

Dated August 12, 2026

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

NEW ISSUE - Book-Entry-Only

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

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS

\$17,270,000*

TOWN OF PROSPER, TEXAS
(Collin and Denton Counties)

WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2026

Dated Date: August 15, 2026

Due: August 15, as shown on page 2

Interest to accrue from the Delivery Date

PAYMENT TERMS . . . Interest on the \$17,270,000* Town of Prosper, Texas, Waterworks and Sewer System Revenue Bonds, Series 2026 (the "Bonds") will accrue from the "Delivery Date" (as defined below), estimated to be September 16, 2026, will be payable February 15 and August 15 of each year, until maturity or prior redemption, commencing February 15, 2027, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a stated maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, Irving, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 1371 and 1502, Texas Government Code, as amended, and an ordinance adopted by the Town Council (the "Council") on July 14, 2026, authorizing the issuance of the Bonds (the "Bond Ordinance"), in which the Council delegated the authority to certain Town officials to execute a pricing certificate (the "Pricing Certificate" and together with the Bond Ordinance, the "Ordinance") that will complete the final sale of the Bonds. The Bonds are special obligations of the Town payable, both as to principal and interest, solely from and, together with the Previously Issued Bonds (defined herein) and any additional parity bonds which may be issued in the future (the "Additional Bonds" and, together with the Previously Issued Bonds and the Bonds, the "Bonds Similarly Secured"), secured by a lien on and pledge of the Pledged Revenues (defined herein), consisting primarily of the Net Revenues (defined herein) of the Town's Waterworks and Sewer System (the "System"). **The Town has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "THE BONDS – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) the acquisition, construction, installation and equipment of additions, improvements and extensions to the System, (ii) funding the debt service reserve fund, and (iii) paying the costs associated with the issuance of the Bonds.

CUSIP PREFIX: 74360C
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

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

DELIVERY . . . It is expected that the Bonds will be available for delivery through the facilities of DTC on September 16, 2026 (the "Delivery Date").

BIDS DUE TUESDAY, AUGUST 18, 2026 AT 11:00 A.M. CDT

*Preliminary, subject to change

MATURITY SCHEDULE*

15-Aug Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
2027	\$ 590,000			
2028	550,000			
2029	580,000			
2030	605,000			
2031	635,000			
2032	670,000			
2033	700,000			
2034	740,000			
2035	775,000			
2036	815,000			
2037	855,000			
2038	895,000			
2039	940,000			
2040	990,000			
2041	1,040,000			
2042	1,080,000			
2043	1,130,000			
2044	1,175,000			
2045	1,225,000			
2046	1,280,000			

(Interest to accrue from Delivery Date.)

- (1) CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. None of the Town, the Initial Purchaser, the Municipal Advisor or their agents or counsel shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

OPTIONAL REDEMPTION . . . The Town reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, 2037, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption"). Additionally, the Bonds will be subject to mandatory sinking fund redemption if the Initial Purchaser elects to combine two or more of the serial maturities identified above into one or more term bonds.

CONCURRENT OFFERINGS . . . The Bonds are being offered by the Town concurrently with the Town's General Obligation Refunding and Improvement Bonds, Series 2026 (the "GO Bonds") but pursuant to a separate offering document. Such separate offering document should be reviewed and analyzed independently, including, without limitation, the types of obligations being offered, their respective terms for payment, the security for their payment, and the rights of the holders. Initial delivery of the GO Bonds through the facilities of DTC is expected to occur on or about September 16, 2026.

* Preliminary, subject to change.

For purpose of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, this document, as the same may be supplemented or corrected from time to time, may be treated as an Official Statement with respect to the Bonds described herein deemed "final" by the Town as of the date hereof (or of any supplement or correction) except for the omission of no more than the information provided by Subsection (b)(1) of Rule 15c2-12.

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

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

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

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

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

NEITHER THE TOWN, ITS MUNICIPAL ADVISOR, NOR THE INITIAL PURCHASER 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, AS SUCH INFORMATION HAS BEEN FURNISHED BY THE DEPOSITORY TRUST COMPANY.

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

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

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

TABLE OF CONTENTS

PRELIMINARY OFFICIAL STATEMENT SUMMARY	4	CONTINUING DISCLOSURE OF INFORMATION	38
TOWN OFFICIALS, STAFF AND CONSULTANTS	6	OTHER INFORMATION	40
ELECTED OFFICIALS	6	RATING	40
SELECTED ADMINISTRATIVE STAFF	6	LITIGATION	40
CONSULTANTS AND ADVISORS	6	REGISTRATION AND QUALIFICATION OF BONDS FOR SALE ..	40
INTRODUCTION	7	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC	
THE BONDS	7	FUNDS IN TEXAS	40
THE SYSTEM	14	LEGAL MATTERS	40
TABLE 1 - HISTORICAL WATER CONSUMPTION	15	AUTHENTICITY OF FINANCIAL DATA AND OTHER	
TABLE 2 - TEN LARGEST WATER CUSTOMERS	15	INFORMATION	41
TABLE 3 – WATER RATES	16	MUNICIPAL ADVISOR	41
TABLE 4 – WASTEWATER USAGE	17	INITIAL PURCHASER	41
TABLE 5 – TOP TEN SEWER CUSTOMERS	17	FORWARD LOOKING STATEMENTS	41
TABLE 6 – SEWER RATES	18	CERTIFICATION OF THE OFFICIAL STATEMENT	42
DEBT INFORMATION	19	MISCELLANEOUS	42
TABLE 7 – PRO-FORMA WATERWORKS AND SEWER SYSTEM		APPENDICES	
REVENUE DEBT SERVICE REQUIREMENTS	19	GENERAL INFORMATION REGARDING THE TOWN	A
FINANCIAL INFORMATION	24	TOWN OF PROSPER, TEXAS BASIC FINANCIAL	
TABLE 8 - CONDENSED STATEMENT OF OPERATIONS	24	STATEMENTS	B
TABLE 9 - COVERAGE AND FUND BALANCES	24	FORM OF BOND COUNSEL'S OPINION	C
TABLE 10 - VALUE OF THE SYSTEM	25		
TABLE 11 - TOWN'S EQUITY IN THE SYSTEM	25		
INVESTMENTS	26		
TABLE 12 – CURRENT INVESTMENTS	27		
SELECTED PROVISIONS OF THE ORDINANCE	28		
TAX MATTERS	36		

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

THE TOWN	The Town of Prosper, Texas (the "Town") is a political subdivision and home rule municipal corporation of the State of Texas (the "State"), located in Collin and Denton Counties, Texas. The Town covers approximately 27 square miles (see "INTRODUCTION - Description of the Town").
THE BONDS	The \$17,270,000* Town of Prosper, Texas, Waterworks and Sewer System Revenue Bonds, Series 2026 (the "Bonds") are expected to be issued as serial bonds maturing on August 15 in each of the years 2027 through 2046, unless the Initial Purchaser (defined herein) designates one or more consecutive maturities as one or more term Bonds (see "THE BONDS - Description of the Bonds").
PAYMENT OF INTEREST	Interest on the Bonds accrues from the "Delivery Date" estimated to be September 16, 2026, and is payable February 15, 2027, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds" and "THE BONDS – Optional Redemption").
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the Constitution and general laws of the State, particularly Chapters 1371 and 1502, Texas Government Code, as amended, and an ordinance adopted by the Town Council (the "Council") on July 14, 2026, authorizing the issuance of the Bonds (the "Bond Ordinance"), in which the Council delegated the authority to certain Town officials to execute a pricing certificate (the "Pricing Certificate" and together with the Bond Ordinance, the "Ordinance") that will complete the final sale of the Bonds (see "THE BONDS - Authority for Issuance").
SECURITY FOR THE BONDS	The Bonds, together with the previously issued parity bonds (the "Previously Issued Bonds") and any additional parity bonds that may be issued in the future (the "Additional Bonds" and, together with the Bonds and the Previously Issued Bonds, the "Bonds Similarly Secured"), constitute special obligations of the Town, payable, both as to principal and interest, solely from and secured by a lien on and pledge of the net revenues of the Town's Waterworks and Sewer System. The Town has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see "THE BONDS - Security and Source of Payment").
NOT QUALIFIED TAX-EXEMPT OBLIGATIONS	The Bonds will not be designated as "Qualified Tax-Exempt Obligations" for financial institutions.
REDEMPTION OF THE BONDS	The Town reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, 2037, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The BONDS - Optional Redemption").
TAX EXEMPTION	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on certain corporations. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for (i) the acquisition, construction, installation and equipment of additions, improvements and extensions to the System, (ii) funding the debt service reserve fund, and (iii) paying the costs associated with the issuance of the Bonds.
RATING	The Bonds and the presently outstanding System revenue debt of the Town are rated "AA-" S&P Global Ratings, a division of S&P Global Inc. ("S&P") and "AA" by Fitch Ratings ("Fitch") (see "OTHER INFORMATION – Rating").

* Preliminary, subject to change.

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

PAYMENT RECORD The Town has never defaulted on the payments of its revenue bonds.

For additional information regarding the Town, please contact:

Bob Scott
Deputy Town Manager
Town of Prosper
P.O. Box 307
Prosper, Texas 75078
(972) 569-1026

or
Chris Landrum
Finance Director
Town of Prosper
P.O. Box 307
Prosper, Texas 75078
(972) 569-1008

or
Jason L. Hughes
Senior Managing Director
Hilltop Securities Inc.
717 N. Harwood Street, Suite 3400
Dallas, Texas 75201
(214) 953-8707

(Remainder of page intentionally left blank)

TOWN OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Town Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
David F. Bristol ⁽¹⁾ Mayor	3 Years	May, 2028	Co-Founder Employee Solutions
Chris Kern Deputy Mayor Pro-Tem	3 Years	May, 2028	Marketing Manager
Amy Bartley Mayor Pro-Tem	4 Years	May, 2029	Real Estate Administration
Marcus E. Ray Councilmember	6 Years	May, 2028	Cyber Security
Craig Andres Councilmember	7 Years	May, 2027	Banking IT Professional
Doug Charles Councilmember	Newly Elected	May, 2029	Senior VP Business Innovation
Cameron Reeves Councilmember	1 Year	May, 2027	Financial Advisor

(1) Previously served as a Town Councilmember for 4 years.

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to Town</u>	<u>Total Length of Governmental Service</u>
Mario Canizares	Town Manager	3.5 Years	30 Years
Robyn Battle	Executive Director	13 Years	18 Years
Michelle Lewis Sirianni	Town Secretary	5 Years	20 Years
Bob Scott	Deputy Town Manager	4 Years	35 Years
Chris Landrum	Director of Finance	4 Years	18 Years
Ryan Patterson	Assistant Finance Director	3.5 Years	17 Years
Chuck Ewings	Assistant Town Manager	3.5 Years	30 Years
Carrie Jones	Public Works Director	2 Years	14 Years
Hulon Webb, Jr.	Director of Engineering Services	20 Years	28 Years
David Hoover	Director of Development Services	3 Years	33 Years

CONSULTANTS AND ADVISORS

Auditors Weaver and Tidwell, L.L.P.
Dallas, Texas

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

Municipal Advisor Hilltop Securities Inc.
Dallas, Texas

PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$17,270,000*
TOWN OF PROSPER, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2026

INTRODUCTION

This Preliminary Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$17,270,000* Town of Prosper, Texas, Waterworks and Sewer System Revenue Bonds, Series 2026 (the "Bonds"). Capitalized terms used in this Preliminary Official Statement have the same meanings assigned to such terms in the Ordinance (defined herein) (see "SELECTED PROVISIONS OF THE ORDINANCE").

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

DESCRIPTION OF THE TOWN . . . The Town is a political subdivision and a home rule municipality under the laws of the State of Texas (the "State"). The Town was incorporated in 1914. The Town operates with a council (the "Council") comprised of the Mayor and six Councilmembers. The term of office is three years. The Town Manager is the chief administrative officer for the Town. Some of the services that the Town provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2020 census for the Town was 30,174, while the estimated 2026 population is 48,197. A Home Rule Charter was approved by the voters of the Town at an election held November 7, 2006. The Town covers approximately 27 square miles.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated August 15, 2026, and mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the unpaid principal amounts of the Bonds accrues from the Delivery Date, estimated to be September 16, 2026, will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 15, 2027 and each August 15 and February 15 thereafter until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein).

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, particularly Chapters 1371 and 1502, Texas Government Code, as amended, and an ordinance adopted by the Council on July 14, 2026, authorizing the issuance of the Bonds (the "Bond Ordinance"), in which the Council delegated the authority to certain Town officials to execute a pricing certificate (the "Pricing Certificate" and together with the Bond Ordinance, the "Ordinance") that will complete the final sale of the Bonds.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are being issued as "Additional Bonds" (see "THE BONDS - Additional Bonds" below), and will constitute special obligations of the Town and, together with the Previously Issued Bonds (defined below) and any additional parity bonds which may be issued in the future (the "Additional Bonds" and, together with the Bonds and the Previously Issued Bonds, the "Bonds Similarly Secured"), will be secured by and payable solely from a first lien on and pledge of the Pledged Revenues (defined herein), consisting primarily of the Net Revenues (defined herein) of the Town's Waterworks and Sewer System (the "System"). The Town has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation. See "Selected Provisions of the Ordinance" herein.

The Town has outstanding Parity Obligations payable from a first lien on and pledge of the Pledged Revenues (the "Previously Issued Bonds") as follows:

<u>Dated Date</u>	<u>Outstanding Debt⁽¹⁾</u>	<u>Issue Description</u>
8/15/2024	\$ 28,645,000	Waterworks and Sewer System Revenue Bonds, Series 2024
8/15/2025	33,095,000	Waterworks and Sewer System Revenue Bonds, Series 2025
	<u>\$ 61,740,000</u>	

(1) As of July 1, 2026.

* Preliminary, subject to change.

PLEGDED REVENUES . . . In the Ordinance, the Town irrevocably pledges the Pledged Revenues to the payment and security for all Bonds Similarly Secured, which currently consists of only the Bonds and the Previously Issued Bonds. In the Ordinance:

"Gross Revenues" mean all revenues, income and receipts of every nature derived or received by the Town from the operation and ownership of the System, including the interest income from investment or deposit of money in any fund created by the Ordinance or maintained by the Town in connection with the System.

"Maintenance and Operating Expenses" means all current expenses of operating and maintaining the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the Town and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair obligations payable from Net Revenues shall be deducted in determining "Net Revenues." Depreciation shall never be considered as a Maintenance and Operating Expense. Maintenance and Operating Expenses shall include payments under contracts for the purchase of water supply or treatment of sewage or other materials, goods or services for the System to the extent authorized by law and the provisions of such contract.

"Net Revenues" means the Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

"Pledged Revenues" means (i) the Net Revenues, plus (ii) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the Town to the payment of the Bonds Similarly Secured, and excluding those revenues excluded from Gross Revenues or excluded from Net Revenues.

See "SELECTED PROVISIONS OF THE ORDINANCE" herein for a further description of the security for the Bonds.

RATES AND CHARGES . . . The Town has covenanted in the Ordinance that it will at all times fix, establish, maintain and collect such rates, charges and fees for the use and availability of the System at all times as are necessary to produce Gross Revenues equal to the greater of the amounts sufficient: (i) (1) to pay all current Maintenance and Operating Expenses, and (2) to produce Net Revenues for each Fiscal Year at least equal to 1.20 times the Annual Debt Service Requirements of all then outstanding Bonds Similarly Secured; or (ii) to pay the sum of: (1) all current Maintenance and Operating Expenses, (2) the Annual Debt Service Requirements of all then outstanding Bonds Similarly Secured and Subordinate Lien Obligations, (3) required deposits to a reserve fund for any Bonds Similarly Secured and Subordinate Lien Obligations then outstanding, and (4) amounts required to pay all other obligations of the System reasonably anticipated to be paid from Gross Revenues during the current Fiscal Year. For more detailed information on the System rates and charges, see "SELECTED PROVISIONS OF THE ORDINANCE - PARTICULAR REPRESENTATIONS AND COVENANTS - Rate Covenant".

FLOW OF FUNDS . . . In the Ordinance, the Town covenants, agrees and establishes that all Gross Revenues shall be deposited and credited to the System Fund immediately as collected and received. The Town additionally covenants that all Gross Revenues deposited and credited to the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

First: To the payment of all necessary and reasonable Maintenance and Operating Expenses, and the payment of such Maintenance and Operating Expenses shall be a first charge on and claim against the Gross Revenues.

Second: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Annual Debt Service Requirements on the Bonds Similarly Secured as the same becomes due and payable.

Third: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of the Ordinance or any other ordinance relating to the issuance of Bonds Similarly Secured.

Fourth: To make payment, including payment of amounts required for reserve fund requirements, of all Subordinate Lien Obligations.

Any Pledged Revenues remaining in the System Fund after satisfying the foregoing payments or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Town purpose now or hereafter permitted by law.

RESERVE FUND . . . The Town has heretofore created, and in the Ordinance the Town agrees to maintain at a depository of the Town, a debt service reserve fund for the benefit of the Previously Issued Bonds, and such debt service reserve fund is herein referred to as the "Reserve Fund", which Reserve Fund is and will be held for the benefit of the Previously Issued Bonds, the Bonds and any Additional Bonds that may be secured thereby. In accordance with the Ordinance and the ordinances authorizing the issuance of the Previously Issued Bonds, the Town is required to deposit and credit to the Reserve Fund amounts required to maintain the balance in the Reserve Fund in an amount equal to the Required Reserve, and the Required Reserve shall be maintained in the Reserve Fund at all times after the Delivery Date. The Town may fund the Reserve Fund with (i) cash on hand, (ii) proceeds from the sale of the Bonds, (iii) one or more Reserve Fund Obligations or (iv) any combination of (i) through (iii). The Pricing Officer will determine the final method of funding of the Reserve Fund in the Pricing Certificate, and such method of funding will be set forth in the final Official Statement. All funds, investments and Reserve Fund Obligations on deposit and credited to the Reserve Fund shall be used solely for (i) the payment of the principal of and interest on the Bonds, when and to the extent other

funds available for such purposes are insufficient, (ii) to make Reserve Fund Obligation Payments, or (iii) to retire the last stated maturity or stated maturities of or interest on the Bonds, and any excess amount in the Reserve Fund may be transferred to the System Fund and allocated in accordance with the Ordinance. The final Official Statement will disclose the method. For more detailed information on the Reserve Fund, see "SELECTED PROVISIONS OF THE ORDINANCE - Reserve Fund".

ADDITIONAL BONDS . . . The Town may issue Additional Bonds payable from the Pledged Revenues which together with the then Outstanding Bonds Similarly Secured shall be equally and ratably secured by a parity lien on and pledge of the Pledged Revenues of the System, subject, however, to complying with certain conditions in the Ordinance. See "SELECTED PROVISIONS OF THE ORDINANCE - Additional Bonds" for the terms and conditions that must be satisfied for the issuance of Additional Bonds.

SUBORDINATE LIEN OBLIGATIONS . . . In the Ordinance, the Town reserves the right to issue, at any time, obligations including, but not limited to, Subordinate Lien Obligations, payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Pledged Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of the Pledged Revenues securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State.

OPTIONAL REDEMPTION . . . The Town reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2037, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the Town may select the maturities of the Bonds to be redeemed. If less than all of the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

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

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds, to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is 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 Town will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds, have not been redeemed.

DTC NOTICES . . . The Paying Agent/Registrar and the Town, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bonds or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Town will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC direct participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds the Town has called for redemption will not be governed by the Ordinance and will not be conducted by the Town or the Paying Agent/Registrar. Neither the Town nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC direct participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "THE BONDS - Book-Entry-Only System" herein.)

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the Town will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. The Pricing Officer may restrict such eligible securities and obligations as deemed appropriate. In the event the Pricing Officer restricts such eligible securities and obligations, the final Official Statement will reflect the new authorized Defeasance Securities. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Town authorizes the defeasance

of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Town authorizes the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The Town has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the Town moneys in excess of the amount required for such defeasance.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the 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.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the Town for purposes of applying any limitation on the Town's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the Town to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the Town: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each stated maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing

corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company 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 rating of AA+ from S&P Global Ratings. 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 and www.dtc.org.

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

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

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

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

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

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

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

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

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System is discontinued, printed Bond certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" herein.

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

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

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

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the registered owners of the Bonds and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar, and such 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. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds 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 Bonds issued in an exchange or transfer of Bonds 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 Bonds 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 Bonds 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 Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. The Paying Agent/Registrar shall not be required to make any transfer or exchange of any Bonds during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

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 last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (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 Town. 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 registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

REPLACEMENT BONDS . . . In the Ordinance, provision is made for the replacement of mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or the receipt of satisfactory evidence of destruction, loss, or theft, and the receipt by the Town and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Town may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

REGISTERED OWNERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Bonds. If the Town defaults in the payment of the principal of or interest on the Bonds when due or the Town defaults in the observance or performance of any of the covenants, conditions, or obligations of the Town, the failure to perform which materially, adversely affects the rights of the owners of the Bonds, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the Town, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the Town to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may

have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the Town to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and 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) ("Wasson") 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 a city. The Texas Supreme Court reviewed Wasson again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, Texas Government Code ("Chapter 1371") which pertains to the issuance of public securities by certain issuers such as the Town, permits the Town to waive sovereign immunity in the proceedings authorizing its debt obligations. The Town has relied upon Chapter 1371 in connection with the issuance of the Bonds, but the Town has not waived sovereign immunity in the manner provided by Chapter 1371. Because it is unclear whether the Texas legislature has effectively waived the Town's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the Town for breach of the Bonds or Ordinance covenants. Even if a judgment against the Town could be obtained, it could not be enforced by direct levy and execution against the Town's property. Furthermore, the Town is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the Pledged Revenues, such provisions are subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the Town avail itself of Chapter 9 protection from creditors, the ability to enforce creditors' rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

USE OF BOND PROCEEDS...Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources:

Principal Amount of Bonds	
Reoffering Premium	
TOTAL SOURCES	\$ -

Uses:

Deposit to Project Construction Fund	
Deposit to Debt Service Reserve Fund (DSRF)	
Underwriter's Discount	
Costs of Issuance	
TOTAL USES	\$ -

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

THE SYSTEM

USE OF REGIONAL PROVIDERS. The Town utilizes regional suppliers North Texas Municipal Water District (NTMWD) for both potable water supply and for (eastside) wastewater treatment and Upper Trinity Regional Water District for (westside) wastewater treatment as authorized under State law. The long-term contracts for these services provide that the payments thereunder constitute the operation and maintenance expenses of the System.

