,143	-	437,110
Water	-	-	-	532,787	-	-	532,787
Total	\$ 58,447	\$ 2,390,930	\$ 298,136	\$ 1,534,912	\$ 682,143	\$ 471,509	\$ 5,436,077

Transfers between funds were primarily to support debt service requirements and operation of funds.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Pool) which provides protection for risks of loss. Premiums are paid to the Pool that retains the risk of loss beyond the City's policy deductibles. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the City's basic financial statements. For the last three years, there have been no significant reductions of insurance coverage or insurance settlements in excess of insurance coverage.

B. Contingent Liabilities

The City is involved in lawsuits with other parties from time to time. While the ultimate result of these matters cannot be predicted with certainty, the City does not expect them to have a materially adverse effect on the basic financial statements.

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

C. Commitments

Water Purchase Commitment

The City has entered into an agreement with the Guadalupe-Blanco River Authority (GBRA) that obligates the City to purchase its water from GBRA through December 31, 2027.

D. Pension Plans

Texas Municipal Retirement Systems

Plan Description

The City of Lockhart, Texas participates as one of 938 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

(the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of three payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

Plan provisions for the City were as follows:

	<u>Plan Year 2024</u>	<u>Plan Year 2023</u>
Employee deposit rate	6%	6%
Matching ratio (city to employee)	2 to 1	2 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	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI Retroactive Repeating	70% of CPI Repeating

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Employees covered by benefit terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	114
Inactive employees entitled to but not yet receiving benefits	160
Active employees	151
Total	425

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Lockhart, Texas were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Lockhart, Texas were 13.06% and 14.17% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025, were \$1,337,697, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.60% to 11.85% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of 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 the most recent Scale MP-2021 (with immediate convergence) 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 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 the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the 3.5% and 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of December 31, 2022. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2025 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	6.7%
Core Fixed Income	6.0%	4.7%
Non-Core Fixed Income	20.0%	8.0%
Other Public/Private Markets	12.0%	8.0%
Real Estate	12.0%	7.6%
Hedge Funds	5.0%	6.4%
Private Equity	10.0%	11.6%
Total	100.0%	

Discount Rate:

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

Of the total pension liability, \$3,770,224 is related to the primary government, and \$61,697 is attributable to discretely presented component unit.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net	Total Net Pension	Primary Government	Component Units
Balance at 12/31/23	\$ 43,107,349	\$ 38,291,146	\$ 4,816,203	\$ 4,738,659	\$ 77,544
Changes for the year:					
Service cost	1,370,951	-	1,370,951	1,348,877	22,074
Interest	2,881,842	-	2,881,842	2,835,442	46,400
Change in benefit terms	-	-	-	-	-
Difference between expected and actual experience	500,647	-	500,647	492,586	8,061
Changes of assumptions	-	-	-	-	-
Contributions – employer	-	1,228,027	(1,228,027)	(1,208,255)	(19,772)
Contributions – employee	-	564,178	(564,178)	(555,094)	(9,084)
Net investment income(loss)	-	3,971,631	(3,971,631)	(3,907,684)	(63,947)
Benefit payments, including refunds of emp. contributions	(2,197,725)	(2,197,725)	-	-	-
Administrative expense	-	(25,516)	25,516	25,105	411
Other changes	-	(598)	598	587	11
Net changes	2,555,715	3,539,997	(984,282)	(968,435)	(15,847)
Balance at 12/31/24	\$ 45,663,064	\$ 41,831,143	\$ 3,831,921	\$ 3,770,224	\$ 61,697

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

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 5.75%	Current Single Rate 6.75%	1% Increase 7.75%
\$ 9,902,176	\$ 3,770,224	\$ (1,237,174)

Component Unit

1% Decrease 5.75%	Current Single Rate 6.75%	1% Increase 7.75%
\$ 162,043	\$ 61,697	\$ (20,246)

Total

1% Decrease 5.75%	Current Single Rate 6.75%	1% Increase 7.75%
\$ 10,064,219	\$ 3,831,921	\$ (1,257,420)