WATER SYSTEM. The Town receives water from the North Texas Municipal Water District ("NTMWD") at the Custer Road Pump Station delivery point. The Town's current Water Master Plan anticipates that the Town will obtain all water supply through buildout at the existing delivery point location. The Prosper delivery point is supplied by NTMWD through the Frisco-McKinney System. The Frisco-McKinney System is currently supplied by the Frisco-McKinney ground storage tank and pump station and will be served by the currently under construction Northeast McKinney ground storage tank and pump station beginning in 2026. The Town's water distribution system operates on two pressure planes, with the Lower Pressure Plane receiving water through a pressure reducing valve. The current water distribution system includes a network of pipelines varying from 4- to 36-inches in diameter, a pump station, two ground storage tanks, and three elevated storage tanks. The existing pump station has a total of six pumps providing total pumping capacity of 32 MGD, and the firm pumping capacity is 25 MGD. An additional pump station is currently under construction also with six pumps and total capacity of 15 MGD expandable to an ultimate capacity of 40 MGD.

WATER SUPPLY. In 2002, the Town of Prosper ("Prosper") contracted with NTMWD, a conservation and reclamation district and a political subdivision of the State. Under contract terms, the Town is a "customer city" and pays a minimum annual water payment (adjusted annually) in return for a minimum volume of gallons of water per year. In addition, the Town has the right to purchase additional water as needed at a rate per one thousand gallons determined annually by NTMWD based on amounts sufficient to cover its maintenance and operating expenses and related debt service costs. All payments by participating customer and member municipalities and customer utilities are to be made solely from its water revenues, and such payments constitute operating expenses of its waterworks system. Each participant agrees in its contract to fix and collect such rates and charges for water service to be supplied by its waterworks system, including all payments required under its contract with NTMWD, and the prompt payment of the principal of and interest on its obligations payable from the revenues of its waterworks system. The Town's annual payment to NTMWD for treated water for the year ended September 30, 2025 was approximately \$13.85 million.

NTMWD delivers wholesale, treated water for up to 80 cities, towns, communities, special utility and water districts to the extent water is available in the Lavon Dam and Reservoir ("Lavon"). The NTMWD water supply is primarily obtained from Lavon located on the East Fork of the Trinity River approximately 60 miles north of its confluence with the main river and about 25 miles northeast of the City of Dallas. Lavon was constructed and is owned by the United States Army Corps of Engineers (the "Corps") and access to the water storage capacity of Lavon by NTMWD exists pursuant to a contract with the Corps executed in 1954 and amended in 1967. The NTMWD owns storage rights to the entire water conservation pool in Lavon, averaging over 400,000 acre feet. In 2008, NTMWD also added raw water supply through a withdrawal agreement from Lake Tawakoni under an existing water permit held by the Sabine River Authority. The East Fork of the Trinity River Reuse project was completed in 2008 by NTMWD. These two projects combined to increase NTMWD raw water availability by approximately 150,000 acre feet per year. Additionally, NTMWD fully owns and operates the 16,641-acre Bois d'Arc Lake which began delivering water in March 2023. The NTMWD also owns rights to portions of Jim Chapman Lake (originally named Cooper Lake) and Lake Texoma.

THE WASTEWATER TREATMENT SYSTEM. The existing wastewater system has two major drainage basins, seven active lift stations, and a network of lines ranging from 4-inches to 36-inches in diameter. Topography presents operational challenges to the existing wastewater system. A ridge near the railroad tracks divides the Town into east and west drainage basins. The west side of the Town conveys flow to the Upper Trinity Regional Water District (UTRWD) Doe Branch Interceptor, and the east side of the Town conveys flow to the NTMWD Upper East Fork Interceptor. The north central area of the Town currently conveys flow by gravity to the abandoned wastewater treatment plant (WWTP) lift station, which then pumps the flow east to the NTMWD collection system. By 2031, the Town plans to abandon the old WWTP lift station and convey flow from this basin by gravity to UTRWD.

WASTEWATER TREATMENT SERVICE. Prosper contracts with both NTMWD and UTRWD for wholesale wastewater treatment service. The Town has five metered points of entry into the UTRWD Doe Branch Interceptor, and one NTMWD permanent meter downstream of the Prosper system. A parallel 60" Doe Branch interceptor from First Street to the Doe Branch WWTP is currently under design in addition to an expansion of the Doe Branch WWTP from 4 MGD to 12 MGD annual average daily flow (AADF).

In 1990, Prosper entered into a contract with UTRWD whereby the District agreed to provide wastewater treatment and disposal for the benefit of the Town and any "additional member Town" as defined in said contract. In 1999, the Town allowed its membership to lapse upon the expiration of its original contract with UTRWD. In 2007, Prosper entered a thirty-year contract and was reinstated as a Participating Member in the UTRWD's Northeast Regional Water Reclamation System (the "System"). Each member pays an "annual payment" which includes a capacity charge for fixed costs, and a volume charge for variable costs of wastewater flow. The Town's annual payment to UTRWD was approximately \$1,986,644 for the year ended September 30, 2025.

In 2004, Prosper entered into a contract with NTMWD to provide for the transportation, treatment and disposal of wastewater by the District. Each Member City's Annual Payment shall be calculated by the District by multiplying such Member City's estimated percentage of the estimated total contributing flow times the Annual Requirement. Annual Payments for each member city shall be paid in monthly installments for its proportionate share of the Annual Requirement. The contract shall continue until all Bonds are paid in full and thereafter throughout the useful life of the system. Prosper's annual payment to NTMWD for wastewater services was approximately \$4,002,242 for the year ended September 30, 2025.

CONSULTANTS. In this period of rapid growth both for the Town and for its regional providers, the Town recognizes the need for frequent updates to both the system itself and the adequacy of revenues to support operations and debt service. Freese & Nichols P.E. have been engaged to update the Town's water and wastewater master plan but is also consulted on a regular basis regarding ongoing projects and changes in demand. NewGen Strategies & Solutions has been engaged on an annual basis to ensure adequacy of the Town's revenue stream.

BILLINGS . . . Charges for all utility services are billed monthly on one statement. Customers cannot pay for one utility service only; they must pay for all services billed. Bills computed at the net monthly rate are sent around the middle of the month, are due when rendered, and are payable on the tenth of the month. If the amount due is not paid in full, a ten percent (10%) penalty of the most current balance shall be added to the account. Wastewater volumetric charges on residential accounts are billed based on the Winter Average Consumption during the months of December, January and February. The reconnection charges are \$50.00 during regular hours (8:00 am – 5:00 pm) and \$75.00 after 5:00 pm and on holidays.

TABLE 1 - HISTORICAL WATER CONSUMPTION (GALLONS)

Fiscal Year Ended 9/30	x1000 Average Day (Gallons)	Peak Day (Gallons)	Total Water Treated and Purchased (Gallons)
2021	6,884	16,822	2,512,564
2022	8,135	17,657	2,969,375
2023	8,884	19,268	3,242,648
2024	9,630	19,080	3,523,810
2025	9,634	19,908	3,519,780

TABLE 2 - TEN LARGEST WATER CUSTOMERS

Customer	Water Usage	% of Total Water Usage	Water Revenue	% of Total Water Revenue
Prosper Independent School District	50,125,000	2.01%	\$ 528,223	2.40%
Orion Prosper LLC	34,927,000	1.83%	397,669	1.81%
Town of Prosper	32,212,000	1.56%	283,512	1.29%
Windsong Ranch Community HOA	30,940,000	1.07%	310,552	1.41%
GOP #2, LLC	18,928,000	0.71%	178,841	0.81%
Cook Children's Hospital	18,530,000	0.50%	180,949	0.82%
Siteone Landscape Supply	18,146,000	0.48%	170,790	0.78%
GOP Multifamily LLC	17,859,000	0.42%	214,161	0.97%
Pogue Construction	16,613,000	0.39%	173,750	0.79%
Super Splash Car Wash	13,380,000	0.38%	123,486	0.56%
	<u>251,660,000</u>	<u>9.36%</u>	<u>\$ 2,561,934</u>	<u>11.66%</u>

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

TABLE 3 – WATER RATES (EFFECTIVE OCTOBER 15, 2025)

Residential and Commercial			
Current Rates			
Residential Water Service Rates		Out-of-Town Residential Water Service Rates	
Meter Size	Minimum Service Charge	Meter Size	Minimum Service Charge
3/4" or Smaller	\$ 14.41	3/4" or Smaller	\$ 19.13
1"	\$ 24.02	1"	\$ 31.88
1 1/2"	\$ 48.03	1 1/2"	\$ 63.75
2"	\$ 76.80	2"	\$ 101.93
3"	\$ 143.93	3"	\$ 191.03
4"	\$ 239.88	4"	\$ 318.38
6"	\$ 479.60	6"	\$ 636.53
Volumetric Charges	Rate per 1,000 Gallons	Volumetric Charges	Rate per 1,000 Gallons
0-10,000 Gallons	\$ 4.83	0-10,000 Gallons	\$ 6.42
10,001-40,000 Gallons	\$ 7.23	10,001-40,000 Gallons	\$ 9.62
40,001-80,000 Gallons	\$ 10.86	40,001-80,000 Gallons	\$ 14.45
80,001 - Plus	\$ 16.28	80,001 - Plus	\$ 21.66
Commercial and Temp Hydrant Meter Water Service Rates		Out-of-Town Commercial and Temp Hydrant Meter Water Service Rates	
Base Charges	Minimum Service Charge	Base Charges	Minimum Service Charge
3/4" or Smaller	\$ 14.41	3/4" or Smaller	\$ 19.13
1"	\$ 24.02	1"	\$ 31.88
1 1/2"	\$ 48.03	1 1/2"	\$ 63.75
2"	\$ 76.80	2"	\$ 101.93
3"	\$ 143.93	3"	\$ 191.03
4"	\$ 239.88	4"	\$ 318.38
6"	\$ 479.60	6"	\$ 636.55
Volumetric Charges	Rate per 1,000 Gallons	Volumetric Charges	Rate per 1,000 Gallons
0-10,000 Gallons	\$ 5.21	0-10,000 Gallons	\$ 6.92
10,001-40,000 Gallons	\$ 6.52	10,001-40,000 Gallons	\$ 8.66
40,001-80,000 Gallons	\$ 8.14	40,001-80,000 Gallons	\$ 10.80
80,001+	\$ 10.18	80,001+	\$ 13.52
Irrigation Water Service Rates		Out-of-Town Irrigation Water Service Rates	
Meter Size	Minimum Service Charge	Meter Size	Minimum Service Charge
3/4" or Smaller	\$ 5.31	3/4" or Smaller	\$ 7.05
1"	\$ 8.75	1"	\$ 11.63
1 1/2"	\$ 17.46	1 1/2"	\$ 23.18
2"	\$ 27.85	2"	\$ 36.98
3"	\$ 52.20	3"	\$ 69.30
4"	\$ 86.94	4"	\$ 115.43
6"	\$ 173.87	6"	\$ 230.85
Volumetric Charges	Rate per 1,000 Gallons	Volumetric Charges	Rate per 1,000 Gallons
0-10,000 Gallons	\$ 7.30	0-10,000 Gallons	\$ 9.69
10,001-40,000 Gallons	\$ 8.38	10,001-40,000 Gallons	\$ 11.13
40,001-80,000 Gallons	\$ 9.63	40,001-80,000 Gallons	\$ 12.80
80,001+	\$ 11.07	80,001+	\$ 14.72

TABLE 4 – WASTEWATER USAGE (GALLONS)

Fiscal Year Ended 9/30	Average Day (GPD)	Maximum Day (GPD)
2021	2,207,620	6,584,000
2022	2,411,012	4,898,000
2023	3,085,599	6,024,000
2024	3,678,804	10,406,000
2025	3,806,000	11,662,000

TABLE 5 – TOP TEN SEWER CUSTOMERS

Customer	Sewer Gallons	% of Total Sewer Gallons	Sewer Revenue	% of Total Sewer Revenue
Orion Prosper LLC	36,964,387	1.52%	\$ 210,353	1.54%
Orion Prosper Lakes, LLC	36,195,197	1.49%	205,984	1.51%
GOP Multifamily LLC	31,474,951	1.30%	179,173	1.32%
Prosper Independent School District	22,990,707	0.95%	158,400	1.16%
Windsong TIC 1, LLC	21,697,134	0.89%	123,635	0.91%
TX Morrow Construction Inc	19,983,138	0.82%	137,738	1.01%
Cook Children's Hospital	12,018,218	0.50%	83,019	0.61%
Super Splash LLC	11,683,429	0.48%	80,719	0.59%
The Brownstone Group	7,353,735	0.30%	50,974	0.37%
DD Bluestem LLC	6,547,476	0.27%	45,435	0.33%
	<u>206,908,374</u>	<u>8.52%</u>	<u>\$ 1,275,430</u>	<u>9.35%</u>

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

TABLE 6 – SEWER RATES (EFFECTIVE OCTOBER 15, 2025)

Residential Sewer Service Rates		
	Minimum Service Charge	
Base Charge	\$	37.91
	Rate per 1,000 Gallons	
Volumetric Charge	\$	6.54

Out-of-Town Residential Sewer Service Rates		
	Minimum Service Charge	
Base Charge	\$	42.60
	Rate per 1,000 Gallons	
Volumetric Charge	\$	7.35

Winter Averaging

Wastewater volumetric charges on residential accounts are billed based on the Winter Average Consumption during the months of December, January and February.

Commercial Sewer Service Rates		
	Minimum Service Charge	
Base Charge	\$	43.52
	Rate per 1,000 Gallons	
Volumetric Charge	\$	7.91

Out-of-Town Commercial Sewer Service Rates

	Minimum Service Charge	
Base Charge	\$	48.90
	Rate per 1,000 Gallons	
Volumetric Charge	\$	8.88

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

DEBT INFORMATION

TABLE 7 – PRO-FORMA WATERWORKS AND SEWER SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt Service			The Bonds ⁽¹⁾			Total Debt Service Requirements	% of Principal Retired
9/30	Principal	Interest	Total	Principal	Interest	Total		
2026	\$ 940,000	\$ 2,849,667	\$ 3,789,667	\$ -	\$ -	\$ -	\$ 3,789,667	
2027	2,075,000	2,947,200	5,022,200	590,000	747,310	1,337,310	6,359,510	
2028	2,175,000	2,843,450	5,018,450	550,000	788,225	1,338,225	6,356,675	
2029	2,290,000	2,734,700	5,024,700	580,000	760,725	1,340,725	6,365,425	
2030	2,400,000	2,620,200	5,020,200	605,000	731,725	1,336,725	6,356,925	15.45%
2031	2,525,000	2,500,200	5,025,200	635,000	701,475	1,336,475	6,361,675	
2032	2,650,000	2,373,950	5,023,950	670,000	669,725	1,339,725	6,363,675	
2033	2,785,000	2,241,450	5,026,450	700,000	636,225	1,336,225	6,362,675	
2034	2,920,000	2,102,200	5,022,200	740,000	601,225	1,341,225	6,363,425	
2035	3,070,000	1,956,200	5,026,200	775,000	564,225	1,339,225	6,365,425	37.56%
2036	3,220,000	1,802,700	5,022,700	815,000	525,475	1,340,475	6,363,175	
2037	3,380,000	1,641,700	5,021,700	855,000	484,725	1,339,725	6,361,425	
2038	3,550,000	1,472,700	5,022,700	895,000	441,975	1,336,975	6,359,675	
2039	3,725,000	1,295,200	5,020,200	940,000	397,225	1,337,225	6,357,425	
2040	3,910,000	1,108,950	5,018,950	990,000	350,225	1,340,225	6,359,175	65.76%
2041	4,095,000	928,825	5,023,825	1,040,000	300,725	1,340,725	6,364,550	
2042	4,285,000	737,450	5,022,450	1,080,000	256,525	1,336,525	6,358,975	
2043	4,480,000	543,700	5,023,700	1,130,000	210,625	1,340,625	6,364,325	
2044	4,680,000	341,050	5,021,050	1,175,000	162,600	1,337,600	6,358,650	
2045	2,585,000	129,250	2,714,250	1,225,000	111,194	1,336,194	4,050,444	98.38%
2046	-	-	-	1,280,000	57,600	1,337,600	1,337,600	100.00%
	<u>\$ 61,740,000</u>	<u>\$ 35,170,742</u>	<u>\$ 96,910,742</u>	<u>\$ 17,270,000</u>	<u>\$ 9,499,754</u>	<u>\$ 26,769,754</u>	<u>\$ 123,680,495</u>	

(1) Average life of the Bonds – 11.919 years. Interest estimated for purposes of illustration. Preliminary, subject to change.

ANTICIPATED ISSUANCE OF REVENUE BONDS . . . The Town does not anticipate the issuance of additional revenue debt in the next twelve months.

PENSION FUND

Plan Description – The Town participates as one of 900+ plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency 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 Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.TMRS.org.

All eligible employees of the Town 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 Town, within the options available in the state statutes governing TMRS.

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

Beginning in 2009, the Town granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2009, the Town provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated service credit	100% repeating, transfers
Annuity increase to retirees	70% of CPI repeating

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	53
Inactive employees entitled to but not yet receiving benefits	214
Active employees	374
Total	<u>641</u>

Contributions – The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the municipal matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the municipality. Under the state law governing TMRS, the contribution rate for each municipality is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The Town's contribution rate is based on the liabilities created from the benefit plan options selected by the Town and any changes in benefits or actual experience over time.

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 14.29% and 15.01% in calendar years 2024 and 2025, respectively. The Town's contributions to TMRS for the year ended September 30, 2025, were \$5,111,708, and were equal to the required contributions. The EDC's contributions to TMRS for the year were \$53,659 and were equal to the required contributions.

Net Pension Liability – The Town'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	2.75% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender distinct 2019 Municipal Retirees of Texas mortality table. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4- year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions 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 of 6.75% was originally effective for the December 31, 2015 valuation and is periodically verified along with all other actuarial assumptions through an actuarial experience study at least every five years. The most recent experience study was approved by the TMRS Board in September 2023. The estimate is based on a weighted average calculation of the long-term rates of return expected for each asset class. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates return for each major asset class in fiscal year 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.00%	6.70%
Core Fixed Income	6.00%	4.70%
Non-Core Fixed Income	20.00%	8.00%
Other public and private markets	12.00%	8.00%
Real Estate	12.00%	7.60%
Hedge Funds	5.00%	6.40%
Private Equity	10.00%	11.60%
Total	100.00%	

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.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

Changes in the Net Pension Liability:

The Town's net pension liability is generally liquidated by the General Fund and Proprietary Funds. The Town reported the following changes in Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2023	\$54,936,012	\$ 47,718,260	\$ 7,217,752
Changes for the year:			
Service Cost	6,595,686	-	6,595,686
Interest	3,899,294	-	3,899,294
Difference between expected and actual experience	199,969	-	199,969
Changes of assumptions	-	-	-
Contributions-employer	-	4,642,973	(4,642,973)
Contributions-employee	-	2,274,374	(2,274,374)
Net investment income	-	5,004,596	(5,004,596)
Benefit payments, including refunds of employee contributions	(978,588)	(978,588)	-
Administrative expense	-	(31,812)	31,812
Other changes	22,755	19,022	3,733
Net changes	9,739,116	10,930,565	(1,191,449)
Balance at 12/31/2024	\$64,675,128	\$ 58,648,825	\$ 6,026,303

The PEDC reported the following changes in Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2023	\$ 599,671	\$ 520,884	\$ 78,787
Changes for the year:			
Service Cost	69,237	-	69,237
Interest	40,932	-	40,932
Difference between expected and actual experience	2,099	-	2,099
Changes of assumptions	-	-	-
Contributions-employer	-	48,739	(48,739)
Contributions-employee	-	23,875	(23,875)
Net investment income	-	52,535	(52,535)
Benefit payments, including refunds of employee contributions	(10,273)	(10,273)	-
Administrative expense	-	(334)	334
Other changes	(22,754)	(19,773)	(2,981)
Net changes	79,241	94,769	(15,528)
Balance at 12/31/2024	\$ 678,912	\$ 615,653	\$ 63,259

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Town's net pension liability	\$ 17,756,951	\$ 6,026,303	\$ (3,362,900)
EDC's net pension liability	186,397	63,259	(35,301)
Total	\$ 17,943,348	\$ 6,089,562	\$ (3,398,201)

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

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

For the year ended September 30, 2025, the Town and component unit recognized pension expense of \$5,501,405 and \$57,750, respectively.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 1,247,183	\$ -
Changes in actuarial assumptions	83,465	-
Difference between projected and actual investment earnings	-	881,196
Contributions subsequent to the measurement date	3,777,721	-
Total	<u><u>\$ 5,108,369</u></u>	<u><u>\$ 881,196</u></u>

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 13,092	\$ -
Changes in actuarial assumptions	876	-
Difference between projected and actual investment earnings	-	9,250
Contributions subsequent to the measurement date	39,656	-
Total	<u><u>\$ 53,624</u></u>	<u><u>\$ 9,250</u></u>

The Town and component unit reported \$3,777,721 and \$39,656, respectively, as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ended September 30:	Town	Component Unit
2026	\$ 397,412	\$ 4,171
2027	646,468	6,786
2028	(434,424)	(4,560)
2029	(191,704)	(2,012)
2030	31,700	333
Thereafter	-	-
Total	<u><u>\$ 449,452</u></u>	<u><u>\$ 4,718</u></u>

OTHER POST-EMPLOYMENT BENEFITS

As a municipality exceeding 25,000 population, the Town is required to provide its retirees health insurance coverage but can recover up to the full cost of that coverage. The Town has adopted a policy requiring retirees to pay an actuarially determined age-based rate and therefore has no OPEB liability under GASB standards.

FINANCIAL INFORMATION

TABLE 8 - CONDENSED STATEMENT OF OPERATIONS⁽¹⁾

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
<u>Operating Revenues:</u>					
Water Charges for Services	\$ 21,972,838	\$ 20,722,096	\$ 19,839,829	\$ 18,058,933	\$ 13,855,420
Wastewater Charges for Services	13,622,727	11,109,813	10,036,695	9,221,727	7,937,491
License, Fees & Permits	837,300	973,150	1,106,365	1,579,920	2,039,700
Utility Billing Penalties	268,455	234,715	202,310	206,105	81,509
Investment Income	2,601,599	470,482	418,178	60,722	27,618
Miscellaneous	383,617	1,039,126	689,255	722,789	799,802
Total Operating Revenues	<u>\$ 39,686,536</u>	<u>\$ 34,549,382</u>	<u>\$ 32,292,632</u>	<u>\$ 29,850,196</u>	<u>\$ 24,741,540</u>
<u>Operating Expenses:</u>					
Administration	\$ 1,059,029	\$ 1,039,148	\$ 1,114,428	\$ 805,479	\$ 696,913
Franchise Fee Expense	1,136,854	990,801	529,527	432,889	362,075
Water Purchases	13,879,634	12,567,118	10,477,866	9,379,652	7,157,267
Sewer Management Fees	5,988,887	4,924,570	4,097,657	3,483,327	3,007,259
Public Works	6,219,086	6,060,241	5,704,415	5,458,253	4,505,034
Other Operating Costs	1,589,521	2,075,484	2,128,337	2,010,571	1,863,426
Total Operating Expenses	<u>\$ 29,873,011</u>	<u>\$ 27,657,362</u>	<u>\$ 24,052,230</u>	<u>\$ 21,570,171</u>	<u>\$ 17,591,974</u>
Net Available for Debt Service	<u>\$ 9,813,525</u>	<u>\$ 6,892,020</u>	<u>\$ 8,240,402</u>	<u>\$ 8,280,025</u>	<u>\$ 7,149,566</u>
Water Customers	14,651	14,773	13,135	12,573	11,766
Sewer Customers	13,906	13,462	12,384	11,825	10,640

(1) Table reflects only those revenues and expenses that are directly related to operating the System.