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

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

For the year ended September 30, 2025, the City recognized pension expense of \$1,166,262. Of this amount, \$1,147,484 is related to the primary government and \$18,778 is attributable to the discretely presented component unit.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

At September 30, 2025, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred	Deferred
	Outflows of Resources	(Inflows) of Resources
Primary Government:		
Difference between projected and actual investment earnings	\$ -	\$ (372,985)
Change in assumptions	-	(127,642)
Differences between expected and actual economic experience	251,681	-
Contributions subsequent to the measurement date	948,677	-
Component Units:		
Difference between projected and actual investment earnings	-	(6,104)
Change in assumptions	-	(2,089)
Differences between expected and actual economic experience	4,119	-
Contributions subsequent to the measurement date	15,524	-
Total	\$ 1,220,001	\$ (508,820)

The primary government and component units reported \$948,677 and \$15,524, respectively, as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2026.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

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

Year ended December 31:	Primary Government	Discretely Presented Component Units	Total
2025	\$ 40,377	\$ 661	\$ 41,038
2026	588,060	9,623	597,683
2027	(604,451)	(9,891)	(614,342)
2028	(272,933)	(4,466)	(277,399)
2029	-	-	-
Thereafter	-	-	-
	\$ (248,946)	\$ (4,074)	\$ (253,020)

E. Other Postemployment Benefits

Supplemental Death Benefits Fund

The City also participates in a defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) 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 City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The 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); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB. The SDBF covers both active and retiree benefits with no segregation of assets and, therefore, doesn't meet the definition of a trust under GASB No. 75, paragraph 4b, (i.e., no assets are accumulated for OPEB). As such, the SDBF is considered to be a single-employer unfunded OPEB plan (and not a cost sharing plan) with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The 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 employees' entire careers.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Employees covered by benefit terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	78
Inactive employees entitled to but not yet receiving benefits	27
Active employees	151
Total	256

The City's contributions to the TMRS SDBF for the years ended 2025, 2024, and 2023 were \$16,715, \$15,319, and \$10,839, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates

(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2023	0.15%	0.15%	100.0%
2024	0.18%	0.18%	100.0%
2025	0.17%	0.17%	100.0%

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2024, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.60% to 11.85%, including inflation per year
Discount rate	4.08%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements. For disabled annuitants, the 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% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females. The rates are projected on a fully generational basis by the most recent Scale MP=2021 (with immediate convergence) to account for future mortality improvements subject to the 3.5% and 3% floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 4.08%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2024.

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 4.08%, as well as what the City's total OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.08%) or 1-percentage-point higher (5.08%) than the current rate:

1% Decrease 3.08%	Current Single Rate 4.08%	1% Increase 5.08%
\$ 538,906	\$ 458,109	\$ 394,210

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/23	\$ 448,005
Changes for the year:	
Service Cost	18,809
Interest	16,925
Difference between expected and actual experience	14,161
Changes of assumptions	(22,866)
Benefit payments	(16,925)
Net changes	10,104
Balance at 12/31/24	\$ 458,109

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

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

For the year ended September 30, 2025, the City recognized OPEB expense for the SDBF of \$10,205. Total aggregate OPEB expense was \$24,333 including the healthcare benefit OPEB discussed in the subsequent section.

At September 30, 2025, the City reported deferred outflows and inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ 7,017	\$ -
Changes in assumptions and other inputs	-	(83,662)
Contributions subsequent to measurement date	11,569	-
Total	\$ 18,586	\$ (83,662)

The City reported \$11,569 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2026.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2026	\$ (34,567)
2027	(35,186)
2028	(5,807)
2029	(1,085)
2030	-
Thereafter	-
	\$ (76,645)

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Retiree Health Benefit Plan

In addition to providing pension benefits, the City provides medical benefits to eligible retirees and dependents with postemployment health care benefits through a single-employer postemployment healthcare plan (the "plan") administered by Texas Municipal League Multistate Intergovernmental Employee Benefits Pool. A separate audited financial report is not issued on the plan. In order for a City employee to be eligible for this benefit, he or she needs 20 years of service and/or attained the age of 60 with five years of service. Medical benefits are available with four coverage tiers depending on dependent status and continue until Medicare eligible. A Medicare supplement policy is available to Medicare eligible retirees with the retiree paying the full premium.