TABLE 9 - COVERAGE AND FUND BALANCES

Average Annual Principal and Interest Requirements, 2026 - 2046	\$ 5,889,547
Coverage of Average Annual Requirements by 9/30/25 Net Available for Debt Service	1.666x
Maximum Principal and Interest Requirements, 2029 & 2035	\$ 6,365,425
Coverage of Maximum Requirements by 9/30/25 Net Available for Debt Service	1.542x
Interest and Sinking Fund, 9/30/25	\$ 1,335,683

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

TABLE 10 - VALUE OF THE SYSTEM

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
Waterworks and Sewer System	\$ 333,057,101	\$ 271,085,682	\$ 243,285,477	\$ 220,900,519	\$ 179,505,245
Building and Land	3,649,306	2,926,783	2,243,939	2,208,939	2,190,166
Machinery and Equipment	3,117,552	3,013,259	2,852,129	2,443,121	2,298,337
Construction in Progress	44,732,656	27,139,329	11,517,123	6,437,727	26,410,338
Total Value	\$ 384,556,615	\$ 304,165,053	\$ 259,898,668	\$ 231,990,306	\$ 210,404,086
Less: Depreciation	46,405,919	46,405,919	42,066,148	35,018,730	29,298,562
Net System Value	<u>\$ 338,150,696</u>	<u>\$ 257,759,134</u>	<u>\$ 217,832,520</u>	<u>\$ 196,971,576</u>	<u>\$ 181,105,524</u>

TABLE 11 - TOWN'S EQUITY IN THE SYSTEM

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
<u>Resources:</u>					
Net System Value	\$ 326,873,644	\$ 257,759,134	\$ 217,832,520	\$ 196,971,576	\$ 181,105,524
Cash and Investments	79,291,927	83,948,059	52,720,470	32,231,124	27,637,671
Other Resources	10,218,037	10,888,369	11,926,621	5,808,491	5,104,097
Total Resources	<u>\$ 416,383,608</u>	<u>\$ 352,595,562</u>	<u>\$ 282,479,611</u>	<u>\$ 235,011,191</u>	<u>\$ 213,847,292</u>
<u>Obligations:</u>					
Other Obligations	117,058,071	85,050,806	55,929,098	35,107,022	41,870,571
Total Obligations	<u>\$ 117,058,071</u>	<u>\$ 85,050,806</u>	<u>\$ 55,929,098</u>	<u>\$ 35,107,022</u>	<u>\$ 41,870,571</u>
City's Equity in System	<u>\$ 299,325,537</u>	<u>\$ 267,544,756</u>	<u>\$ 226,550,513</u>	<u>\$ 199,904,169</u>	<u>\$ 171,976,721</u>
Percentage City's Equity in System	71.89%	75.88%	80.20%	85.06%	80.42%

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the Town is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is unconditionally guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund, or their respective successors; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended)(the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for Town deposits; or (ii) where (a) the funds are invested by the Town through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Town as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the Town; (b) the broker or the depository institution selected by the Town 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 Town; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the Town appoints 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 United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Town with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the Town, held in the Town's name, and deposited at the time the investment is made with the Town or with a third party selected and approved by the Town and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Town, held in the Town's name and deposited at the time the investment is made with the Town or a third party designated by the Town; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with federal Securities and Exchange Commission 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 that provide the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934; (15) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, and either: (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (16) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f) and (g) of Section 2256.011 of the PFIA. 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 Town and deposited with the Town or with a third party selected and approved by the Town.

The Town may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAA-m or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The Town may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the Town retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Town must do so by order, ordinance, or resolution. The Town is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the Town is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for Town funds, maximum allowable stated maturity of any individual investment 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 Town funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each funds’ investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

ADDITIONAL PROVISIONS . . . Under State law, the Town is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the Town to: (a) receive and review the Town’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Town and the business organization that are not authorized by the Town’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Town’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Town and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Town’s investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the Town’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Town.

TABLE 12 – CURRENT INVESTMENTS

As of May 31, 2026, the Town’s investable general funds were invested in the following categories:

Description	% of		
	Portfolio	Book Value	Market Value
Bank Deposits	18.08%	\$ 29,943,155	\$ 29,943,155
TexSTAR	15.24%	25,243,421	25,243,421
TexPool	23.55%	39,007,966	39,007,966
US Agency Bonds	43.13%	71,437,000	71,005,172
Total	100.00%	\$ 165,631,542	\$165,199,714

SELECTED PROVISIONS OF THE ORDINANCE

The following are selected provisions of the Ordinance. These excerpts should be qualified by reference to the exact terms of the Ordinance. Unless otherwise indicated, any references to sections listed below are to sections contained in the Ordinance and section headings contained in the following excerpts are to sections contained in the Ordinance.

Section 2. DEFINITIONS. Unless otherwise expressly provided or unless the context clearly requires otherwise, in this Ordinance the following terms shall have the meanings specified below:

"Additional Bonds" means the additional parity bonds and other obligations permitted to be issued or entered into under the provisions of this Ordinance.

"Annual Debt Service Requirements" means, as of the date of calculation, the principal of and interest on all Bonds Similarly Secured coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the Town on such Bonds Similarly Secured, or be payable in respect of any required purchase of such Bonds Similarly Secured by the Town) in such Fiscal Year.

"Attorney General" means the Attorney General of the State.

"Authorized Officials" means the Mayor, the Mayor Pro Tem, the Town Secretary and each Pricing Officer.

"Average Annual Debt Service Requirements" means that average amount which, at the time of computation, will be required to pay the Annual Debt Service Requirements when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Annual Debt Service Requirements by the number of Fiscal Years then remaining before the latest Stated Maturity of such Bonds Similarly Secured. For purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds, accrued interest on any Bonds Similarly Secured, and interest earnings thereon shall be excluded in making such computation.

"Bond Fund" means the Bond Fund described herein.

"Bonds" means the "Town of Prosper, Texas, Waterworks and Sewer System Revenue Bonds, Series 2026", authorized and issued pursuant to this Ordinance. The term "Bonds" as used in this Ordinance shall mean and include collectively the Bonds initially issued and delivered pursuant to this Ordinance and all substitute Bonds exchanged therefor, as well as all other substitute Bonds and replacement Bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds, unless the context clearly indicates otherwise in connection with the use of the term "Bonds".

"Bonds Similarly Secured" means the Bonds, the Previously Issued Bonds and any Additional Bonds.

"Chapter 1201" means Chapter 1201, Texas Government Code, as amended.

"Chapter 1206" means Chapter 1206, Texas Government Code, as amended.

"Chapter 1208" means Chapter 1208, Texas Government Code, as amended.

"Chapter 1371" means Chapter 1371, Texas Government Code, as amended.

"Chapter 1502" means Chapter 1502, Texas Government Code, as amended.

"Code" means the Internal Revenue Code of 1986, as amended.

"Comptroller" means the Comptroller of Public Accounts of the State.

"Council" means the Town Council of the Town.

"Dated Date" means the date of the Bonds set forth in the Pricing Certificate.

"Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to refund, retire or otherwise discharge obligations such as the Bonds, unless otherwise provided in the Pricing Certificate.

"Delivery Date" shall mean the date or dates of delivery of any series of Bonds to the Underwriter against payment therefor, as determined by the Pricing Officer in the Pricing Certificate.

"Designated Financial Officer" means the Town Manager or the Finance Director of the Town, or such other Town official so designated by the Council.

"Fiscal Year" means the regular fiscal year used by the Town in connection with the operation of the System, which may be any twelve consecutive month period established by the Town.

"Gross Revenues" mean all revenues, income and receipts of every nature derived or received by the Town from the operation and ownership of the System, including the interest income from investment or deposit of money in any fund created by this Ordinance or maintained by the Town in connection with the System.

"Maturity", when used with respect to Bonds Similarly Secured, means the date on which the principal of any Outstanding Bonds Similarly Secured becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

"Maintenance and Operating Expenses" means all current expenses of operating and maintaining the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the Town and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair obligations payable from Net Revenues shall be deducted in determining "Net Revenues." Depreciation shall never be considered as a Maintenance and Operating Expense. Maintenance and Operating Expenses shall include payments under contracts for the purchase of water supply or treatment of sewage or other materials, goods or services for the System to the extent authorized by law and the provisions of such contract.

"Maximum Annual Debt Service Requirements" means the greatest requirements of Annual Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any future Fiscal Year or in the then current Fiscal Year for the particular obligations for which such calculation is made. Capitalized interest payments provided from Bonds Similarly Secured proceeds, accrued interest on any Bonds Similarly Secured, and interest earnings thereon shall be excluded in making such computation.

"Net Revenues" means the Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

"Outstanding", when used in this Ordinance with respect to Bonds Similarly Secured, means, as of the date of determination, all Bonds Similarly Secured theretofore sold, issued and delivered by the Town, except:

- (1) those Bonds Similarly Secured cancelled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such Bonds;
- (2) those Bonds Similarly Secured paid or deemed to be paid in accordance with the provisions hereof; and
- (3) those Bonds Similarly Secured that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof.

"Paying Agent/Registrar" means the paying agent/registrar designated by the Pricing Officer in the Pricing Certificate.

"Permitted Investments" means any security or obligation or combination thereof permitted under the Public Funds Investments Act, Chapter 2256, Texas Government Code, as amended or other applicable law.

"Pledged Revenues" means (i) the Net Revenues, plus (ii) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the Town to the payment of the Bonds Similarly Secured, and excluding those revenues excluded from Gross Revenues or excluded from Net Revenues.

"Previously Issued Bonds" means the "Town of Prosper, Texas, Waterworks and Sewer System Revenue Bonds, Series 2024" and the "Town of Prosper, Texas, Waterworks and Sewer System Revenue Bonds, Series 2025".

"Project" means the acquisition, construction, installation and equipment of additions, improvements and extensions to the System.

"Purchase Contract" means (i) a bond purchase agreement between the Town and the Underwriter, pertaining to the purchase of the Bonds by the Underwriter sold through a negotiated sale conducted as a public underwriting; (ii) a private placement agreement between the Town and the Underwriter, pertaining to the purchase of the Bonds by the Underwriter sold through a negotiated sale conducted as a private placement; and (iii) the bid form prepared in accordance with the notice of sale and bidding instructions and submitted by potential purchasers of any Bonds sold pursuant to a competitive sale.

"Rating Agency" means any nationally recognized securities rating agency.

"Required Reserve" means 25% of the least of: (i) Maximum Annual Debt Service Requirements on the Bonds as of the date of calculation, (ii) 125% of average Annual Debt Service on the Bonds as of the date of calculation, and (iii) 10% of the lesser of the par amount of the Outstanding Bonds or the proceeds of the Bonds; provided, however, that such amount shall be recalculated in the manner described herein. The Required Reserve will be set forth in the Pricing Certificate.

"Reserve Fund Obligation" means, to the extent permitted by law, (i) a policy of insurance or a surety bond, issued by an Town of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency, at the time of the delivery of such credit facility, would rate the Bonds fully insured by a standard policy issued by the Town of such credit facility in any one of its three highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency, at the time of delivery of such letter or line of credit, would rate the Bonds in any one of its three highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Bonds and the interest thereon.

"Reserve Fund Obligation Payment" means any payment the Town is obligated to make from Pledged Revenues deposited in the Reserve Fund with respect to a Reserve Fund Obligation.

"Revenue Fund" means the revenue fund described herein.

"Special Project" means any water, sewer, wastewater reuse system property, improvement or facility or other public improvement declared by the Town not to be part of the System, for which the costs of acquisition, construction and installation are paid from proceeds of Special Project Obligations and for which all Maintenance and Operating Expenses are payable from sources other than Pledged Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

"Special Project Obligations" means special revenue obligations of the Town which are not secured by the Pledged Revenues, but which are secured by and payable solely from special contract revenues or payments received from the System, any other legal entity, or any combination thereof, in connection with a Special Project; and such revenues or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such Special Project Obligations.

"State" means the State of Texas.

"Stated Maturity" means the annual principal payments of the Bonds Similarly Secured payable on the respective dates set forth in the ordinance(s) which authorized the issuance of such Bonds Similarly Secured.

"Subordinate Lien Obligations" means any bonds, notes, warrants, contractual obligations or other obligations issued or incurred by the Town that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Pledged Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Pledged Revenues that are or will be pledged to the payment of any Bonds Similarly Secured issued by the Town.

"System" means the Town's existing combined waterworks and sewer system, together with all future extensions, improvements, enlargements, and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not include any Special Projects which are hereafter acquired or constructed by the Town with the proceeds of Special Project Obligations.

"Town" means the Town of Prosper, Texas.

"Underwriter" shall mean the initial purchaser(s) of the Bonds designated by the Pricing Officer in the Pricing Certificate.

Section 6. PLEDGE.

(a) The Town hereby covenants and agrees that a first lien on the Pledged Revenues are hereby irrevocably pledged to the payment and security of the Bonds Similarly Secured, including the establishment and maintenance of the special funds created, established and maintained for the payment and security thereof, all as hereinafter provided; and it is hereby ordered that the Bonds Similarly Secured, and the interest thereon, shall constitute a lien on and pledge of the Pledged Revenues and be valid and binding without any physical delivery thereof or further act by the Town, and the lien created hereby on the Pledged Revenues for the payment and security of the Bonds Similarly Secured, including the establishment and maintenance of the special funds created, established and maintained for the payment and security thereof, shall be superior to the lien on and pledge of the Pledged Revenues securing payment of any Subordinate Lien Obligations heretofore or hereafter issued by the Town.

(b) Chapter 1208, applies to the issuance of the Bonds and the pledge of the Pledged Revenues granted by the Town under this Section, and is therefore valid, effective, and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Pledged Revenues granted by the Town under this Section is to be subject to the filing requirements of Chapter 9, Business and Commerce Code, in order to preserve to the Holders of the Bonds a security interest in said pledge, the Town agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business and Commerce Code and enable a filing of a security interest in said pledge to occur.

Section 7. FUNDS. The following special funds ("Funds") heretofore created and established in connection with the Previously Issued Bonds shall be maintained so long as any of the Bonds Similarly Secured, or the interest thereon, are outstanding and unpaid:

(a) "Town of Prosper Waterworks and Sewer System Revenue Fund", hereinafter called the "System Fund." This fund shall be kept and maintained at a depository bank of the Town, and moneys deposited in this fund shall be used as described herein.

(b) "Town of Prosper Waterworks and Sewer System Revenue Bond Fund", hereinafter called the "Bond Fund."

(c) For each series or combination of series of Bonds Similarly Secured that are secured by a Reserve Fund, a "Town of Prosper Waterworks and Sewer System Revenue Bond Reserve Fund", hereinafter called a "Reserve Fund."

(d) All of such Funds may be held as subaccounts within another fund (or within the System Fund) held by the Town's depository, and, as such, not held in separate bank accounts. Such treatment shall not constitute a commingling of the monies in such Funds or of such Funds and the Town shall keep full and complete records of the monies and investments credited to each of such Funds.

Section 8. SYSTEM FUND. The Town hereby covenants, agrees and establishes that the Gross Revenues shall be deposited and credited to the System Fund immediately as collected and received. All Maintenance and Operating Expenses are and shall be paid from such Gross Revenues as a first charge against same.

Section 9. FLOW OF FUNDS.

(a) All Gross Revenues deposited and credited to the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

First: To the payment of all necessary and reasonable Maintenance and Operating Expenses, and the payment of such Maintenance and Operating Expenses shall be a first charge on and claim against the Gross Revenues.

Second: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Annual Debt Service Requirements on the Bonds Similarly Secured as the same becomes due and payable.

Third: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to the issuance of Bonds Similarly Secured.

Fourth: To make payment, including payment of amounts required for reserve fund requirements, of all Subordinate Lien Obligations.

(b) Any Pledged Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Town purpose now or hereafter permitted by law.

Section 10. BOND FUND.

(a) For purposes of providing funds to pay the principal of, premium, if any, and interest on the Bonds Similarly Secured as the same become due and payable, including any mandatory sinking fund redemption payments, the Town agrees that it shall maintain the Bond Fund. The Town covenants to deposit and credit to the Bond Fund prior to each principal, interest payment or redemption date from the available Pledged Revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the Bonds Similarly Secured then coming due and payable.

(b) The required deposits and credits to the Bond Fund shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in and credited to the Bond Fund and the Reserve Fund, if one is required, and in any reserve fund created pursuant to the terms hereof, taking into account any Reserve Fund Obligation held in or for the benefit of any such reserve fund) is equal to the amount required to fully pay and discharge all outstanding Bonds Similarly Secured (principal, premium, if any, and interest) or (ii) the Bonds Similarly Secured are no longer outstanding.

(c) Accrued interest and capitalized interest, if any, received from the purchaser of any Bond Similarly Secured shall be taken into consideration and reduce the amount of the deposits and credits hereinabove required into the Bond Fund.

Section 11. RESERVE FUND.

(a) The Town has heretofore created, and the Town hereby agrees to maintain at a depository of the Town, a debt service reserve fund for the benefit of the Previously Issued Bonds, and such debt service reserve fund is herein referred to as the "Reserve Fund", which Reserve Fund is and will be held for the benefit of the Previously Issued Bonds, the Bonds and any Additional Bonds that may be secured thereby. In accordance with this Ordinance and the ordinances authorizing the issuance of the Previously Issued Bonds, the Town shall deposit and credit to the Reserve Fund amounts required to maintain the balance in the Reserve Fund in an amount equal to the Required Reserve. The Required Reserve shall be maintained in the Reserve Fund at all times after the

Delivery Date. The Town may fund the Reserve Fund with (i) cash on hand, (ii) proceeds from the sale of the Bonds, (iii) one or more Reserve Fund Obligations or (iv) any combination of (i) through (iii), and the Pricing Certificate shall set forth the method of funding. All funds, investments and Reserve Fund Obligations on deposit and credited to the Reserve Fund shall be used solely for (i) the payment of the principal of and interest on the Bonds, when and to the extent other funds available for such purposes are insufficient, (ii) to make Reserve Fund Obligation Payments, or (iii) to retire the last stated maturity or stated maturities of or interest on the Bonds, and any excess amount in the Reserve Fund may be transferred to the System Fund and allocated in accordance with this Ordinance.

(b) When and for so long as the cash, investments and Reserve Fund Obligations in the Reserve Fund equal the Required Reserve or the portion then required to be on deposit therein, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve then required to be on deposit therein, the Town covenants and agrees that the Town shall cure the deficiency in the Reserve Fund by making Required Reserve Fund Deposits to such fund from the Pledged Revenues in accordance with the terms hereof by monthly deposits in amounts equal to not less than 1/60th of the Required Reserve, with any such deficiency payments being made on or before the last day of each month until the Required Reserve has been fully funded or restored. In addition, in the event that a portion of the Required Reserve is represented by a Reserve Fund Obligation, the Required Reserve shall be restored as soon as possible from monthly deposits of Pledged Revenues on deposit in the System Fund in accordance with the terms hereof, but subject to making the full deposits and credits to the Bond Fund required to be made by Section 10. The Town further covenants and agrees that, subject only to the prior deposits to be made to the Bond Fund, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve, including by paying Reserve Fund Obligation Payments when due, and any reserve established for the benefit of any issue or series of Additional Bonds and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Bonds. Reimbursements to the provider, if any, of a Reserve Fund Obligation shall constitute the making up of a deficiency in the Reserve Fund to the extent that such reimbursements result in the reinstatement, in whole or in part, as the case may be, of the amount of the Reserve Fund Obligation.

(c) Earnings and income derived from the investment of amounts held for the credit of the Reserve Fund shall be retained in the Reserve Fund until the Reserve Fund contains the Required Reserve. During such time as the Reserve Fund contains the Required Reserve or any cash or Permitted Investment is replaced with a Reserve Fund Obligation pursuant to subsection (d) below, the Town may, at its option, withdraw all surplus funds in the Reserve Fund and deposit such surplus in the System Fund; provided that the face amount of any Reserve Fund Obligation may be reduced at the option of the Town in lieu of such transfer. Notwithstanding the foregoing, any surplus funds in the Reserve Fund that consist of proceeds of the Bonds or interest thereon shall be used for purposes for which the Bonds were issued or deposited to the Bond Fund.

(d) The Town may at any time deposit, supplement, replace or substitute a Reserve Fund Obligation for cash or Permitted Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Reserve Fund Obligation, provided, that the deposit, supplement, replacement or substitution of the Reserve Fund Obligation will not, in and of itself, cause any ratings then assigned to the Bonds by any Rating Agency to be lowered and the ordinance authorizing the substitution of the Reserve Fund Obligation for all or part of the Required Reserve contains a finding that such substitution is cost effective. Notwithstanding any other provision of this Ordinance, if a Reserve Fund Obligation is utilized in connection with the Bonds after the issuance date of the Bonds, the Town must specifically approve any such Reserve Fund Obligation and any such Reserve Fund Obligation must be submitted to the Attorney General of Texas (if submission is then required by law) for approval.

(e) If the Town is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the Town shall promptly notify the issuer of such Reserve Fund Obligation of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys or Permitted Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Reserve Fund Obligation to the extent of such deficiency.

(f) In the event there is a draw upon the Reserve Fund Obligation, the Town shall reimburse the issuer of such Reserve Fund Obligation for such draw, in accordance with the terms of any agreement pursuant to which the Reserve Fund Obligation is used, from Pledged Revenues, however, such reimbursement from Pledged Revenues shall be in accordance with the provisions of Section 9 hereof and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the then outstanding Bonds Similarly Secured.

(g) The Town may create and establish a debt service reserve fund pursuant to the provisions of any ordinance or other instrument authorizing the issuance of Bonds Similarly Secured for the purpose of securing that particular issue or series of Bonds Similarly Secured or any specific group of issues or series of Bonds Similarly Secured (including the combining of debt service reserve funds for Bonds Similarly Secured so long as the requirements of each ordinance authorizing such Bonds Similarly Secured are satisfied), and the amounts once deposited or credited to said debt service reserve funds shall no longer constitute Pledged Revenues and shall be held solely for the benefit of the owners of the particular Bonds Similarly Secured for which such debt service reserve fund was established. Each debt service reserve fund shall receive a pro rata amount of the Pledged Revenues after the requirements of the Bond Fund, which secures all Bonds Similarly Secured, have first been met. Each such debt service reserve fund shall be designated in such manner as is necessary to identify the Bonds Similarly Secured it secures and to distinguish such debt service reserve fund from the debt service reserve funds created for the benefit of other Bonds Similarly Secured. Each ordinance authorizing the issuance of Bonds Similarly Secured that are to be secured by a debt service reserve fund shall specify the amount or a manner of calculating the amount to be held and maintained on deposit therein.

(h) The Designated Financial Officer shall recalculate the Required Reserve at the following times: (i) on the first day of each Fiscal Year, (ii) upon the issuance of Additional Bonds, to the extent such Additional Bonds will be secured by the Reserve Fund, (iii) upon the refunding or defeasance of the Bonds or any Additional Bonds secured by the Reserve Fund and (iv) upon the deposit, supplement, replacement or substitution of a Reserve Fund Obligation (each of the foregoing, a "Required Reserve Recalculation").

Section 12. INVESTMENTS; SECURITY FOR FUNDS.

(a) Money in any fund established pursuant to this Ordinance may, at the option of the Town, be invested in investments authorized by the Public Funds Investment Act, Chapter 2256, Texas government Code, as amended, consistent with the investment policy approved by the Council; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any fund will be available at the proper time or times. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, and surpluses in any Fund shall or may be disposed of as hereinafter provided. Such investments shall be sold promptly when necessary to prevent any default in connection with any Bonds Similarly Secured.

(b) Money in all funds created by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the Town.

Section 13. DEFICIENCIES, EXCESS PLEDGED REVENUES.

(a) If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits into the Bond Fund and any Reserve Fund, then such deficiency shall be made up as soon as possible from the next available Pledged Revenues, or at the option of the Town from any other sources legally available for such purpose.

(b) Subject to making the required deposits to the credit of the Bond Fund and Reserve Funds, when and as required by this Ordinance, or any ordinances authorizing the issuance of Additional Bonds, the excess Pledged Revenues may be used by the Town for any lawful purpose.

Section 14. PAYMENT OF BONDS SIMILARLY SECURED. While any of the Bonds Similarly Secured are outstanding, the Town shall transfer to the respective paying agent/registrar therefor, from funds on deposit in and credited to the Bond Fund, and, if necessary, in the Reserve Fund with respect to the Bonds, amounts sufficient to fully pay and discharge promptly the interest on and principal of the Bonds Similarly Secured as shall become due on each interest or principal payment date, or date of redemption of the Bonds Similarly Secured; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with each respective paying agent/registrar for the Bonds Similarly Secured not later than the business day next preceding the date such payment is due on the Bonds Similarly Secured. The Paying Agent/Registrar shall destroy all paid Bonds Similarly Secured and furnish the Town with an appropriate certificate of cancellation or destruction.

Section 15. ADDITIONAL BONDS.

(a) The Town shall have the right and power at any time and from time to time and in one or more series or issues, to authorize, issue and deliver Additional Bonds, in accordance with law, in any amounts, for purposes of extending, improving or repairing the System or for the purpose of refunding of any Bonds Similarly Secured, Subordinate Lien Obligations or other obligations of the Town incurred in connection with the ownership or operation of the System. Such Additional Bonds, if and when authorized, issued and delivered in accordance with this Ordinance, shall be secured by and made payable equally and ratably on a parity with all other Bonds Similarly Secured at the time outstanding and unpaid, from a first lien on and pledge of the Pledged Revenues herein granted.

(b) The Bond Fund shall secure and be used to pay all Bonds Similarly Secured. Each ordinance under which Additional Bonds are issued shall provide and require that, in addition to the amounts required by the provisions of this Ordinance and the provisions of any other ordinance or ordinances authorizing Additional Bonds to be deposited to the credit of the Bond Fund, the Town shall deposit to the credit of the Bond Fund at least such amounts as are required for the payment of all principal of and interest on said Additional Bonds then being issued, as the same come due.

(c) Additional Bonds shall be issued only in accordance with this Ordinance, but notwithstanding any provisions of this Ordinance to the contrary, no installment, series or issue of Additional Bonds shall be issued or delivered unless:

(i) The Designated Financial Officer shall have executed a certificate stating (A) (i) that, to the best of such person's knowledge and belief, the Town is not then in default as to any covenant or requirement contained in any ordinance authorizing the issuance of outstanding Bonds Similarly Secured, and (ii) payments into all special funds or accounts created and established for the payment and security of all outstanding Bonds Similarly Secured have been made and that the amounts on deposit in such special funds or accounts are the amounts then required to be on deposit therein or (B) the application of the proceeds of sale of such obligations then being issued will cure any such default or deficiency; and

(ii) The Designated Financial Officer shall have executed a certificate stating that based on the books and records of the Town, during either the preceding Year, or any twelve (12) consecutive months out of the fifteen (15) months immediately

preceding the date of the then proposed Additional Bonds, the Net Earnings are at least equal to 1.25 times the Average Annual Debt Service Requirements (computed on a fiscal year basis) and 1.10 times the Maximum Annual Debt Service Requirements of the Bonds Similarly Secured to be outstanding after the issuance of the then proposed Additional Bonds.

(d) In making a determination of Net Earnings for any of the purposes described in this Section, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the date the ordinance authorizing the issuance of the Additional Bonds is adopted and, for purposes of satisfying the Net Earnings tests described above, make a pro forma determination of the Net Earnings of the System for the period of time covered by said Designated Financial Officer's certification or opinion based on such change in rates and charges being in effect for the entire period covered by said Designated Financial Officer's certificate or opinion.

(e) Bonds Similarly Secured may be refunded (pursuant to any law then available) upon such terms and conditions as the Town may deem to be in the best interest of the Town, and the proposed refunding bonds shall be considered as "Additional Bonds" under the provisions of this Section and the certificate required in subsection (c)(ii) shall give effect to the issuance of the proposed refunding bonds and shall exclude the bonds being refunded from the calculation of Average Annual Debt Service Requirements.

(f) All calculations of Average Annual Debt Service Requirements made pursuant to this Section shall be made as of and from the date of the Additional Bonds then proposed to be issued.

Section 16. NO ISSUANCE OF OBLIGATIONS SENIOR TO THE BONDS SIMILARLY SECURED. The Town covenants and agrees that it will not issue any obligations payable from and secured, in whole or in part, by a lien on and pledge of the Pledged Revenues, senior in rank and dignity to the lien on and pledge of such Pledged Revenues securing the payment of the Bonds Similarly Secured.

Section 17. ISSUANCE OF SUBORDINATE LIEN OBLIGATIONS. The Town hereby reserves the right to issue, at any time, obligations including, but not limited to, Subordinate Lien Obligations, payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Pledged Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of the Pledged Revenues securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State.

Section 18. ISSUANCE OF SPECIAL PROJECT OBLIGATIONS. The Town reserves the right to issue Special Project Obligations. Except as otherwise provided in the proceedings authorizing the issuance of the Special Project Obligations, all revenues received for the Special Project in excess of revenues required to pay principal and interest on the Special Project Obligations and to establish reserves and to secure, maintain and operate the Special Project shall be considered as a part of Gross Revenues.

Section 19. PARTICULAR REPRESENTATIONS AND COVENANTS.

(a) Rate Covenant. The Town shall fix, establish, maintain and collect such rates, charges and fees for the use and availability of the System at all times as are necessary to produce Gross Revenues equal to the greater of the amounts sufficient:

- (i) (1) to pay all current Maintenance and Operating Expenses, and (2) to produce Net Revenues for each Fiscal Year at least equal to 1.20 times the Annual Debt Service Requirements of all then outstanding Bonds Similarly Secured; or
- (ii) to pay the sum of: (1) all current Maintenance and Operating Expenses, (2) the Annual Debt Service Requirements of all then outstanding Bonds Similarly Secured and Subordinate Lien Obligations, (3) required deposits to a reserve fund for any Bonds Similarly Secured and Subordinate Lien Obligations then outstanding, and (4) amounts required to pay all other obligations of the System reasonably anticipated to be paid from Gross Revenues during the current Fiscal Year.

(b) Maintenance and Operation; Insurance. The Town hereby covenants and agrees that the System shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Bonds Similarly Secured are outstanding, the Town agrees to maintain casualty and other insurance on the System of a kind and in an amount customarily carried by municipal corporations owning and operating similar properties. Nothing in this Ordinance shall be construed as requiring the Town to expend any funds which are derived from sources other than the operation of the System but nothing herein shall be construed as preventing the Town from doing so.

(c) No Free Service. The Town covenants and agrees that no free service of the System shall be allowed except to institutions and buildings owned and operated by the Town.

(d) Records and Accounts; Accounting Reports. The Town hereby covenants and agrees that so long as any of the Bonds or any interest thereon remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System parts separate and apart from all other records and accounts of the Town in which complete and correct entries shall be made of all transactions relating to said System, as provided by Chapter 1502, Texas Government Code, or other applicable law. The Owner or Owners of any Bonds or any duly authorized agent or agents of such Owners shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto and to inspect the

System and all properties comprising same. The Town further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountant, shall particularly include the following:

- (i) A statement of the income and expenditures of the components of the System for such fiscal year;
- (ii) A balance sheet as of the end of such Fiscal Year; and
- (iii) A list of the insurance policies in force at the end of the Fiscal Year on the System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy's expiration date.

Expenses incurred in making the audits above referred to are to be regarded as Maintenance and Operating Expenses of the System and paid as such. Copies of the aforesaid annual audit shall be immediately furnished, upon written request, to the original purchasers of the Bonds and any subsequent Owner.

(e) Sale or Lease of Properties. The Town, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof, as determined by the Council, any property not necessary or required in the efficient operations of the System, or any equipment not necessary or useful in the operations thereof or which is obsolete, damaged or worn out or otherwise unsuitable for use in the operation of the System. The proceeds of any sale of properties of the System shall be deposited in the System Fund.

(f) Competition. That so far as it legally may and subject existing agreements and certifications, the Town covenants and agrees, for the protection and security of the Bonds Similarly Secured and the holders thereof from time to time and until all Bonds Similarly Secured shall have been retired and that it will not grant a franchise for the installation or operation of any water and/or wastewater system other than those owned by the Town, that it will prohibit the operation of any waterworks or wastewater system other than those operated by the Town.

(g) Further Covenants. The Town further covenants and agrees by and through this Ordinance as follows:

(i) That it has the lawful power to pledge the revenues supporting this issue of Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, including power existing under Chapter 1502;

(ii) That other than for the Bonds, the Pledged Revenues have not been pledged in any manner to the payment of any debt or obligation of the Town, nor of the System, which is senior to or on a parity with the pledge of the Pledged Revenues to Bonds Similarly Secured;

(iii) It will duly and punctually keep, observe and perform each and every undertaking, covenant and condition on its part to be kept, observed and performed, contained in this Ordinance and in the ordinances authorizing the Previously Issued Bonds and any Additional Bonds, and that it will prior to the maturity of each installment of interest and prior to the maturity of each Bond, Previously Issued Bond and Additional Bond issued thereunder, make available at the principal office of the Paying Agent/Registrar, but only from the sources herein provided, sufficient funds to promptly pay such principal and interest; and

(iv) The Town will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System, and which have been obtained from any governmental agency; and the Town has or will obtain and keep in full force and effect all franchises, permits, authorizations and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

TAX MATTERS

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

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

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

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

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

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

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

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

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

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. 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 BONDS.

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

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

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

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

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

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

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the Town has made the following agreement for the benefit of the respective holders and beneficial owners of the Bonds. The Town is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Town will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). The information provided to the MSRB will be available to the public free of charge via the electronic EMMA system at www.emma.msrb.org.

ANNUAL REPORTS . . . The Town will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Town of the general type included in this Official Statement under Tables numbered 1 through 12 and in Appendix B, which is the Town's annual audited financial report. The Town will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2026. The Town will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in and after 2026. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the Town will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the Town may be required to employ from time to time pursuant to State law or regulation.

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

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Website or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

NOTICE OF CERTAIN EVENTS . . . The Town will also provide timely notices of certain specified events to the MSRB. The Town will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Town, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Town or the sale of all or substantially all of its assets, 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 debt obligation of the Town or a derivative instrument entered into by the Town in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or a guarantee by the Town of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such debt obligation, derivative instrument, or guarantee of the Town, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such debt obligation, derivative instrument, or guarantee of the Town, any of which reflect financial difficulties. In addition, the Town will provide timely notice of any failure by the Town to provide annual financial information in accordance with their agreement described above under "Annual Reports". Neither the Bonds nor the Ordinance make any provision for a trustee, or debt service reserves, credit enhancement or liquidity enhancement. The Town will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Town in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Town, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Town, and (b) the Town intends the words used in clauses (15) and (16) in the immediately preceding paragraph and the definition of Financial Obligation in the immediately preceding paragraph to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

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

LIMITATIONS AND AMENDMENTS . . . The Town has agreed to update information and to provide notices of events only as described above. The Town has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that has been provided except as described above. The Town makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Town disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Town to comply with its agreement.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the Town has complied in all material respects with all prior continuing disclosure undertakings made by it in accordance with the Rule, except that the Town filed its audited financial statements for the fiscal year ended September 30, 2021, dated March 25, 2022, on April 28, 2022 due to miscommunication between the Town and its continuing disclosure agent. For undertakings of the Town prior to 2015, this filing date is later than the associated filing deadline of March 31, 2022. The Town filed a notice of the timing of the filing on August 26, 2022. The Town currently has procedures in place to ensure timely and complete filings of its financial information and operating data, including written administrative procedures and the use of an outside agent that specializes in continuing disclosure filings. Upon becoming aware of the late filing, and as an additional measure to ensure the timely filing of all future financial information, the Town has registered directly on the MSRB EMMA website and will begin receiving notifications directly from EMMA regarding filing deadlines.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

OTHER INFORMATION

RATING

The Bonds and the presently outstanding System revenue debt of the Town are rated “AA-” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) and “AA” by Fitch Ratings (“Fitch”). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the views of such organizations, and the Town makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, may have an adverse effect on the market price of the Bonds.

LITIGATION

Town staff believes there is no pending litigation against the Town that would have a material adverse financial impact upon the Town or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

It is the obligation of the Initial Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The Town agrees to cooperate, at the Initial Purchaser’s written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the Town shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

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 Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds 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 Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION - Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of two million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the Town has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

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

LEGAL MATTERS

The Town will furnish to the Initial Purchaser (see “OTHER INFORMATION – Initial Purchaser”, below) a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Bonds and to the effect that the Bonds are valid and legally binding obligations of the Town, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect, and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “Tax Matters” herein, including the alternative minimum tax on certain corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished to the Initial Purchaser. Though it may represent the Municipal Advisor and purchasers of bonds, such as the Initial Purchaser from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the Town in the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or

undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The Town expects to pay all legal fees of McCall, Parkhurst & Horton L.L.P. for services rendered in connection with the issuance of the Bonds from proceeds of the Bonds.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from Town records, audited financial statements, and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and 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.

MUNICIPAL ADVISOR

Hilltop Securities Inc., is employed as Municipal Advisor to the Town in connection with the issuance of the Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Municipal Advisor has agreed, in its Municipal Advisory contract, not to bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. Hilltop Securities Inc., in its capacity as Municipal Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

INITIAL PURCHASER

After requesting competitive bids for the Bonds, the Town accepted the bid of _____ (the or "Initial Purchaser") to purchase the Bonds at the interest rates shown on page 2 of the Official Statement at a price of (%) of par plus a cash premium (if any) of \$ _____. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the Town to the Initial Purchaser. The Town has no control over the price at which the Bonds are subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

FORWARD LOOKING STATEMENTS

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

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

CERTIFICATION OF THE OFFICIAL STATEMENT

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

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the Town'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 statutes, documents and resolutions for further information. Reference is made to original documents in all respects.

In the Bond Ordinance, the Council authorized the Pricing Officer to approve, and in the Pricing Certificate the Pricing Officer will approve, for and on behalf of the Town, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Initial Purchaser's use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of the Rule.

Pricing Officer
Town of Prosper, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE TOWN

THIS PAGE INTENTIONALLY LEFT BLANK

THE TOWN

LOCATION AND POPULATION

The Town of Prosper is a growing residential community located towards the northwest corner of Collin County and extends into Denton County to the west. The Town is approximately 35 miles north of downtown Dallas on State Highway 289. The Town is approximately 27 square miles of land area. The 2020 census for the Town was 30,174, while the estimated 2026 population is 48,197.

EMPLOYERS IN THE TOWN

Listed below are some of the companies located in the Town and the types of business.

<u>Name of Business</u>	<u>Type of Business</u>	<u>Approximate Number of Employees</u>
Prosper ISD	Public Education	2,844
Kroger (2 locations)	Grocery Store	470
Town of Prosper	Local Government	311
Wal-Mart	Retail	270
Chick Fil A (2 locations)	Restaurant	400
Home Depot	Retail-Home Improvement	185
Lowe's	Retail-Home Improvement	141
Cook's Childrens	Non-profit Medical Facility	140
Dick's Field and Stream	Retail	78
Longo Toyota	Car Dealership	66

Source: The Town.

EMPLOYMENT STATISTICS

	<u>Average Annual</u>				
	<u>2026⁽¹⁾</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Collin County					
Civilian Labor Force	703,129	703,565	691,133	665,876	636,637
Total Employment	675,086	676,281	664,644	641,544	615,503
Unemployment	28,043	27,284	26,489	24,332	21,134
Unemployment Rate	4.0%	3.9%	3.8%	3.7%	3.3%
Dallas Metropolitan Statistical Area					
Civilian Labor Force	4,554,185	4,560,281	4,488,561	4,384,888	4,248,225
Total Employment	4,371,953	4,380,577	4,311,423	4,218,478	4,095,508
Unemployment	182,232	179,704	177,138	166,410	152,717
Unemployment Rate	4.0%	3.9%	3.9%	3.8%	3.6%
State of Texas					
Civilian Labor Force	15,875,550	15,883,632	15,628,870	15,248,074	14,784,035
Total Employment	15,200,719	15,218,369	14,985,161	14,636,691	14,200,881
Unemployment	674,831	665,263	643,709	611,383	583,154
Unemployment Rate	4.3%	4.2%	4.1%	4.0%	3.9%

Source: Texas Workforce Commission.

(1) Averages as of May 2026.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B

TOWN OF PROSPER, TEXAS

BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2025

The information contained in this Appendix consists of the Town of Prosper, Texas Basic Financial Statements for the Year Ended September 30, 2025, including all Required Supplementary Information as prescribed by Generally Accepted Accounting Principles. Reference is made to the complete Annual Comprehensive Financial Report for further information

THIS PAGE INTENTIONALLY LEFT BLANK

Independent Auditor's Report

To the Honorable Mayor and Members of the Town Council
Town of Prosper, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Prosper, Texas (Town) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Town'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 Town, as of September 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Impact Fee Fund 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) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town 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 Town'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 Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Supplementary Information

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

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Comprehensive Financial Report (ACFR)

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2026 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P

Dallas, Texas
March 2, 2026



MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025
Amounts in Thousands Unless Otherwise Stated
(Unaudited)

March 02, 2026

This Management Discussion and Analysis (MD&A) is to assist the Town governing body, citizens, creditors and other interested parties in understanding the Town’s financial position and changes in financial position resulting from the Town’s operations for the year including the underlying reasons for specific changes. The focus of the MD&A is the Basic Financial Statements (BFS) directly following this discussion. Explanations of trends and changes contained in the BFS are based on the BFS itself, other sections of this Annual Comprehensive Financial Report (ACFR) and management’s knowledge of the Town’s finance and operating environment.

Questions regarding this report or request of additional information may be made by calling (972) 346-2640 or contact us at ProsperTX.gov.

Governmental accounting differs from traditional private sector accounting for several reasons including the diversity of operations that include both primarily tax supported (Governmental) and fee supported (Business Type) activities, legal restrictions placed on the use of specific revenues and a higher emphasis on accountability and the fiduciary responsibilities of government officials. These differences have resulted in the BFS found in this report which include:

GOVERNMENT WIDE FINANCIAL STATEMENTS

These two statements are divided into three distinct columns:

Governmental Activities. Governmental activities comprise the Town’s primarily tax-supported operations including public safety, regulatory including zoning, building inspection, code enforcement and Municipal Court and basic quality of life services including parks and library as well as the administrative costs of operating the government. They also include tax-supported capital investments including roads, bridges sidewalks and public parking downtown.

Business-type Activities. These activities are Town services primarily financed with charges to customers including the Town’s water and wastewater utility, the solid waste utility and stormwater drainage and management utility with all capital needs of those operations financed through the related fees.

Discretely Presented Component Unit. The Prosper Economic Development Corporation. This is a legally separate entity for which the Town is financially accountable.

FUND FINANCIAL STATEMENTS

The remaining basic financial statements present the City’s finances in greater detail. As their name implies, the fund financial statements disaggregate financial activities, assets, liabilities and resulting equity into separate funds to report on the specific purposes for which resources are used or for which they are restricted. The Town reports two groups of funds:

Governmental Fund Financial Statements Governmental Fund statements report all governmental activities except those that involve providing services to City departments. In addition to the Town’s main operating fund—the general fund—those financial statements report special revenue funds to track various restricted revenue sources including sales tax restricted for public safety, impact fees, Hotel Tax and grant funds , a debt service fund to record the repayment of outstanding property tax supported bonds, and capital projects funds to account for resources used to acquire transportation infrastructure and certain other long lived assets.

The annual budget of the Town is adopted by ordinance with the Town choosing to report Budget and Actual information for its General Fund and Major Special Revenue Funds as part of the Basic Financial Statements. This option will end next year and it will be moved to the RSI section following the BFS.