Eligible retirees pay the full contribution rate for pre-65 medical coverage. The amount of the contribution depends on years of service with the City at retirement. The plan was changed effective June 1, 2015 to provide payment of higher retiree contribution rates for future retirees. Employees hired on or after this date will pay the full retiree contribution rate equal to 195% of the active employee contribution rate. Retirees hired prior to this date will pay the active employee contribution rate for either 2, 5 or 10 years (or to age 65, if earlier) depending on the years of service retirement. All retirees on the effective date will continue to pay the active employee contribution rate.

Funding Status and Funding Progress

Actuarial valuations of an ongoing program involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Program, assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The current valuation dated September 30, 2024 and measured as of September 30, 2025 uses the mortality table: RPH 2014 Total Table with Projection MP-2021 and turnover: rates varying based on genera, age, and select and ultimate at 9 years. Rates based on the TMRS actuarial assumptions from the 2017 retirement plan valuation report.

Actuarial Methods and Assumptions

There have been no substantive changes in the retiree plan since the last full valuation. Therefore, the interim-year projection study is based on the census information, benefit

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

schedules and costs for the fiscal year 2024 actuarial valuation for the development of the GASB 75 disclosures related to OPEB benefits for the year ended September 30, 2025.

Projections of benefits for financial reporting purposes are based on the substantive program (the program as understood by the employer and the Program members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Program members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent-of-Payroll
Asset Valuation Method	N/A
Discount Rate	4.06%
Inflation Rate	2.50%
Salary Growth	3.50%
Healthcare Cost Trend Rate (Initial/Ulimate)	4.50% for medical

At the September 30, 2024 valuation, the following represents the active employees and retirees that are eligible to participate in the plan:

Employees covered by benefit terms

At the September 30, 2024 valuation date, the following employees were covered by the benefit terms:

Status	Employee	Employee & Spouse
Inactive employees or beneficiaries currently receiving benefits	4	0
Active employees	30	6
Total	34	6

Discount Rate

The discount rate used to measure the Total OPEB Liability was 4.06%. The discount rate was based on the Bond Buyer GO Bond 20 Year Index rate as of September 30, 2024, date of the actuarial valuation.

City of Lockhart, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.06%, as well as what the City's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.06%) or 1-percentage-point higher (5.06%) than the current rate:

1% Decrease	Current Single Rate	1% Increase
3.06%	4.06%	5.06%
\$ 325,545	\$ 347,690	\$ 371,682

Healthcare Cost Trend

1% Decrease	Current Healthcare	1% Increase
3.50%	Cost Trend 4.50%	5.50%
\$ 322,091	\$ 347,690	\$ 376,659

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 9/30/2023	\$ 353,551
Changes for the year:	
Service Cost	5,631
Interest	14,064
Benefit payments	(25,557)
Net changes	(5,861)
Balance at 9/30/2024	\$ 347,690

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

For the year ended September 30, 2025, the City recognized OPEB expense for the health benefit plan of \$14,128.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ (14,723)
Change in assumptions	(15,122)
Total	\$ (29,845)

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2026	\$ (8,156)
2027	(12,208)
2028	(7,759)
2029	(1,722)
2030	-
Thereafter	-
	\$ (29,845)

F. Tax Abatement Disclosures

The City of Lockhart enters into tax abatement and rebate agreements with local businesses under the state local government code, title 12, subtitle A, chapter 380. Under the code, the governing body of a municipality may establish and provide for the administration of one or more programs, including programs for making loans or grants of public money and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality. The City has tax abatement/rebate agreements with three entities as of September 30, 2025:

\$13,885 of real property and personal property taxes was rebated to a manufacturing company that commercializes fiber reactor technology to enhance and improve manufacturing environments by increasing the efficiency of existing refining operations utilizing two-phase chemistry.