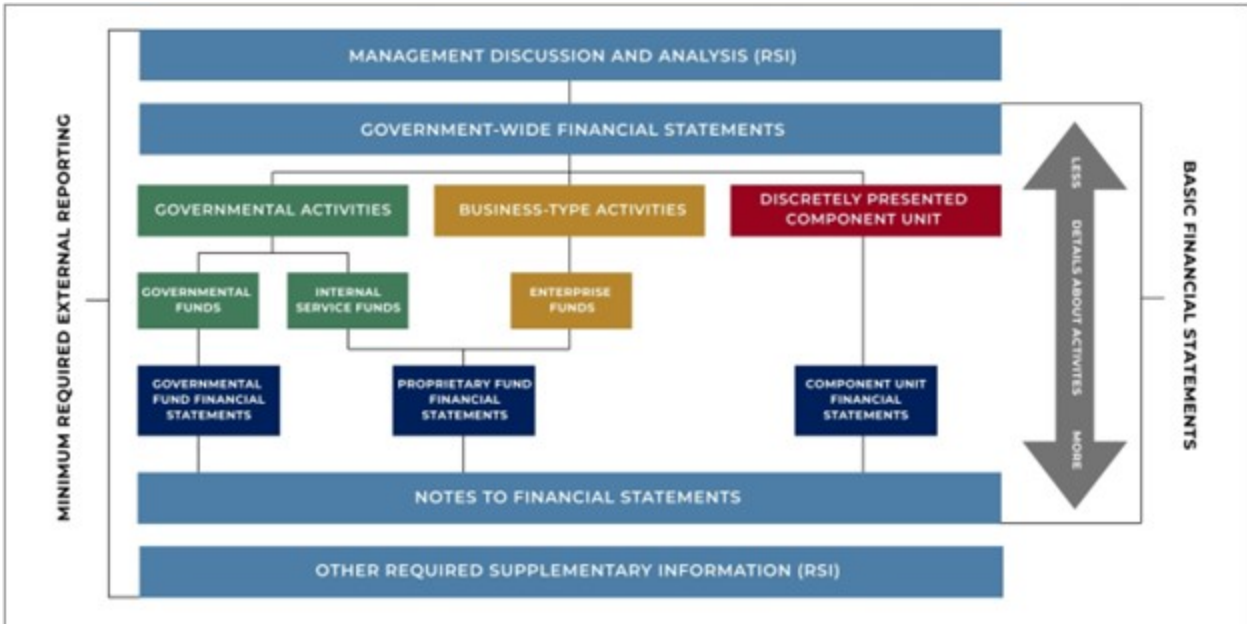
Proprietary Fund Financial Statements. These statements report the business-type activities (enterprise funds) and the services provided to Town departments (internal service funds). For purposes of entity-wide reporting, internal service funds are consolidated into the Governmental Activities column. The Town has three enterprise funds; Water and Sewer, Solid Waste and Stormwater Drainage. Services provided Town departments on a cost reimbursement basis are recorded in Vehicle Equipment and Replacement Fund and the Employee Health Funds. In the Basic Financial Statements, these two funds are aggregated together into one column in the Proprietary Fund statements labeled Governmental Activities-Internal Service Funds.

Major and Non-Major Funds. Due to the large number of potential funds, governmental accounting requires the Town to divide its funds into Major and Non-major categories for display in the Basic Financial Statements using specified criteria. Major funds are displayed in their own column in the financial statements while all non-major funds are aggregated into a single column labeled Non-Major Funds. Outside the Basic financial Statements but still contained in the financial section of this report, combining statements provide information on each non-major fund.

Notes to the Financial Statements. The notes that immediately follow the Basic Financial Statements are an integral part of the Basic Financial Statements as they explain and expand on the information in the financial Statements. They also include information on financial transactions that may not meet the criteria for inclusion in the financial statement themselves have been determined to be financially significant to require disclosure.

Required Supplementary Information (RSI). This section is required by accounting standards to be included with the BFS as the minimum contents for External Financial Reporting. Its contents are unaudited and currently contain two multi-year schedules regarding funding status and contributions made to the Town’s pension plan administered by Texas Municipal Retirement System.

Figure A-1 Contents of the Town’s Basic Financial Statements



Types of Information in the Financial Statements

All of the City's financial statements, except for the governmental fund financial statements, use the economic resources measurement focus and accrual basis of accounting. (See Figure A-2.) In other words, they comprehensively report all types of financial statement elements:

Assets—resources the City controls, from short-term assets like cash to long-term assets like roads and bridges

Liabilities—amounts the City owes, from short-term liabilities such as salaries payable to long-term liabilities such as outstanding debt and net amounts owed to employees for pensions

Deferred outflows and inflows of resources—flows that occurred during the year, or in prior years, that will not be reported as expenses and revenues until the future year to which they are related.

Revenues and Expenses/Expenditures—inflows and outflows of economic resources, respectively, related to the current year.

Governmental fund financial statements use the current financial resources measurement focus and modified accrual basis of accounting to report on the sources, uses, and balances of current financial resources. This approach most closely resembles the Town's legally adopted budget. The governmental funds do not report nonfinancial assets, such as capital assets, or certain other long-term items, such as general obligation bonds, but they do report the flows of current financial resources related to those long-term items; for example, the proceeds from issuing bonds or selling equipment, as well as principal and interest payments on bonds and spending on the construction of a Town building.

Figure A-2 Type of Information Reported in the Town Financial Statements

BASIC FINANCIAL STATEMENTS				
	GOVERNMENT WIDE	PROPRIETARY FUND	COMPONENT UNIT	GOVERNMENTAL FUNDS
TYPES OF ASSETS AND LIABILITIES	ALL ASSETS AND LIABILITIES, BOTH FINANCIAL AND NONFINANCIAL (INCLUDING CAPITAL ITEMS), SHORT TERM AND LONG TERM			ONLY CURRENT FINANCIAL RESOURCES, SUCH AS CASH, TAXES RECEIVABLE, AND ACCOUNTS PAYABLE
TYPES OF REVENUES/ADDITIONS	ALL TYPES OF REVENUES/ADDITIONS THAT FLOW INTO THE GOVERNMENT DURING THE YEAR THAT RELATE TO THAT YEAR, REGARDLESS OF WHEN CASH IS RECEIVED			ONLY REVENUES THAT ARE MEASURABLE AND AVAILABLE TO FINANCE EXPENDITURES OF THAT YEAR
TYPES OF EXPENSES/ DEDUCTIONS/ EXPENDITURES	ALL TYPES OF EXPENSES/DEDUCTIONS THAT FLOW OUT OF THE GOVERNMENT DURING THE YEAR THAT RELATE TO THAT YEAR, REGARDLESS OF WHEN CASH IS PAID			ONLY EXPENDITURES FOR WHICH THE RELATED GOVERNMENTAL FUND LIABILITY IS INCURRED IN THAT YEAR
TYPES OF DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES	ALL TYPES OF RESOURCES THAT FLOW INTO AND OUT OF THE GOVERNMENT DURING THE YEAR THAT RELATE TO A FUTURE YEAR			CURRENT FINANCIAL RESOURCES THAT FLOW INTO AND OUT OF THE GOVERNMENTAL FUNDS DURING THE YEAR THAT RELATE TO A FUTURE YEAR

ANALYSIS OF THE TOWN'S FINANCES

Town of Prosper's Net Position Government-Wide

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 44,345	\$ 25,226	\$ 17,032	\$ 19,783	\$ 61,376	\$ 45,009
Restricted assets	88,162	116,555	71,856	72,407	160,018	188,962
Capital assets	576,204	519,435	326,874	257,759	903,078	777,194
Total assets	708,711	661,216	415,762	349,949	1,124,472	1,011,165
Deferred outflows of resources	4,601	5,394	622	724	5,223	6,118
Total outflows of resources	4,601	5,394	622	724	5,223	6,118
Long-term liabilities	232,988	227,095	111,446	79,406	344,434	306,501
Other liabilities	18,931	22,342	5,125	3,153	24,056	25,495
Total liabilities	251,919	249,437	116,571	82,559	368,490	331,996
Deferred inflows of resources	875	121	487	569	1,362	690
Total inflows of resources	875	121	487	569	1,362	690
Net position:						
Net investment in capital assets	411,940	381,498	274,601	236,209	686,541	617,707
Restricted	6,378	7,354	12,347	3,355	18,724	10,709
Unrestricted	42,200	28,200	12,378	27,981	54,578	56,181
Total net position	\$ 460,518	\$ 417,052	\$ 299,326	\$ 267,545	\$ 759,843	\$ 684,597

Net Position may serve over time as a useful indicator of a government's financial health however it should not be viewed as equivalent to private sector net position. In the case of the Town, Net Position grew to \$759,843 as of September 30, 2025, an increase of 11% from the previous year. During this time of rapid population growth, the Town expects Net Position to increase substantially as developers donate infrastructure to the Town for the Town to maintain into perpetuity.

These capital assets, both donated and constructed by the Town, increased by \$125,884 for the year and currently represent eighty percent of the Town's net position include both traditional capital assets common to most entities (e.g., land, buildings, machinery, and equipment) and infrastructure assets, less any related outstanding debt used to acquire those assets. The majority of capital assets are infrastructure assets which include roads, sidewalks, bridges, water, wastewater and stormwater lines as well as water storage, pump stations and lift stations. Infrastructure assets are unique in that they are immovable, not easily sold and represent a significant obligation to maintain or replace in perpetuity. In addition, governmental infrastructure does not typically generate user fees and therefore must be financed and maintained using taxes.

An additional portion of the Town's net position (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (7%) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town reports balances in all categories of net position, both for the Town as a whole, as well as for its separate governmental and business-type activities.

Regarding individual balances reported on the Statement of Net Position, Restricted Assets decreased 15% to \$160,018 as the Town continues its emphasis on accelerating infrastructure construction and spends down bond proceeds. In the Business Type Activities debt increased by 40% to \$111,446 due to debt issuance for Town's portion Doe Branch Wastewater Treatment Plant expansion operated by Upper Trinity Regional Water District.

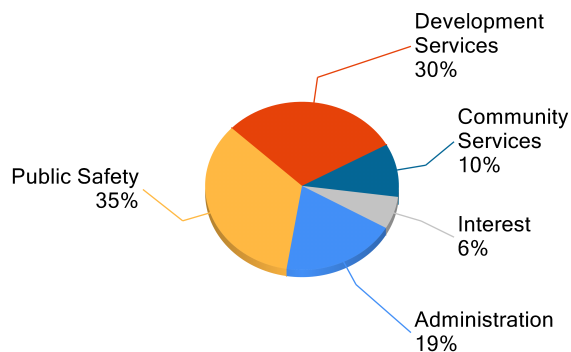
Town of Prosper's Changes in Net Position Government-Wide

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	\$ 15,075	\$ 17,723	\$ 41,910	\$ 39,628	\$ 56,984	\$ 57,351
Operating grants & contributions	770	579	-	8,888	770	9,467
Capital grants & contributions	36,191	48,581	35,393	34,319	71,584	82,900
General revenues:						
Property taxes	52,663	45,951	-	-	52,663	45,951
Other taxes	24,244	23,164	-	-	24,244	23,164
Investment income	5,720	7,010	2,630	2,955	8,350	9,965
Other income	564	1,176	384	494	948	1,670
Total revenues	<u>135,227</u>	<u>144,184</u>	<u>80,317</u>	<u>86,284</u>	<u>215,543</u>	<u>230,468</u>
Expenses:						
Administration	18,014	16,179	-	-	18,014	16,179
Police	15,754	13,803	-	-	15,754	13,803
Fire and EMS	16,595	14,943	-	-	16,595	14,943
Development services	7,584	6,175	-	-	7,584	6,175
Public works	17,658	14,539	-	-	17,658	14,539
Community services	9,602	9,035	-	-	9,602	9,035
Engineering	2,666	2,742	-	-	2,666	2,742
Interest on long-term debt	5,839	5,008	-	-	5,839	5,008
Utility	-	-	46,585	43,355	46,585	43,355
Total expenses	<u>93,712</u>	<u>82,424</u>	<u>46,585</u>	<u>43,355</u>	<u>140,297</u>	<u>125,779</u>
Revenues in excess of expenses	<u>41,515</u>	<u>61,760</u>	<u>33,732</u>	<u>42,929</u>	<u>75,246</u>	<u>104,689</u>
Transfers	<u>1,951</u>	<u>1,934</u>	<u>(1,951)</u>	<u>(1,934)</u>	<u>-</u>	<u>-</u>
Change in net position	43,466	63,694	31,781	40,995	75,246	104,689
Net position - beginning of year	417,052	353,358	267,545	226,550	684,597	579,908
Net position - end of year	<u>\$ 460,518</u>	<u>\$ 417,052</u>	<u>\$ 299,326</u>	<u>\$ 267,545</u>	<u>\$ 759,843</u>	<u>\$ 684,597</u>

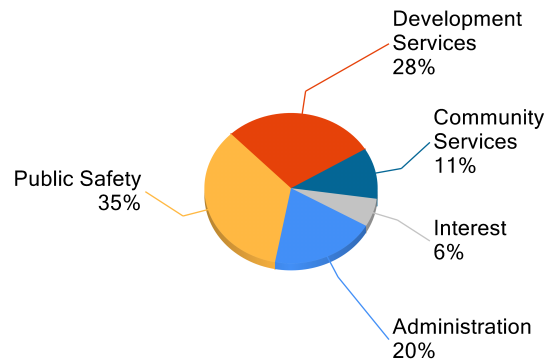
During this time of rapid growth in the Town, individual years results may fluctuate significantly due to large capital and operating grants, developer contributions or natural fluctuations in development activity. This occurred this year when revenues for fiscal year (FY) 2025 decreased by \$(14,925) , or (6%) in comparison to the prior year. The change is primarily due to decreases in development related charges for services, reduced capital contributions and operating grants offset by increases in sales taxes, property taxes and water and wastewater charges that reflect population growth, changes in property values, continued expansion of the Town's retail sector and rate increases for water, wastewater and solid waste charges.

Governmental Activities Expenses by Type Governmental Activities

FY 2025 - \$93,712



FY 2024 - \$82,424



Governmental activities changed the Town's net position by \$43,466. The following factors contributed to this change:

- Property and other taxes changed by \$7,792 (11%) primarily due a substantial increases in assessed valuation split between new construction and appreciation of existing values and sales tax increases. The Town's retail sector continues to expand and benefit from population growth both within the Town and neighboring communities.
- Capital grants and contributions changed by \$(12,390) (-26%) due to a reduction in developer contributions of infrastructure from the previous year while still representing a \$36,191 increase in Net Position. Donations of Right of Way (ROW) are recorded in Governmental Activities only with ROW donations dropping by \$11,500 from FY2024. This number can be volatile as individual contributions can be large and recognition of the contribution is dependent on Engineering's final acceptance of the infrastructure which is also when the Town accepts responsibility for maintaining the assets into perpetuity.
- Total governmental activity expenses changed by \$11,288 (14%) during the year primarily due to staffing increases, increased activity levels and general inflationary pressures reflective of a growing community. The largest functional areas affected by this change were Police (\$1,951), Fire and EMS (\$1,652) Development Services (\$1,409) and Administration (\$1,836) with smaller changes in other departments offset by a change in Public Works (\$3,119) which tends to be more volatile due to special projects and developer payments.

Business-Type Activities

Business-type activities increased the Town's net position by \$31,781. The following factors contributed to this change:

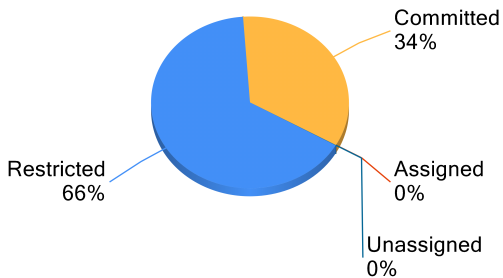
- Charges for services increased by \$2,281 (6%) from the previous year due to increases in water, wastewater and solid water fees. While minimum monthly charges increased by population and commercial growth this was offset by a slight reduction in volume of water purchases due to wet summer weather patterns and conservation.
- Operating expenses increased by \$3,230 (7%) from the previous year primarily due to rate increases from both regional suppliers and the nature of "take or pay" contracts.
- Capital Grants and Contributions were \$35,393, a slight increase of \$1,074 from the previous year, there were no Operating Grants.
- As a Water/Wastewater distribution and collection utility, the Town relies on its regional suppliers for potable water and all wastewater treatment. The Town's policy goal is to breakeven overtime including all depreciation and all ongoing maintenance while maintaining financial policy reserves and exceeding debt coverage ratios. As a result, when fund balances begin to greatly exceed policy requirements, it is the Town's practice not to raise or to raise at a reduced amount rates even if that results in a small projected deficit for the year.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

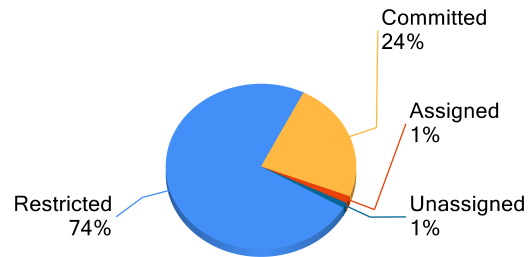
As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fund Balance by Type Governmental Funds

FY 2025 - \$108,991



FY 2024 - \$113,440



Governmental funds – The focus of the Town’s governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town’s financing requirements as it most closely resembles the annual budget adopted by Town Council. Only the General Fund contains unassigned fund balance which is an indication of resources available to fund future year’s services.

At the end of the current fiscal year, the Town’s governmental funds reported combined ending fund balances of \$108,991, a small decrease of \$(4,449) from the prior year primarily from decreases in General and Impact Fees Fund balance offset by increase in the Capital Projects Fund as a result of transfers out of the former funds into the Capital Projects fund as the Town continues to accelerate capital expenditures. Of the current combined ending fund balance, \$266 is nonspendable due to prepaid items and inventory, \$71,259 is restricted for debt service, capital projects, public safety, parks and other uses, \$10,497 is committed for contingency in accordance with the Town charter, \$26,904 is committed for capital projects, \$0 was assigned for next year’s budget and \$65 is unassigned.

The large committed fund balance for capital funds is primarily due to \$0.00102 (ten cents) of the property tax rate being dedicated to capital purposes. The Capital Dedicated tax levy is a year by year policy decision of the Town Council and is intended to provide a better match between revenue from new construction and when that growth results in substantial new services such as sport complexes or fire stations. It has also served as a funding source for designing infrastructure in advance of debt issuance.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$65. Total unassigned fund balance represents 0% of total General Fund expenditures. The change in fund balance of \$(2,399) is primarily due to capital outlay (patrol cars, trucks, etc.) of \$1,350 needed to equip the new General Fund positions added during the year. It is the practice of the Town to draw down excess fund balance for these new capital items. Future replacement of these items will be funded by the Vehicle Equipment Replacement Fund, an internal service fund. During this time of rapid growth, development related fees are the third largest revenue source in the General Fund but this is expected to gradually decrease over time as the Town approaches build-out.

The Impact Fees Fund has a total fund balance of \$8,293; which is restricted for capital projects. The balances in this fund will change as the payments by developers and home builders will often be received years before the intended projects are bid and awarded or the developer is reimbursed for assets constructed.

The Debt Service Fund has a total fund balance of \$1,336; all of which is restricted for payment of debt service. The small change in fund balance of \$90 represents current state statutes requiring any excess collections to reduce the upcoming year’s debt service tax rate.

The Capital Projects Fund has a total fund balance of \$82,578; all of which is restricted or committed for construction. The slight increase in fund balance of \$3,429 is due to timing of capital outlays as the Town adds resources through transfers and debt issuance.

Proprietary funds – The Town’s proprietary funds provide the same type of information and on the same basis of accounting found in the government-wide business type activities column but broken out by individual

fund. As with the Governmental Activities, services provided to citizens is very capital intensive with 95% of total net position of the Water and Sewer Fund's total net position of \$222,074 being related to capital activities. The remaining 5% of unrestricted net position at the end of the year was \$11,721 . The increase in net position of \$19,841 was primarily a result of developer contributions, impact fees revenue and an intergovernmental grant. Operating income was \$1,712. The Town maintains a debt service reserve fund as additional security for its Revenue Bonds.

The Solid Waste Fund is in its second year and had been previously reported within the Water and Sewer Fund. This change provides greater transparency by demonstrating whether solid waste rates are adequate to cover all solid waste related expenses. Effective February 1, 2024, solid waste charges to residential customers included additional administrative fees to cover general and administrative expenses of the fund and to pay for the purchase of Town owned residential trash and recycling carts. The changes have resulted in positive net position for the current year.

The Stormwater Drainage Utility Fund net position changed by \$11,767 to \$77,034 This increase is due to developer contributions offset by an operating loss due to depreciation.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget – Amendments adjusting individual revenue lines were part of the mid-year re-estimate conducted each summer based on year-to-date results resulting in a slight increase in estimated revenue. Budgeted expenditures were also adjusted at mid-year based on year-to-date. It is the Town’s policy to budget for a fund balance “take-down” when fund balances far exceed policy guideline. Fund balance “take downs” cannot involve recurring expenditures, only one-time capital expenditures.

Final budget compared to actual results – After converting actual results on a GAAP basis to budgetary basis, revenues were \$1,263 below Final Budget due to a weakening economy at the end of the year combined with a large negative audit adjustment from the Texas Comptroller to Town sales tax. The Comptroller collects sales tax for all Texas governments and will occasionally make adjustments to sales tax previously submitted. Estimated expenditures were \$996 less than budgeted however higher than anticipated claims in the employee self-insurance health fund required an additional transfer to that fund resulting in a larger fund balance “take down” than originally budgeted.

The first element of the Town Council's strategic vision is the acceleration of infrastructure with the capital dedicated levy representing an important tool for accomplishing this element of the strategic vision.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets – The Town’s investment in capital assets for its governmental and business-type activities as of September 30, 2025 is \$903,078 (net of accumulated depreciation). This investment in capital assets includes land, buildings and infrastructure, equipment and right to use assets.

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

- Capital asset acquisitions in governmental activities totaled \$72,930. The majority of this activity was funded from bond proceeds and developer contributions as well as the capital dedicated tax levy. It is primarily infrastructure (land, streets, parks) with a smaller amount of equipment and buildings.
- Capital asset additions in business-type activities totaled \$77,875 . The majority of this activity was funded from bond proceeds and developer contributions and was for new water and wastewater projects including Town contributions for expansion of the Doe Branch wastewater treatment plant.

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Government-wide capital assets:						
Non-depreciable assets	\$ 203,931	\$ 199,185	\$ 47,334	\$ 29,740	\$ 251,265	\$ 228,925
Depreciable assets	479,678	412,156	337,223	276,941	816,901	689,097
Right to use assets	6,716	6,407	-	-	6,716	6,407
Total capital assets	690,325	617,748	384,557	306,681	1,074,882	924,429
Less: accumulated depreciation	(114,121)	(98,313)	(57,683)	(48,922)	(171,804)	(147,235)
Government-wide capital assets, net	\$ 576,204	\$ 519,435	\$ 326,874	\$ 257,759	\$ 903,078	\$ 777,194

Additional information on the Town's capital assets can be found in VI - Capital Assets of the notes to the financial statements.

Long-term liabilities – At the end of the current fiscal year, the Town had long-term liabilities outstanding of \$342,671. The majority of the Town's debt is backed by the full faith and credit of the Town.

The Town's general obligation bond ratings are AA+ as assigned by Standard & Poor's and AAA as assigned by Fitch Rating Services. The Town began issuing Water and Wastewater Revenue bonds in 2025 for the first time with initial ratings of AA- from Standard & Poor's and AA from Fitch. General Obligation debt grew moderately by \$7,710 (3.8%) as the Town is targeting a stable debt service tax rate so that any additional capacity comes from increases in Assessed Valuation and debt retirements. For Business Type activities, debt includes both the Certificates of Obligation with a General Obligation pledge and the newly issued Water and Wastewater Revenue bonds. This debt has grown rapidly by \$28,855 (39%) due to need to expand the Doe Branch wastewater treatment plant including related transmission lines to the plant.

Total long-term liabilities consisted of the following:

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Government-wide long-term liabilities:						
Certificates of obligation, general obligation, & revenue bonds	\$ 211,660	\$ 203,950	\$ 102,915	\$ 74,060	\$ 314,575	\$ 278,010
Bonds premium on issuance	11,206	12,259	5,738	4,218	16,944	16,477
Compensated absences payable	3,741	3,374	341	299	4,082	3,673
Lease payable	867	709	-	-	867	709
SBITA payable	177	414	-	-	177	414
Net pension liability	5,337	6,389	689	829	6,026	7,218
Total government-wide long-term liabilities	<u>\$ 232,988</u>	<u>\$ 227,095</u>	<u>\$ 109,683</u>	<u>\$ 79,406</u>	<u>\$ 342,671</u>	<u>\$ 306,501</u>

Additional information on the Town's long-term liabilities can be found in the VIII - Long-term Liabilities in the notes to the financial statements.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

This section describes events that have occurred following year-end but prior to the issuance of the MD&A that could have a significant impact on Net Position or financial related operations.

Next Year's Budget

The Town continues to grow rapidly, with residential and commercial development occurring at high levels. The resulting increase in property values reflects the commitment of the Council and the efforts of the Prosper Economic Development Corporation (PEDC) to attract quality development. The FY 2026 Adopted Budget addresses the need for increased service levels due to growth while also placing a major emphasis on capital needs. A capital dedicated portion of the Maintenance & Operations levy created in the FY 2023 budget was continued at 10 cents of the total 50.5 cent levy. This capital dedicated allows the Town to quickly address capital needs while also managing the Town's overall debt levels.

Water and wastewater rates were increased by a blended rate of 8.8% (6.3% water and 16% wastewater). This was the first rate increase in four years and was primarily due to cost increases from the Town's regional water and wastewater treatment providers with wastewater rates increasing proportionally more due to the substantial expansion of the Doe Branch regional wastewater plant.

Highlights of the Fiscal Year 2026 budget:

- A total of 23 new positions including six Police Officers and nine firefighters.
- Property values increased by \$1.2 billion from total taxable of \$9.6 billion to \$10.8 billion a 12.5% increase. This increase included \$759 million of new construction.
- New general capital projects budgeted for the year were \$39.4 million.

- New water and sewer capital projects totaled \$13.2 million.

Debt Defeasance

- On November 20, 2025, the Town redeemed \$550,000 of remaining 2014 series general obligation bonds at par. This redemption is part of the Town's strategy to manage overall debt levels while continuing to accelerate infrastructure.



BASIC FINANCIAL STATEMENTS

TOWN OF PROSPER, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2025

	Primary Government			Prosper Economic Development Corporation (EDC)
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 30,102,777	\$ 5,689,428	\$ 35,792,205	\$ 17,106,725
Investments	3,411,370	1,746,443	5,157,813	-
Taxes receivable, net	3,809,178	-	3,809,178	944,205
Receivables, net	6,450,991	6,644,728	13,095,719	1,269
Interfund Note Receivable	-	1,762,541	1,762,541	-
Accrued interest	304,866	133,171	438,037	-
Inventory	136,947	1,055,456	1,192,403	-
Prepaid items	129,008	-	129,008	-
Restricted assets:				
Restricted cash and cash equivalents	69,686,655	65,679,180	135,365,835	-
Restricted investments	18,475,574	6,176,876	24,652,450	-
Capital assets not being depreciated/amortized:				
Land	126,853,015	2,601,366	129,454,381	9,696,021
Construction in progress	77,077,746	44,732,656	121,810,402	-
Capital assets net of accumulated depreciation/amortized:				
Buildings and improvements	74,409,507	769,111	75,178,618	-
Equipment	16,203,572	2,043,962	18,247,534	-
Right to use - vehicles and equipment	2,263,489	-	2,263,489	-
Right to use - Subscription-based IT arrangements (SBITA)	329,380	-	329,380	-
Intangible assets	-	12,913,519	12,913,519	-
Infrastructure	279,067,414	263,813,030	542,880,444	-
Total assets	<u>708,711,489</u>	<u>415,761,467</u>	<u>1,124,472,956</u>	<u>27,748,220</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	77,067	37,972	115,039	-
Pension related	4,524,200	584,169	5,108,369	53,624
Total deferred outflows of resources	<u>4,601,267</u>	<u>622,141</u>	<u>5,223,408</u>	<u>53,624</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPER, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2025

	Primary Government			Prosper Economic Development Corporation (EDC)
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Accounts payable	6,309,380	3,262,030	9,571,410	1,399
Accrued expenses	2,747,857	241,611	2,989,468	5,633
Retainage payable	2,722,920	1,037,819	3,760,739	-
Accrued interest payable	1,019,359	449,016	1,468,375	-
Interfund Note Payable	-	1,762,541	1,762,541	-
Customer deposits and escrow payable	6,132,786	135,000	6,267,786	-
Noncurrent liabilities:				
Due within one year				
Long-term debt	14,060,878	3,916,628	17,977,506	3,676
Due in more than one year				
Long-term debt	213,589,874	105,076,966	318,666,840	11,028
Net pension liability	5,337,162	689,141	6,026,303	63,259
Total liabilities	<u>251,920,216</u>	<u>116,570,752</u>	<u>368,490,968</u>	<u>84,995</u>
DEFERRED INFLOWS OF RESOURCES				
Lease related	94,344	386,549	480,893	-
Pension related	780,426	100,770	881,196	9,250
Total deferred inflows of resources	<u>874,770</u>	<u>487,319</u>	<u>1,362,089</u>	<u>9,250</u>
NET POSITION				
Net investment in capital assets	411,940,069	274,600,633	686,540,702	9,696,021
Restricted for:				
Debt service	421,417	1,346,800	1,768,217	-
Public safety	475,901	-	475,901	-
Parks	2,379,093	-	2,379,093	-
Impact fees	-	10,999,948	10,999,948	-
TIRZ	2,045,464	-	2,045,464	-
Other	1,056,298	-	1,056,298	-
Unrestricted	42,199,528	12,378,156	54,577,684	18,011,578
Total net position	<u>\$ 460,517,770</u>	<u>\$ 299,325,537</u>	<u>\$ 759,843,307</u>	<u>\$ 27,707,599</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPER, 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:				
Administration	\$ 18,013,412	\$ 1,963,204	\$ 167,197	\$ -
Police	15,754,197	78,448	408,527	-
Fire and EMS	16,595,024	2,035,904	146,824	-
Development services	7,583,881	4,013,627	-	-
Public works	17,658,177	5,210,817	-	31,051,534
Community services	9,602,342	691,026	47,199	5,139,309
Engineering	2,665,846	1,082,411	-	-
Interest	5,839,392	-	-	-
Total governmental activities	93,712,271	15,075,437	769,747	36,190,843
Business-type activities:				
Water and sewer	39,943,048	37,195,786	-	21,534,825
Solid waste	3,563,907	3,727,080	-	-
Storm drainage	3,078,017	987,078	-	13,858,166
Total business-type activities	46,584,972	41,909,944	-	35,392,991
Total primary government	140,297,243	56,985,381	769,747	71,583,834
Component unit:				
Prosper EDC	2,485,523	3,000	-	-
Total component units	\$ 2,485,523	\$ 3,000	\$ -	\$ -
General revenues:				
Property taxes				
Sales and use taxes				
Franchise fees				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Prosper EDC
\$ (15,883,011)	\$ -	\$ (15,883,011)	\$ -
(15,267,222)	-	(15,267,222)	-
(14,412,296)	-	(14,412,296)	-
(3,570,254)	-	(3,570,254)	-
18,604,174	-	18,604,174	-
(3,724,808)	-	(3,724,808)	-
(1,583,435)	-	(1,583,435)	-
(5,839,392)	-	(5,839,392)	-
(41,676,244)	-	(41,676,244)	-
-	18,787,563	18,787,563	-
-	163,173	163,173	-
-	11,767,227	11,767,227	-
-	30,717,963	30,717,963	-
(41,676,244)	30,717,963	(10,958,281)	-
-	-	-	(2,482,523)
-	-	-	(2,482,523)
52,662,713	-	52,662,713	-
20,521,823	-	20,521,823	5,405,375
3,722,110	-	3,722,110	-
5,720,381	2,629,895	8,350,276	730,615
564,404	383,617	948,021	3,577
1,950,694	(1,950,694)	-	-
85,142,125	1,062,818	86,204,943	6,139,567
43,465,881	31,780,781	75,246,662	3,657,044
417,051,889	267,544,756	684,596,645	24,050,555
460,517,770	299,325,537	759,843,307	27,707,599

TOWN OF PROSPER, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2025

	General Fund	Impact Fees	Debt Service
ASSETS			
Cash and cash equivalents	\$ 7,895,482	\$ 6,661,803	\$ 1,030,731
Investments	2,410,502	2,039,325	315,612
Taxes receivable, net	2,242,683	-	95,702
Accounts receivable, net	1,676,133	-	-
Accrued interest	40,561	25,238	5,305
Due from other funds	-	-	-
Inventory	136,947	-	-
Prepaid items	129,008	-	-
Total assets	<u>14,531,316</u>	<u>8,726,366</u>	<u>1,447,350</u>
LIABILITIES			
Accounts payable	1,003,861	433,856	6,574
Accrued expenses	1,755,353	-	-
Retainage payable	-	-	-
Escrow payable	-	-	-
Due to other funds	31,451	-	-
Total liabilities	<u>2,790,665</u>	<u>433,856</u>	<u>6,574</u>
DEFERRED INFLOWS OF RESOURCES			
Lease related	94,344	-	-
Unavailable revenue:			
Property taxes	196,203	-	105,093
Fines and fees	8,319	-	-
EMS	592,239	-	-
Grants	21,423	-	-
Total deferred inflows of resources	<u>912,528</u>	<u>-</u>	<u>105,093</u>
FUND BALANCE			
Nonspendable for:			
Inventory	136,947	-	-
Prepaid items	129,008	-	-
Restricted for:			
Debt service	-	-	1,335,683
Tax increment reinvestment zone (TIRZ)	-	-	-
Streets	-	8,292,510	-
Public safety	-	-	-
Parks	-	-	-
Other	-	-	-
Committed for:			
Contingency reserve	10,497,082	-	-
Capital projects	-	-	-
Unassigned	65,086	-	-
Total fund balances	<u>10,828,123</u>	<u>8,292,510</u>	<u>1,335,683</u>
Total liabilities, deferred inflows of resources and fund balances	<u>14,531,316</u>	<u>8,726,366</u>	<u>1,447,350</u>

The accompanying notes are an integral part of these financial statements.

Capital Projects	Escrow	Nonmajor Governmental	Total Governmental Funds
\$ 71,869,023	\$ 4,794,240	\$ 4,268,184	\$ 96,519,463
13,363,073	1,464,038	1,303,887	20,896,437
-	-	1,470,793	3,809,178
4,471,240	-	16,209	6,163,582
195,197	-	21,916	288,217
31,451	-	-	31,451
-	-	-	136,947
-	-	-	129,008
<u>89,929,984</u>	<u>6,258,278</u>	<u>7,080,989</u>	<u>127,974,283</u>
4,003,542	125,492	133,655	5,706,980
-	-	990,578	2,745,931
2,722,920	-	-	2,722,920
-	6,132,786	-	6,132,786
-	-	-	31,451
<u>6,726,462</u>	<u>6,258,278</u>	<u>1,124,233</u>	<u>17,340,068</u>
-	-	-	94,344
-	-	-	301,296
-	-	-	8,319
-	-	-	592,239
<u>625,350</u>	<u>-</u>	<u>-</u>	<u>646,773</u>
<u>625,350</u>	<u>-</u>	<u>-</u>	<u>1,642,971</u>
-	-	-	136,947
-	-	-	129,008
-	-	-	1,335,683
-	-	2,045,464	2,045,464
37,740,802	-	-	46,033,312
5,721,361	-	475,901	6,197,262
12,212,342	-	2,379,093	14,591,435
-	-	1,056,298	1,056,298
-	-	-	10,497,082
26,903,667	-	-	26,903,667
-	-	-	65,086
<u>82,578,172</u>	<u>-</u>	<u>5,956,756</u>	<u>108,991,244</u>
<u>89,929,984</u>	<u>6,258,278</u>	<u>7,080,989</u>	<u>127,974,283</u>



This Page Intentionally Left Blank

TOWN OF PROSPER, TEXAS

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

SEPTEMBER 30, 2025

Total fund balances - governmental funds	\$ 108,991,244
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	562,938,501
Bonds, leases and SBITA payables and accrued compensated absences will not be liquidated with current financial resources and therefore have not been included in the fund financial statements.	(216,445,077)
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due.	(1,019,359)
Premiums on bond issuances and deferred losses on bond refunding are recorded as other financing sources and uses when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements over the life of the bonds.	
Premiums	(11,205,675)
Deferred loss	77,067
Receivables from property taxes, grants, and fines and fees are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the fund financial statements.	1,548,627
Included in the items related to debt is the recognition of the Town's proportionate share of the net pension liability and related deferred outflows and inflows of resources. The net effect is to decrease net position.	
Net pension liability	(5,337,162)
Deferred outflows related to pensions	4,524,200
Deferred inflows related to pensions	(780,426)
The Town uses internal service funds to charge the costs of the medical program and the vehicle and equipment replacement program to appropriate departments in other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. The net effect is to increase net position.	17,225,830
Net position of governmental activities	<u>\$ 460,517,770</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPER, TEXAS

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General Fund	Impact Fees	Debt Service
REVENUES			
Taxes:			
Property taxes	\$ 23,102,540	\$ -	\$ 18,148,489
Sales and use taxes	11,879,599	-	-
Franchise fees	3,722,110	-	-
Licenses and permits	5,399,866	-	-
Charges for services	1,785,854	-	-
Impact fees	-	5,210,817	-
Intergovernmental	560,928	-	-
Investment income	719,230	533,230	223,105
Fines, fees, warrants and seizures	537,681	-	-
Park fees	701,901	-	-
Contributions	-	-	-
Miscellaneous	244,996	-	-
Total revenues	<u>48,654,705</u>	<u>5,744,047</u>	<u>18,371,594</u>
EXPENDITURES			
Current:			
Administration	10,300,769	-	-
Police	10,170,458	-	-
Fire and EMS	10,675,760	-	-
Development services	3,803,781	-	-
Public works	4,261,408	2,833,432	-
Community services	7,552,318	-	-
Engineering	2,475,808	-	-
Capital outlay	1,349,727	-	-
Debt service:			
Principal	715,290	-	10,190,966
Interest and fiscal charges	30,515	-	8,082,588
Bond issue costs and fees	-	-	90,111
Total expenditures	<u>51,335,834</u>	<u>2,833,432</u>	<u>18,363,665</u>
Excess (deficiency) of revenues over (under) expenditures	(2,681,129)	2,910,615	7,929
OTHER FINANCING SOURCES (USES)			
Issuance of debt	-	-	9,415,000
Premium on issuance of bonds	-	-	783,796
Payment to bond escrow agent	-	-	(10,116,274)
Issuance of leases and SBITA	635,872	-	-
Insurance proceeds	128,745	-	-
Transfers in	1,478,696	-	-
Transfers out	(1,961,000)	(7,558,982)	-
Total other financing sources (uses)	<u>282,313</u>	<u>(7,558,982)</u>	<u>82,522</u>
NET CHANGE IN FUND BALANCE	(2,398,816)	(4,648,367)	90,451
FUND BALANCES - BEGINNING	<u>13,226,939</u>	<u>12,940,877</u>	<u>1,245,232</u>
FUND BALANCES - ENDING	<u>\$ 10,828,123</u>	<u>\$ 8,292,510</u>	<u>\$ 1,335,683</u>

The accompanying notes are an integral part of these financial statements.

Capital Projects	Escrow	Nonmajor Governmental	Total Governmental Funds
\$ 9,600,000	\$ -	\$ 1,825,739	\$ 52,676,768
-	-	8,642,224	20,521,823
-	-	-	3,722,110
-	-	-	5,399,866
-	-	-	1,785,854
-	-	1,326,957	6,537,774
935,966	-	-	1,496,894
3,569,455	-	406,938	5,451,958
-	-	44,990	582,671
-	-	-	701,901
6,515,675	-	2,768,190	9,283,865
-	-	10,288	255,284
20,621,096	-	15,025,326	108,416,768
-	-	6,199,355	16,500,124
-	-	3,502,778	13,673,236
-	-	3,484,356	14,160,116
3,494,200	-	-	7,297,981
-	-	-	7,094,840
-	-	-	7,552,318
-	-	-	2,475,808
43,437,161	-	29,890	44,816,778
-	-	-	10,906,256
-	-	-	8,113,103
166,779	-	-	256,890
47,098,140	-	13,216,379	132,847,450
(26,477,044)	-	1,808,947	(24,430,682)
18,560,000	-	-	27,975,000
1,056,779	-	-	1,840,575
-	-	-	(10,116,274)
-	-	-	635,872
-	-	-	128,745
10,289,032	-	-	11,767,728
-	-	(2,730,050)	(12,250,032)
29,905,811	-	(2,730,050)	19,981,614
3,428,767	-	(921,103)	(4,449,068)
79,149,405	-	6,877,859	113,440,312
<u>\$ 82,578,172</u>	<u>\$ -</u>	<u>\$ 5,956,756</u>	<u>\$ 108,991,244</u>



This Page Intentionally Left Blank

TOWN OF PROSPER, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2025

Net change in fund balances - governmental funds	\$	(4,449,068)
--	----	-------------

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities that cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, or donations) to net position.

Capital outlay		44,816,778
Depreciation and amortization expense		(14,517,771)

Governmental funds do not recognize assets contributed by others. However, in the statement of activities, the fair market value of those assets are recognized as revenue then allocated over their estimated useful lives and reported as depreciation expense.	24,157,883
---	------------

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. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.

Issuance of bonds		(27,975,000)
Payment to bond escrow agent		10,116,274
Deferred loss on refunding		(42,774)
Premium on bond issuance		(1,840,575)
Issuance of leases and SBITA		(635,872)
Repayment of principal of long-term debt		10,906,256
Amortization of:		
Premium on bond issuance		2,893,434
Loss on refunding		(174,439)

Current year changes in certain long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(367,215)
Net pension liability and related deferred outflows and inflows		(346,256)

Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The increase in interest accrual decreases net position.	(145,620)
--	-----------

The Town uses an internal service fund to charge the costs of the medical program and the vehicle and equipment replacement program to the appropriate departments in other funds. The change in net position of the internal service fund is reported with governmental activities.	322,557
--	---------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		747,288
--	--	---------

Change in net position of governmental activities	\$	<u>43,465,880</u>
---	----	-------------------

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPER, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Original Budget	Final Budget	Actual Amounts GAAP Basis
REVENUES			
Property taxes	\$ 23,332,018	\$ 23,370,581	\$ 23,102,540
Sales and use taxes	12,903,535	12,308,897	11,879,599
Franchise fees	3,334,932	3,614,869	3,722,110
Licenses and permits	5,987,620	6,011,341	5,399,866
Charges for services	1,342,524	1,608,835	1,785,854
Intergovernmental	611,781	611,781	560,928
Investment income	950,000	800,000	719,230
Fines, fees, warrants and seizures	355,050	550,850	537,681
Park fees	722,300	743,938	701,901
Miscellaneous	189,350	291,127	244,996
Total revenues	<u>49,729,110</u>	<u>49,912,219</u>	<u>48,654,705</u>
EXPENDITURES			
Current:			
Administration	10,928,574	10,817,388	10,300,769
Police	11,378,858	10,754,562	10,170,458
Fire and EMS	10,379,914	10,825,108	10,675,760
Development services	4,119,971	3,963,044	3,803,781
Public works	5,108,876	4,645,945	4,261,408
Community services	8,361,779	7,992,644	7,552,318
Engineering	2,572,798	2,541,854	2,475,808
Capital outlay	-	-	1,349,727
Debt service:			
Principal	160,000	160,000	715,290
Interest and fiscal charges	-	-	30,515
Total expenditures	<u>53,010,770</u>	<u>51,700,545</u>	<u>51,335,834</u>
Excess (deficiency) of revenues over (under) expenditures	(3,281,660)	(1,788,326)	(2,681,129)
OTHER FINANCING SOURCES (USES)			
Issuance of leases and SBITA	-	-	635,872
Insurance proceeds	-	-	128,745
Transfers in	1,478,696	1,478,696	1,478,696
Transfers out	-	(1,125,000)	(1,961,000)
Total other financing sources (uses)	<u>1,478,696</u>	<u>353,696</u>	<u>282,313</u>
CHANGE IN FUND BALANCE	(1,802,964)	(1,434,630)	(2,398,816)
FUND BALANCE - BEGINNING	<u>13,226,939</u>	<u>13,226,939</u>	<u>13,226,939</u>
FUND BALANCE - ENDING	<u>\$ 11,423,975</u>	<u>\$ 11,792,309</u>	<u>\$ 10,828,123</u>

The accompanying notes are an integral part of these financial statements.