The City has not made any commitments as part of the agreements other than to reduce taxes. The City is not subject to any tax abatement agreements entered into by other governmental entities. The City has chosen to disclose information about its tax abatement agreements

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

individually. It established a quantitative threshold of 100% percent of the total dollar amount of taxes abated during the year.

G. Restatement

The City restated beginning net position for the EMS fund and business-type activities to adjust prior year accrued payables. In addition, the City restated beginning net position for the governmental activities to account for the new acct. standard – GASB 101, *Compensated Absences*. The restatements are as follows:

	<u>Governmental Activities</u>	<u>Buisness-Type Activities</u>	<u>Business-Type Nonmajor</u>
Prior year ending net position, as reported	\$ 36,418,436	\$ 33,404,189	3,164,586
Restatements for accrued payables	-	(57,612)	(57,612)
Restatements for new acct. standard- GASB 101, <i>Compensated Absences</i>	(167,457)	-	-
Restated beginning net position	<u>\$ 36,250,979</u>	<u>\$ 33,346,577</u>	<u>\$ 3,106,974</u>

H. New Accounting Pronouncements

The City adopted GASB 101, *Compensated Absences* during the year. The goal of the standard is to create a more consistent model for accounting for compensated absences that can be applied to all types of compensated absence arrangements.

The new guidance introduces three criteria for recording a liability in financial statements prepared using the economic resources measurement focus (often referred to as a “full accrual” basis). A liability should be recognized for leave that has not been used if all of the following are true:

- The leave is attributable to services already rendered.
- The leave accumulates.
- The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means (likelihood of more than 50 percent).

This standard was applied retroactively and resulted in a sick leave liability of \$129,883 as of September 30, 2025.

City of Lockhart, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2025

I. Related Party Transactions

During the year ended September 30, 2025, the City had the following transactions with related parties of the City:

- Council member Jeffery Michelson is a member of the Board of Directors of First Lockhart National Bank, depository for the City. Mr. Michelson abstains from voting on all matters involving the banking institution.

J. Sale of EMS Assets

In January 2025, the City entered into an Asset Purchase and Sale Agreement with Caldwell County Emergency Services District No. 5 to transfer ownership of Emergency Medical Services (EMS) operational assets.

Under the agreement, the City agreed to sell specified EMS-related personal property, including ambulances, vehicles, and medical equipment, for a total purchase price of \$381,018, payable at closing on January 31, 2025.

In addition to the purchase price, the buyer will assume and pay directly to the vendor the remaining balance of \$217,975 related to one ambulance (Medic 6). Medicine and consumable supplies on hand as of February 1, 2025 will be purchased separately at a price to be determined at that time.

The transaction represents a sale of assets only. The ESD did not assume any other liabilities of the City related to EMS operations. Both parties provided customary representations and warranties, and indemnification provisions are included in the agreement.

K. Subsequent Events

There were no subsequent events through March 17, 2026, the date the financial statements were issued.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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

**CITY OF LOCKHART, TEXAS, COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2026
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____**

AS BOND COUNSEL FOR THE CITY OF LOCKHART, TEXAS (the "City") of the certificates of obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates, until maturity or redemption, at the rates and payable on the dates specified in the text of the Certificates and in the Ordinance of the City adopted on _____, 2026 authorizing the issuance of the Certificates (the "Ordinance").

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Certificates have been authorized, issued and delivered in accordance with law; and that said Certificates, except the enforceability thereof as may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the City; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, on all taxable property within the City and the Certificates are additionally secured by and payable from a limited pledge of surplus revenue of the City's waterworks and wastewater system all as provided in the Ordinance.

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



representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates, including the amount, accrual or receipt of interest on, the Certificates. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. Owners of the Certificates should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates.

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

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

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other



material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of the City and the assessed valuation of taxable property within the City and the sufficiency of the revenues pledged by the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,