Adjustment Budget Basis	Actual Amounts Budget Basis	Variance with Final Budget Positive (Negative)
\$ -	\$ 23,102,540	\$ (268,041)
-	11,879,599	(429,298)
-	3,722,110	107,241
-	5,399,866	(611,475)
-	1,785,854	177,019
-	560,928	(50,853)
(5,938)	713,292	(86,708)
-	537,681	(13,169)
-	701,901	(42,037)
-	244,996	(46,131)
(5,938)	48,648,767	(1,263,452)
-	10,300,769	516,619
11,742	10,182,200	572,362
-	10,675,760	149,348
27,775	3,831,556	131,488
(19,715)	4,241,693	404,252
-	7,552,318	440,326
-	2,475,808	66,046
(650,772)	698,955	(698,955)
-	715,290	(555,290)
-	30,515	(30,515)
(630,970)	50,704,864	995,681
625,032	(2,056,097)	(267,771)
-	635,872	635,872
-	128,745	128,745
-	1,478,696	-
-	(1,961,000)	(836,000)
-	282,313	(71,383)
625,032	(1,773,784)	(339,154)
-	13,226,939	-
<u>\$ 625,032</u>	<u>\$ 11,453,155</u>	<u>\$ (339,154)</u>

TOWN OF PROSPER, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
IMPACT FEES FUND
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Original Budget	Final Budget	Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES				
Impact fees	\$ 5,500,000	\$ 5,600,000	\$ 5,210,817	\$ (389,183)
Investment income	320,000	420,000	533,230	113,230
Total revenues	<u>5,820,000</u>	<u>6,020,000</u>	<u>5,744,047</u>	<u>(275,953)</u>
EXPENDITURES				
Public works	<u>5,323,622</u>	<u>5,323,622</u>	<u>2,833,432</u>	<u>2,490,190</u>
Total expenditures	<u>5,323,622</u>	<u>5,323,622</u>	<u>2,833,432</u>	<u>2,490,190</u>
Excess (deficiency) of revenues over (under) expenditures	496,378	696,378	2,910,615	2,214,237
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(7,500,000)</u>	<u>(7,558,982)</u>	<u>(7,558,982)</u>	<u>-</u>
Total other financing sources (uses)	<u>(7,500,000)</u>	<u>(7,558,982)</u>	<u>(7,558,982)</u>	<u>-</u>
CHANGE IN FUND BALANCE	(7,003,622)	(6,862,604)	(4,648,367)	2,214,237
FUND BALANCE - BEGINNING	<u>12,940,877</u>	<u>12,940,877</u>	<u>12,940,877</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 5,937,255</u>	<u>\$ 6,078,273</u>	<u>\$ 8,292,510</u>	<u>\$ 2,214,237</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPER, TEXAS

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

SEPTEMBER 30, 2025

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water and Sewer	Solid Waste	Stormwater Drainage	Total Enterprise	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 5,217,655	\$ 212,225	\$ 259,548	\$ 5,689,428	\$ 3,269,969
Investments	1,602,035	65,008	79,400	1,746,443	990,507
Receivables, net	6,176,229	303,119	165,380	6,644,728	287,409
Interfund note receivable	1,762,541	-	-	1,762,541	-
Accrued interest	130,746	1,091	1,334	133,171	16,649
Inventory	1,055,456	-	-	1,055,456	-
Total current assets	15,944,662	581,443	505,662	17,031,767	4,564,534
Noncurrent assets:					
Restricted cash and cash equivalents	65,679,180	-	-	65,679,180	-
Restricted investments	6,176,876	-	-	6,176,876	-
Capital assets:					
Nondepreciable	46,528,371	-	805,651	47,334,022	-
Depreciable, net	199,853,356	1,711,316	77,974,950	279,539,622	11,930,642
Right to use, net	-	-	-	-	1,334,980
Total noncurrent assets	318,237,783	1,711,316	78,780,601	398,729,700	13,265,622
Total Assets	334,182,445	2,292,759	79,286,263	415,761,467	17,830,156
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	37,972	-	-	37,972	-
Deferred outflows related to pensions	532,496	6,881	44,792	584,169	-
Total deferred outflows of resources	570,468	6,881	44,792	622,141	-
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	3,183,476	300,001	20,164	3,503,641	604,326
Retainage payable	1,037,819	-	-	1,037,819	-
Accrued interest payable	437,176	-	11,840	449,016	-
Customer deposits and escrow payable	135,000	-	-	135,000	-
Interfund note payable	-	1,762,541	-	1,762,541	-
Current portion of long-term liabilities:					
Compensated absences	81,708	2,650	781	85,139	-
Bonds payable	3,701,489	-	130,000	3,831,489	-
Total current liabilities	8,576,668	2,065,192	162,785	10,804,645	604,326
Noncurrent liabilities:					
Compensated absences	245,126	7,952	2,344	255,422	-
Bonds payable	102,750,253	-	2,071,291	104,821,544	-
Net pension liability	628,182	8,118	52,841	689,141	-
Total noncurrent liabilities	103,623,561	16,070	2,126,476	105,766,107	-
Total Liabilities	112,200,229	2,081,262	2,289,261	116,570,752	604,326
DEFERRED INFLOWS OF RESOURCES					
Lease related	386,549	-	-	386,549	-
Deferred inflows - pensions	91,856	1,187	7,727	100,770	-
Total deferred inflows of resources	478,405	1,187	7,727	487,319	-
NET POSITION					
Net investment in capital assets	198,006,192	15,362	76,579,079	274,600,633	13,265,622
Restricted for impact fees	10,999,948	-	-	10,999,948	-
Restricted for debt service	1,346,800	-	-	1,346,800	-
Unrestricted	11,721,339	201,829	454,988	12,378,156	3,960,208
Total net position	\$ 222,074,279	\$ 217,191	\$ 77,034,067	\$ 299,325,537	\$ 17,225,830

The accompanying notes are an integral part of these financial statements.



This Page Intentionally Left Blank

TOWN OF PROSPER, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Enterprise Funds				Governmental Activities
	Water and Sewer	Solid Waste	Stormwater Drainage	Total Enterprise	Internal Service Funds
OPERATING REVENUES					
Charges for services:					
Water and sewer charges	\$ 36,358,486	\$ -	\$ -	\$ 36,358,486	\$ -
Sanitation charges	-	3,727,080	-	3,727,080	-
Storm drainage utility fees	-	-	987,078	987,078	-
Water and sewer connections	722,525	-	-	722,525	-
Service initiation fees	114,775	-	-	114,775	-
Health charges	-	-	-	-	4,862,679
Miscellaneous	383,617	-	-	383,617	359,426
Total operating revenues	37,579,403	3,727,080	987,078	42,293,561	5,222,105
OPERATING EXPENSES					
Personnel services	5,342,762	76,642	397,445	5,816,849	-
Materials and supplies	1,617,268	1,880	21,635	1,640,783	332
Contractual services	7,446,351	3,249,597	963	10,696,911	136,577
Water purchases	13,879,634	-	-	13,879,634	-
Employee health insurance	-	-	-	-	7,148,945
Other operating costs	1,589,521	557	6,323	1,596,401	-
Depreciation and amortization	5,991,412	138,101	2,631,215	8,760,728	1,643,088
Total operating costs	35,866,948	3,466,777	3,057,581	42,391,306	8,928,942
Operating income (loss)	1,712,455	260,303	(2,070,503)	(97,745)	(3,706,837)
NON-OPERATING REVENUES (EXPENSES)					
Intergovernmental	214,081	-	-	214,081	-
Investment income	2,601,599	10,119	18,177	2,629,895	268,423
Interest expense	(2,372,969)	(97,130)	(20,324)	(2,490,423)	-
Developer payments	(1,356,871)	-	-	(1,356,871)	-
Bond fees	(346,260)	-	(112)	(346,372)	-
Total non-operating revenues (expenses)	(1,260,420)	(87,011)	(2,259)	(1,349,690)	268,423
Income (loss) before contributions and transfers	452,035	173,292	(2,072,762)	(1,447,435)	(3,438,414)
CONTRIBUTIONS AND TRANSFERS					
Capital contributions	16,918,864	-	13,858,166	30,777,030	1,327,973
Capital contributions - impact fees	4,401,880	-	-	4,401,880	-
Transfers in	-	-	225,294	225,294	2,432,998
Transfers out	(1,931,967)	-	(244,021)	(2,175,988)	-
Total contributions and transfers	19,388,777	-	13,839,439	33,228,216	3,760,971
CHANGE IN NET POSITION	19,840,812	173,292	11,766,677	31,780,781	322,557
NET POSITION - BEGINNING	202,233,467	43,899	65,267,390	267,544,756	16,903,273
NET POSITION - END OF YEAR	<u>\$ 222,074,279</u>	<u>\$ 217,191</u>	<u>\$ 77,034,067</u>	<u>\$ 299,325,537</u>	<u>\$ 17,225,830</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPER, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Enterprise Funds		
	Water and Sewer	Solid Waste	Stormwater Drainage
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and users	\$ 37,574,018	\$ 3,654,482	\$ 977,349
Cash payment to suppliers for goods and services	(23,308,215)	(3,186,115)	(27,073)
Cash payments for health expense	-	-	-
Cash payments to employees for services	(5,328,045)	(67,053)	(418,249)
Net cash provided by (used in) operating activities	<u>8,937,758</u>	<u>401,314</u>	<u>532,027</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to/from other funds	<u>(1,931,966)</u>	<u>-</u>	<u>(18,727)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from issuance of bonds and notes payable	35,406,054	-	-
Principal paid on bonds and notes payable	(4,120,533)	(160,370)	(120,000)
Acquisition and construction of capital assets	(45,674,430)	-	(257,436)
Interest paid on bonds and notes payable	(3,133,637)	(97,130)	(80,219)
Bond fees paid	(346,260)	-	(112)
Transfers from other funds	-	-	-
Cash received from other governments	214,081	-	-
Developer payments	(1,356,871)	-	-
Impact fees received	4,401,880	-	-
Net cash used by capital and related financing activities	<u>(14,609,716)</u>	<u>(257,500)</u>	<u>(457,767)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment sales and purchases	(2,751,144)	(63,757)	(77,870)
Interest on deposits and investments	2,434,749	7,777	15,313
Interfund notes receivable issued	-	-	-
Interest on interfund notes receivable	97,130	-	-
Principal payment received on interfund notes receivable	160,370	-	-
Net cash used in investing activities	<u>(58,895)</u>	<u>(55,980)</u>	<u>(62,557)</u>
Net increase (decrease) in cash and cash equivalents	<u>(7,662,819)</u>	<u>87,834</u>	<u>(7,024)</u>
Cash and cash equivalents at beginning of year	78,559,654	124,391	266,572
Cash and cash equivalents at end of year	<u>\$ 70,896,835</u>	<u>\$ 212,225</u>	<u>\$ 259,548</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 1,712,455	\$ 260,303	\$ (2,070,503)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,991,412	138,101	2,631,215
Decrease (increase) in accounts receivable	211,397	(72,598)	(9,729)
Decrease (increase) in inventory	318,818	-	-
Decrease (increase) in prepaid items	2,372	-	85
Increase (decrease) in deferred outflows related to pensions	82,196	625	(199)
Increase (decrease) in accounts payable and accrued expenses	821,174	65,919	1,763
Increase (decrease) in customer deposits	(34,500)	-	-
Increase (decrease) in net pension liability	(135,593)	(1,209)	(2,566)
Increase (decrease) in deferred inflows	(90,427)	1,187	7,727
Increase (decrease) in compensated absences	58,454	8,986	(25,766)
Net cash provided by (used in) operating activities	<u>\$ 8,937,758</u>	<u>\$ 401,314</u>	<u>\$ 532,027</u>
SCHEDULE OF NON-CASH CAPITAL ACTIVITIES			
Transfers in and contributions of capital assets	16,918,864	-	11,505,938

The accompanying notes are an integral part of these financial statements.

			Governmental Activities
	Total		Internal
	Enterprise		Service Funds
\$	42,205,849	\$	4,985,153
	(26,521,403)		(332)
	-		(7,180,895)
	(5,813,347)		-
	<u>9,871,099</u>		<u>(2,196,074)</u>

<u>(1,950,693)</u>	<u>2,157,807</u>
--------------------	------------------

35,406,054	-
(4,400,903)	-
(45,931,866)	(2,420,488)
(3,310,986)	-
(346,372)	-
-	-
214,081	-
(1,356,871)	-
<u>4,401,880</u>	<u>-</u>
<u>(15,324,983)</u>	<u>(2,420,488)</u>

(2,892,771)	(971,421)
2,457,839	232,688
-	-
97,130	-
160,370	-
<u>(177,432)</u>	<u>(738,733)</u>
(7,582,009)	(3,197,488)
<u>78,950,617</u>	<u>6,467,457</u>
<u>\$ 71,368,608</u>	<u>\$ 3,269,969</u>

\$ (97,745)	\$ (3,706,837)
-------------	----------------

8,760,728	1,643,088
129,070	(236,952)
318,818	-
2,457	-
82,622	-
888,856	104,627
(34,500)	-
(139,368)	-
(81,513)	-
41,674	-
<u>\$ 9,871,099</u>	<u>\$ (2,196,074)</u>

28,424,802	1,603,164
------------	-----------

TOWN OF PROSPER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Prosper, Texas (Town) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town is a municipal corporation governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and its component unit entity for which the Town is considered to be financially accountable.

Discretely Presented Component Unit

The Prosper Economic Development Corporation (PEDC) serves all citizens of the Town and is governed by a board appointed by the Town's elected council. The Town and the PEDC board work in tandem in determining desirable and eligible economic development projects; however, since the PEDC board members serve at the pleasure of the Town Council, the Town Council is ultimately responsible for economic development projects undertaken by the Town. The scope of public service of the PEDC benefits the Town and its citizens and is operated primarily within the geographic boundaries of the Town. The PEDC is presented as a discretely presented component unit because the governing body is not identical to the governing body of the Town, the PEDC does not solely serve the Town, and the Town has the ability to impose its will on the PEDC. Complete financial statements for the PEDC may be obtained at the entity's administration office, Prosper Economic Development Corporation, P.O. Box 1060, Prosper, Texas 75078.

Blended Component Units

Originally approved by the voters in 2018, the Crime Control and Fire Prevention Special Purpose Districts each have a sales and use tax rate of 0.25%. The purpose for creation of the special purpose districts was to finance public safety expenses in the districts, under the authority of Chapter 363 of the Texas Local Government Code. For reporting purposes, the special purpose districts are blended component units of the Town. The governing board of the blended component unit is substantively the same as the Town's governing body. The Council approves recommendations from the Board regarding administration, management and operation of the districts, and Town's management has operational responsibility for the entities. The special purpose districts are reported as governmental funds and separate financial reports are available from the Town's finance department.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to significant extent on user fees and charges for financing its operations. Likewise, the *primary government* is reported separately from a certain legally separate *component* unit for which the primary government is financially accountable. The Town has no fiduciary activities that require use of fiduciary fund reporting.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are general and administrative fees, street rental fees and other charges between the Town's water and sewer function and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise fees, charges for services, interest income, intergovernmental revenues and municipal court fines and fees 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. All other revenue items are considered measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

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

The **Impact Fees Fund**, a special revenue fund, accounts for revenues that are legally restricted for particular purposes. This fund is used to account for activity related to impact fees.

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

The **Capital Projects Fund** accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The **Escrow Fund**, a special revenue fund, accounts for escrow deposits received from developers.

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 proprietary funds are charges to customers for sales and services. The proprietary funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary 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.

The Town reports the following major proprietary funds:

The **Water and Sewer Fund**, an enterprise fund, is used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Town's water and sewer fund is used to account for water, sewer and sanitation operations.

The **Solid Waste Fund**, an enterprise fund, is used to account for the Town's solid waste utility operations.

The **Stormwater Drainage Fund**, an enterprise fund, is used to account for the Town's stormwater drainage utility operations.

The Town reports two internal service funds:

The **Internal Service Funds** are used to accumulate and allocate costs internally among the Town's various functions. The Town uses its Internal Service Funds to account for its vehicle and equipment replacement program and employee medical program as well as to facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because these services predominately benefit the governmental rather than the business-type functions, they have been consolidated into governmental activities in the government-wide financial statements.

D. Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the Town.

E. Short-Term and Long-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables." Long-term interfund loans are classified as "interfund notes receivables/payables."

F. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

G. Restricted Assets

Certain resources set aside for the repayment of bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also included in restricted assets are capital recovery fees (impact fees) that are, by law, restricted for future capital improvements; and assets set aside for construction of future debt funded capital improvements. When the Town incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first.

H. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position or governmental balance sheet will sometimes report a separate section for deferred outflows of resources immediately following assets and deferred inflows immediately following liabilities. 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. 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 Town has the following items that qualify for reporting in these categories:

- Deferred charges or gain on refunding – A deferred charge or gain on refunding results from the difference in the carrying value of refunded debt and carrying value of the new debt. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year. This item is always a deferred outflow.
- Difference in expected and actual economic experience for the Town's pension – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date. This item can be either a deferred outflow (actuarial loss) or deferred inflow (actuarial gain).
- Changes in actuarial assumptions – These changes are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date. This item can be either a deferred outflow (actuarial loss) or deferred inflow (actuarial gain).
- Unavailable revenue is reported only in the governmental funds balance sheet due to use of the current financial resource measurement focus. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Difference in projected and actual earnings on pension assets – This difference is netted with previous years' unamortized gains and losses to produce a net deferred outflow or inflow and amortized over a closed five-year period.
- Deferred inflows related to leases in which the Town is a lessor represent the amount of unrecognized lease revenue. This amount will be recognized in a systematic and rational manner over the lease term.

I. Capital Assets

Capital assets are tangible and intangible, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and right to use assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, as well as in the proprietary fund statement of net position. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the primary government are depreciated/amortized using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Number of Years</u>
Buildings	20 - 30
System infrastructure	15 - 45
Street infrastructure	25 - 30
Equipment	5 - 10
Vehicles	4 - 7

Right to use assets	2 - 7
Right to use SBITA	2 - 6

J. Intangible Assets

Intangible assets are reported in the business-type activities column in the government-wide financial statements as well as in the proprietary fund statement of net position. Intangible assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years are recorded at historical cost or estimate historical cost if purchased or constructed. Once placed into service, the intangible asset is amortized over its estimated useful life.

K. Leases and Subscription-Based Information Technology Arrangements

The Town is has agreements noncancellable leases of equipment, vehicles and subscription-based informtion technology arrangements (SBITAs). The Town recognizes related liabilities and an intangible right-to-use assets in the government-wide financial statements. The Town recognizes liabilities with an initial, individual value of \$5,000 or more.

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

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

- The Town uses the interest rate charged by the vendor as the discount rate. When the interest rate charged is not provided, the Town generally uses its estimated incremental borrowing rate as the discount rate.
- The agreement term includes the noncancellable period of the lease or SBITA.
- The agreed upon payments included in the measurement of the liability are composed of fixed payments and purchase option price that the Town is reasonably certain to exercise.

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

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

The Town is a lessor for noncancellable leases and recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the Town initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease 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 Town determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Town 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 Town monitors changes in circumstances that would require a remeasurement of its leases 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.

L. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

M. Pension

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.

N. Health Claims Liability

The Health Insurance internal service fund includes an estimate of liabilities for self-insured claims incurred but not reported and are expected to be paid within one year. The liability is estimated and included in accounts payable and accrued expenses in the statement of net position.

O. Long-Term Obligations

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

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

P. Net Position and Fund Balance

In the government-wide and proprietary fund financial statements, the Town reports restrictions of net position for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Net investment in capital assets represents the Town's investment in the book value of capital assets, less any unspent proceeds from capital-related debt issuances. Unrestricted net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

In the fund financial statements, governmental funds report fund balance categorized as follows:

Nonspendable fund balance includes amounts that are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes determined and approved by passage of a formal resolution of the Town's highest level of decision-making authority, the Town Council. Commitments may be changed or lifted only by the Town taking the same formal action that imposed the constraint originally. In accordance with the Town Charter, an amount equal to 20% of total general fund expenditures has been identified as committed for a contingency reserve.

Assigned fund balance includes amounts intended to be used by the Town for specific purposes. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. In the General Fund, assigned fund balance is either designated by the Town Manager or represents a fund balance drawdown adopted for the upcoming year's budget.

Unassigned fund balance is the residual classification of the general fund and includes all amounts not contained in the other classifications. The general fund is the only fund that reports a positive unassigned fund balance amount.

Net Position Flow Assumption

Sometimes the Town 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 Town's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

Sometimes the Town 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 Town'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.

Q. Revenues and Expenditures/Expenses

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 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 program revenues.

Property Taxes

Property taxes are levied by October 1, due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. The combined tax rate to finance general governmental services and interest and sinking fund requirements for the year ended September 30, 2025 was \$0.505 per \$100 of valuation.

Property taxes are based on the appraised values provided by the Collin County or Denton County Central Appraisal Districts, whichever is applicable. Penalty on unpaid taxes accrues after February 1 up to the date collected by the Town at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the Town. 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 Town. The Town's current policy is to write-off uncollectible personal property taxes after four years.

Under state law, property tax levies are divided into a debt service (DS) levy and a maintenance and operations (M&O) levy. Each category of levy has its own unique restrictions and requirements under state law. M&O tax revenue excluding the impact of new construction may only grow 3.5% per year unless approved by the voters. Total tax levy may not exceed \$2.50 per hundred dollars of valuation.

Sales Tax

Sales and use tax is authorized under state law with 6.25% reserved for the state and up the 2% available for local government. Currently three Prosper entities collect sales tax. The town collects 1.5% which includes the 1% municipal levy and 0.5% 4B economic development levy provided to PEDC. In addition, two Special Purpose Districts (SPD) Prosper Crime Control and Prosper Fire Prevention and EMS District each have a 0.25% levy for a total local levy of 2%. The two SPD's were approved by the voters in 2023 for an additional 20 years (until 2043).

The State of Texas utilizes origin-based servicing for municipal sales tax. Under this approach sales and use tax is sourced to the taxing jurisdiction in which the selling business is located regardless of where in the state the purchaser resides or the product is shipped. Origin-based sourcing can produce large individual sales and use tax remitters in specific jurisdictions.

Proprietary Funds Operating and Non-operating Revenues and Expenses

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

R. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates included in the financial statements are depreciation expense which is based on the estimated useful lives of the underlying depreciable assets, allowances for doubtful accounts receivables and net pension liability and pension expense which are based on various actuarial assumptions.

S. Recent Accounting Pronouncements

The Town has reviewed GASB pronouncements which become effective in the current or future years and notes the following statements are applicable to the Town.

Statement No. 101, *Compensated Absences* - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement was implemented in fiscal year 2025. Due to accrual caps, vacation buyback programs, and a LIFO flow assumption on sick time, the Town determined that there was no material change in liabilities and no restatement of prior financial statements were necessary.

Statement No. 102, *Certain Risk Disclosures* - While governments currently disclose certain financial risks, other risks are not required to be disclosed per current standards. The objective of this statement is to provide clear guidance for disclosure of risks related to concentrations and constraints. The statement was implemented in fiscal year 2025 and had no effect on the Town's financial statements.

GASB Statement No. 103, *Financial Reporting Model Improvements*, will improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The Town is currently evaluating the impact of this Statement.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, will provide users of governmental financial statements with essential information about certain types of capital assets to be disclosed separately in the capital assets note disclosures, such as lease and subscription assets. The Statement also requires for additional disclosures for capital assets held for sale. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The Town is currently evaluating the impact of this Statement.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The Town's fiscal year is from October 1st to September 30th. Beginning October 1st, the approved budgets are appropriated to the various funds and departments. Amendments may be made to the budget during the fiscal year in accordance with Town Charter provisions. These amendments shall be by ordinance and shall become an attachment to the original budget. The Town budgets for revenues and expenditures on a yearly basis. The final adoption of the Annual Budget takes place in September and the new fiscal year begins October 1. Final adoption of the budget by the Town Council constitutes the official appropriations as proposed by expenditures for the current year and constitute the basis of official levy of the property tax as the amount of tax to be assessed and collected for the corresponding tax year.

The Town Manager submits the proposed budget to Town Council, and it is made public for review. The proposed operating budget includes proposed expenditures and the means of financing them. This culminates into Town Council public hearings in August or September. At this time, the Town Council may further revise the proposed budget as it deems necessary. The final adoption of the Annual Budget takes place in September when the budget is legally enacted through the passage of an ordinance.

The budgetary and accounting policies contained in the budget document conform to GAAP for governmental funds as established by the GASB, except for the effect of encumbrances and unrealized investment gains and losses, which are adjusted to the actual results for this comparison. The accounts of the Town are organized on the basis of funds and account groups, each of which is considered a separate budgetary and accounting entity. Budgetary control is maintained at the fund level with the Town Manager given the authority to transfer appropriations between departments provided that total appropriations for the fund are not exceeded.

Budgets are legally adopted for Governmental funds (General Fund, Impact Fee Fund, Debt Service Fund, Court Technology Fund, Court Security Fund, Parks Dedication Fund, Parks Improvement Fund, Crime Control Special Purpose District Fund, Fire Prevention and EMS Special Purpose District Fund, TIRZ 1 Fund, TIRZ 2 Fund, Municipal Jury Fund and Contributions Fund) and Proprietary Funds (Water and Sewer Fund, Solid Waste Fund, Stormwater Drainage Fund and Internal Service Funds).

Budgetary comparison statements are presented for the General Fund and for each major special revenue fund as part of the basic financial statements. The Capital Projects Fund is budgeted over the life of the respective project and not on an annual basis. The Escrow Fund does not have a legally adopted budget. Accordingly, formal budgetary integration of these funds is not employed and comparison of actual results of operations to budgetary data for such funds is not presented.

III. DEPOSITS AND INVESTMENTS

Deposits

State statutes require that all deposits in financial institutions be fully guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or secured by obligations governmental entities as authorized in the Public Funds Collateral Act. All deposits of the Town that exceeded the federal depository insurance coverage level of \$250,000 were covered by pledged marketable securities held by an independent custodian or letters of credit issued by a Federal Agency or Instrumentality. The fair value of the security collateral and redemption value of letters of Credit held at September 30, 2025 exceeded the value of all deposits.

At September 30, 2025, the carrying amount of the Town's deposits was \$28,102,956, which includes PEDC deposits of \$90,986. Bank balances totaled \$28,039,409. Cash on hand totaled \$6,710. The Town also has investments in government pools at September 30, 2025, totaling \$177,261,824, including PEDC's share of \$17,015,739, which are recorded at amortized cost.

Investments

The Town is authorized to invest in the following: Obligations of the US Government, its agencies and instrumentalities, excluding mortgage-backed securities, with a stated maximum maturity of three years; general debt obligations of any US state or political subdivision rated A+ or better with a stated maximum maturity of three years; fully insured or collateralized certificates of deposit from banks in Texas with a maximum maturity of three years, insured by the Federal Deposit Insurance Corporation (FDIC), or its successor, or collateralized in accordance with the Town's investment policy to include spread products within these banks; share certificates from credit unions in Texas insured by the National Credit Union Share Insurance Fund with a maximum stated maturity of two years; fully insured or collateralized demand deposits in any bank in Texas insured by the FDIC or its successor or collateralized in accordance with the Town's investment policy to include spread products within these banks; FDIC insured brokered certificate of deposit securities from a bank in any US state, delivered versus payment to the Town's safekeeping/custody account and not to exceed one year to stated final maturity; AAA-rated, SEC registered, money market mutual funds striving to maintain a \$1 net asset value (NAV); AAA-rated Texas local government investment pools which strive to maintain a \$1 net asset value (NAV) operated in accordance with the public funds investment act and authorized by resolution of the Town Council; A1/P1 commercial paper with a maximum stated maturity of 270 days; fully collateralized repurchase agreements as defined by the public funds investment act with a defined termination date, executed with a primary dealer under an industry standard master repurchase agreement, and collateralized in accordance with the Town's investment policy. For additional information see the Town of Prosper's Investment Policy at www.prosper.tx.gov.

The Town's investments carried at fair value as of September 30, 2025, were:

	Carrying Value	Weighted Average Maturity (days)
Investment type:		
U.S. Agency (FFCB)	\$ 5,023,500	966
U.S. Agency (FHLB)	\$ 12,025,900	794
U.S. Agency (FHLMC)	\$ 5,003,500	808
U.S. Agency (FNMA)	\$ 7,757,363	910
Total	<u>\$ 29,810,263</u>	
Portfolio weighted average to maturity		856

Under the Texas Local Government Investment Pool ("TexPool") Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. TexPool invests in treasury and agency securities and repurchase agreements fully collateralized by government securities. The pool seeks to maintain a constant dollar objective. The reported value of the pool is the same as the fair value of the pool shares. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office. Due to its short-term, highly liquid nature, TexPool investments have been reported as cash equivalents. TexPool is rated AAAM by Standard and Poor's and carries a weighted average maturity of 41 days.

The Texas Short-Term Asset Reserve Investment Pool ("TexSTAR") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with Hilltop Securities. TexSTAR invests in treasury and agency securities and repurchase agreements fully collateralized by government securities. The pool seeks to maintain a constant dollar objective. The reported value of the pool is the same as the fair value of the pool shares. Due to its short-term, highly liquid nature, investments in TexSTAR have been reported as cash equivalents. TexStar is rated AAAM by Standard and Poor's and carries a weighted average maturity of 54 days.

TexStar and TexPool have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the Town's deposits may not be returned to the Town. The Town's policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law; or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the FDIC and pledged marketable securities or letters of credit. The Town is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged marketable securities or letters of credit.

In compliance with the Public Funds Investment Act and Public Funds Collateral Act, the Town has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or deposits. The Town utilizes an independent, third-party custodian to hold all pledged marketable securities and an independent, third-party safekeeping agent to settle and hold all investment securities. The Town's investments are in US Government bonds.

Credit Risk – This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The Town's investment policy establishes credit rating minimums for various

investment-types. The credit quality rating for both TexPool and TexSTAR at year end was AAAm by Standard & Poor's.

The Town's US Government bonds each had a long-term rating of Aaa by Moody's and AA+ by S&P.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Town manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio; structuring the investment portfolio so that investments matured to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements; and investing operating funds primarily in short-term deposits, securities, money market mutual funds or local government investment pools. The maximum of any investment shall be three years and the maximum weighted average maturity of the overall portfolio may not exceed two years.

Foreign Currency Risk – This is the risk that exchange rates will adversely affect the fair value of an investment. The Town is not exposed to foreign currency risk.

Concentration of Credit Risk – This is the risk of a loss attributed to the magnitude of a government's investment in a single issuer (i.e., lack of diversification). As of September 30, 2025, the Town minimized concentration of credit risk by: staggering maturities and potential call dates; investing in securities with active secondary markets; and investing in eligible financial institution deposit accounts, money market mutual funds and local government investment pools. The Town's investments and their percentage of net portfolio assets are stated below.

Investment Type	Carrying Value	% of Total Portfolio
Investment Pool - TexSTAR	\$ 74,981,980	44.85%
Investment Pool - TexPool	62,375,013	37.31%
U.S. Agency (FFCB)	5,023,500	3.01%
U.S. Agency (FHLB)	12,025,900	7.19%
U.S. Agency (FHLMC)	5,003,500	2.99%
U.S. Agency (FNMA)	7,757,363	4.65%
Total	<u>\$ 167,167,256</u>	<u>100.00%</u>

IV. FAIR VALUE MEASUREMENTS

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs other than quoted market prices for similar assets; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of September 30, 2025:

	Fair value	Fair Value Measurements Using	
		Level 1	Level 2
Investments by fair value level			
Federal Farm Credit Bank	\$ 5,023,500	\$ 5,023,500	\$ -
Federal Home Loan Bank	12,025,900	12,025,900	-
Federal Home Loan Mortgage Corp	5,003,500	5,003,500	-
Federal National Mortgage Association	7,757,363	7,757,363	-
Total Fair Value	<u>\$ 29,810,263</u>	<u>\$ 29,810,263</u>	<u>\$ -</u>

V. RECEIVABLES

The Town's taxes receivables as of September 30, 2025 consisted of the following:

	Governmental Activities			
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 182,707	\$ 97,655	\$ -	\$ 280,362
Sales tax	2,063,630	-	1,470,793	3,534,423
Gross receivables	2,246,337	97,655	1,470,793	3,814,785
Less: allowance for uncollectible	(3,654)	(1,953)	-	(5,607)
Net receivables	<u>\$ 2,242,683</u>	<u>\$ 95,702</u>	<u>\$ 1,470,793</u>	<u>\$ 3,809,178</u>

The Town's accounts receivable as of September 30, 2025 consisted of the following:

	Governmental Funds			Proprietary Funds				Total
	General Fund	Capital Projects	Nonmajor Governmental Funds	Water and Sewer Fund	Solid Waste	Stormwater Drainage Fund	Internal Service Funds	
Ambulance	\$ 1,429,243	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,429,243
Franchise fees	492,544	-	-	-	-	-	-	492,544
Intergovernmental	429,133	4,471,240	-	767,056	-	-	-	5,667,429
Municipal court	83,194	-	-	-	-	-	-	83,194
Utility bills	-	-	-	5,580,468	303,119	165,380	-	6,048,967
Other receivables	118,629	-	16,209	423,060	-	-	287,409	845,307
Gross receivables	2,552,743	4,471,240	16,209	6,770,584	303,119	165,380	287,409	14,566,684
Less: allowance for uncollectible	(876,610)	-	-	(594,355)	-	-	-	(1,470,965)
Net receivables	<u>\$ 1,676,133</u>	<u>\$ 4,471,240</u>	<u>\$ 16,209</u>	<u>\$ 6,176,229</u>	<u>\$ 303,119</u>	<u>\$ 165,380</u>	<u>\$ 287,409</u>	<u>\$ 13,095,719</u>

VI. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2025 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Governmental activities:					
Capital assets not being depreciated/amortized:					
Land	\$ 113,313,852	\$ 13,539,163	\$ -	\$ -	\$ 126,853,015
Construction in progress	85,871,844	41,545,498	-	(50,339,596)	77,077,746
Total capital assets not being depreciated/amortized	199,185,696	55,084,661	-	(50,339,596)	203,930,761
Capital assets being depreciated/amortized:					
Buildings and improvements	90,345,344	200,150	-	5,563,948	96,109,442
Equipment	23,602,001	3,376,162	-	1,798,017	28,776,180
Infrastructure	298,208,884	13,605,711	-	42,977,631	354,792,226
Right to use assets: Vehicles and Equipment	5,105,562	525,728	-	-	5,631,290
Right to use assets: SBITA	1,301,043	137,308	(353,193)	-	1,085,158
Total assets being depreciated/amortized	418,562,834	17,845,059	(353,193)	50,339,596	486,394,296
Less accumulated depreciation/amortization for:					
Buildings and improvements	(18,987,066)	(2,712,869)	-	-	(21,699,935)
Equipment	(10,714,084)	(1,858,524)	-	-	(12,572,608)
Infrastructure	(65,400,648)	(10,324,164)	-	-	(75,724,812)
Right to use assets: Vehicles and Equipment	(2,578,353)	(789,448)	-	-	(3,367,801)
Right to use assets: SBITA	(633,117)	(475,854)	353,193	-	(755,778)
Total accumulated depreciation/amortization	(98,313,268)	(16,160,859)	353,193	-	(114,120,934)
Total capital assets being depreciated/amortized, net	320,249,566	1,684,200	-	50,339,596	372,273,362
Governmental activities capital assets, net	<u>\$ 519,435,262</u>	<u>\$ 56,768,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 576,204,123</u>

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated/amortized:					
Land	\$ 2,601,366	\$ -	\$ -	\$ -	\$ 2,601,366
Construction in progress	27,139,329	45,080,656	-	(27,487,329)	44,732,656
Total capital assets, not being depreciated/amortized	29,740,695	45,080,656	-	(27,487,329)	47,334,022
Capital assets being depreciated/amortized:					
Buildings and systems	325,418	722,521	-	-	1,047,939
Vehicles and equipment	3,013,258	104,294	-	-	3,117,552
Infrastructure	257,857,199	31,967,767	-	27,487,329	317,312,295
Intangible Asset	15,744,809	-	-	-	15,744,809
Total assets being depreciated/amortized	276,940,684	32,794,582	-	27,487,329	337,222,595
Less accumulated depreciation/amortization for:					
Buildings and systems	(270,988)	(7,840)	-	-	(278,828)
Vehicles and equipment	(874,308)	(199,282)	-	-	(1,073,590)
Infrastructure	(45,260,623)	(8,238,642)	-	-	(53,499,265)
Intangible Asset	(2,516,326)	(314,964)	-	-	(2,831,290)
Total accumulated depreciation/amortization	(48,922,245)	(8,760,728)	-	-	(57,682,973)
Total capital assets being depreciated/amortized, net	228,018,439	24,033,854	-	27,487,329	279,539,622
Business-type activities capital assets, net	\$ 257,759,134	\$ 69,114,510	\$ -	\$ -	\$ 326,873,644

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Component Unit:					
Capital assets not being depreciated:					
Land	\$ 8,218,868	\$ 2,869,491	\$ (1,392,338)	\$ -	\$ 9,696,021
Total capital assets not being depreciated	\$ 8,218,868	\$ 2,869,491	\$ (1,392,338)	\$ -	\$ 9,696,021

Depreciation/amortization expense for the year ended September 30, 2025 was charged to functions/programs of the primary government as follows:

Governmental activities:

Administration	\$ 1,087,870
Police	1,325,278
Fire	1,534,266
Development Services	35,361
Public Works	10,441,463
Community Services	1,714,871
Engineering	21,750
Total	<u>\$ 16,160,859</u>

Business-type activities:

Water and sewer	\$ 5,991,412
Solid Waste	138,101
Stormwater drainage utility	2,631,215
Total	<u>\$ 8,760,728</u>

As of September 30, 2025, the Town's only intangible asset was related to wastewater treatment capacity rights acquired from the Upper Trinity Regional Water District (UTRWD). Although the capacity rights were initially acquired in March 2014, the related plant facility was placed into service as of September 30, 2017, and in the current year amortization of \$314,964 has been recognized in these financial statements. In fiscal year 2024, the Town entered into an amended agreement with UTRWD for increased capacity as part of their plant expansion. As of September 30, 2025, \$37,386,712 had been expended towards this project which is recorded as a construction in progress asset.

VII. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The outstanding balances between funds result mainly from the time lag between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund balances at September 30, 2025 were as follows:

Payable Fund	Receivable Fund	Amount	Purpose
General fund	Capital projects	\$ 31,451	Short-term loans

On April 30, 2024, the Water and Sewer Fund loaned \$2,000,000 to the Solid Waste Fund for the purchase of 95-gallon trash containers. This interfund note bears interest at 5.25% and will be repaid through monthly payments over a period of ten years.

Interfund notes balances at September 30, 2025 were as follows:

Payable Fund	Receivable Fund	Amount	Purpose
Solid Waste	Water and Sewer	\$ 1,762,541	Long-term loan

Interfund transfers made during the fiscal year were as follows:

Transfer From	Transfer To	Amount	Purpose
Water and Sewer	Stormwater Drainage	\$ 225,294	Capital Outlay
General Fund	Health Insurance	1,961,000	Contribution
Contributions	Capital Projects	1,150,000	Capital Outlay
Park Dedication	Capital Projects	1,115,050	Capital Outlay
Park Improvement	Capital Projects	465,000	Capital Outlay
Impact Fees	Capital Projects	7,558,982	Capital Outlay
Water and Sewer	General Fund	1,320,700	Administration
Water and Sewer	Health Insurance	196,807	Contribution
Water and Sewer	Vehicle & Equipment Replacement	189,166	Capital Outlay
Stormwater Drainage	General Fund	157,996	Administration
Stormwater Drainage	Vehicle & Equipment Replacement	86,025	Capital Outlay
Total		<u>\$ 14,426,020</u>	

VIII. LONG-TERM LIABILITIES

The Town issues general obligation bonds, certificates of obligations, and revenue bonds to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds and certificates of obligation have been issued for both governmental and business-type activities. Revenue bonds have been issued for business-type activities. The certificates of obligation will be repaid by the debt service fund in combination with system revenues. The revenue bonds will be repaid by system revenues.

The Town issued General Obligation Refunding and Improvement Bonds, Series 2025 in the amount of \$33,355,000 for purposes of constructing and improving streets, roads, and other related infrastructure in the Town as well as a refunding portion. Waterworks and Sewer System Revenue Bonds, Series 2024 were issued in the amount of \$33,095,000 for constructing and improving the Town's waterworks and sewer system. Each bond issuance has coupon interest rates between 4% to 5% and will mature over the next 20 years.

On September 17, 2025, as part of the Series 2025 General Obligation issuance, the Town refunded portions of the General Obligation, Series 2014 and 2015, and the Certificates of Obligation, Series 2015. The net proceeds from the new debt have been placed in an irrevocable escrow account to be paid at the time of redemption. Thus, the old bonds are considered defeased and have been removed from the Town's financial statements. The Town completed the refunding to reduce its total debt service payments by \$909,955 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$707,943.

The following is a summary of long-term liabilities for the year ended September 30, 2025:

	Beginning Balance	Issued	Refunded/ Retired	Ending Balance	Amount Due Within One Year
<u>Governmental activities:</u>					
Compensated absences	\$ 3,374,112	\$ 3,171,167	\$ (2,803,952)	\$ 3,741,327	\$ 935,332
Net pension liability	6,389,243	3,475,075	(4,527,156)	5,337,162	-
Bonds	203,949,897	27,975,000	(20,264,466)	211,660,431	12,688,512
Bond premium on issuance	12,258,535	1,840,575	(2,893,434)	11,205,676	-
Leases payable	708,962	498,563	(340,866)	866,659	336,971
SBITA payable	413,774	137,309	(374,424)	176,659	100,063
Total governmental	<u>227,094,523</u>	<u>37,097,689</u>	<u>(31,204,298)</u>	<u>232,987,914</u>	<u>14,060,878</u>
<u>Business-type activities:</u>					
Compensated absences	298,887	264,260	(222,584)	340,563	85,140
Net pension liability	828,509	445,184	(584,552)	689,141	-
Bonds	74,060,104	38,475,000	(9,620,535)	102,914,569	3,831,489
Bonds premium on issuance	4,218,692	2,311,054	(791,284)	5,738,462	-
Total business-type activities	<u>79,406,192</u>	<u>41,495,498</u>	<u>(11,218,955)</u>	<u>109,682,735</u>	<u>3,916,629</u>
Total primary government	<u>\$ 306,500,715</u>	<u>\$ 78,593,187</u>	<u>\$ (42,423,253)</u>	<u>\$ 342,670,649</u>	<u>\$ 17,977,507</u>

The compensated absences liabilities in the governmental activities are liquidated by the General fund.

Net pension liability for governmental-type funds are recorded at the government-wide statement level and are primarily liquidated in the General Fund. Liabilities for the proprietary type activities are recorded and liquidated in the fund that incurs the liability.

Waterworks and Sewer System Revenue Bonds are to be repaid by the revenue of the water and sewer system. As of September 30, 2025, the Town had a reserve requirement of \$1,346,800 related to Waterworks and Sewer System Revenue Bonds.

Certificates of Obligation are intended to be repaid by the revenue of the combined utility system and any special funds established by the debt ordinances. The ordinances provide that the revenue of the system is to be used, first, to pay operating and maintenance expenses of the system and, second, to establish required funds.

The Town's general obligation bonds and certificates of obligation contain a provision that in an event of default, creditors may seek a writ of mandamus to compel Town officials to carry out their legally imposed duties with respect to debt. As outstanding debt does not become immediately due, the remedy of mandamus may have to be relied upon from year to year.

Bonds and certificates of obligation at September 30, 2025 are comprised of the following issues to be repaid from the Debt Service Fund, the Water and Sewer Fund, and the Stormwater Drainage Fund. All outstanding general obligation debt of the Town at September 30, 2025 is secured by an ad valorem tax pledge.

	Governmental Activities	Business-Type Activities	Total
2014 General Obligation Improvement Bonds issued February 15, 2014, maturing February 15, 2034. Interest payable February 15 and August 15 at rates ranging from 2.0% to 5.0%.	\$ 550,000	\$ -	\$ 550,000
2014 Certificates of Obligation issued February 15, 2014, maturing February 15, 2034. Interest payable February 15 and August 15 at rates ranging from 2.0% to 4%.	-	1,325,000	1,325,000
2015 General Obligation Refunding and Improvement Bonds issued July 15, 2015, maturing February 15, 2035. Interest payable February 15 and August 15 at rates ranging from 2.0% to 5.0%	1,444,300	530,700	1,975,000
2016 General Obligation Refunding and Improvement Bonds issued July 12, 2016, maturing February 15, 2036. Interest payable February 15 and August 15 at rates ranging from 2.0% to 4.0%.	3,310,000	-	3,310,000
2016 Certificates of Obligation issued July 12, 2016, maturing February 15, 2036. Interest payable February 15 and August 15 at rates ranging from 2.0% to 4.0%.	6,305,000	835,000	7,140,000
2017 Certificates of Obligation issued June 27, 2017, maturing February 15, 2037. Interest payable February 15 and August 15 at rates ranging from 2.0% to 5.0%.	7,745,000	690,000	8,435,000
2018 General Obligation Refunding Bonds issued June 15, 2018, maturing February 15, 2038. Interest payable February 15 and August 15 at rates ranging from 4.0% to 5.0%.	2,915,000	-	2,915,000
2018 Certificates of Obligation issued June 15, 2018, maturing February 15, 2038. Interest payable February 15 and August 15 at rates ranging from 3.125% to 5.0%.	9,225,000	7,300,000	16,525,000
2019 General Obligation Improvement Bonds issued July 25, 2019, maturing February 15, 2039. Interest payable February 15 and August 15 at rates ranging from 3.0% to 4.0%.	3,125,000	-	3,125,000
2019 Certificates of Obligation issued July 25, 2019, maturing February 15, 2039. Interest payable February 15 and August 15 at rates ranging from 3.0% to 5.0%.	10,066,131	3,403,869	13,470,000
2020 Certificates of Obligation issued July 30, 2020, maturing February 15, 2040. Interest payable February 15 and August 15 at rates ranging from 3.0% to 4.0%.	8,875,000	-	8,875,000

	Governmental Activities	Business-Type Activities	Total
2021 General Obligation Improvement Bonds issued August 15, 2021, maturing February 15, 2041. Interest payable February 15 and August 15 at rates ranging from 2.0% to 5%.	30,460,000	-	30,460,000
2021 Certificates of Obligation issued August 15, 2021, maturing February 15, 2041. Interest payable February 15 and August 15 at rates ranging from 2.0% to 5%.	5,775,000	-	5,775,000
2022 General Obligation Improvement Bonds issued August 15, 2022, maturing February 15, 2042. Interest payable February 15 and August 15 at rates ranging from 4.0% to 5.0%.	27,720,000	-	27,720,000
2022 Certificates of Obligation issued October 1, 2022, maturing August 15, 2042. Interest payable February 15 and August 15 at rates ranging from 4.75% to 5.0%.	-	11,585,000	11,585,000
2023 General Obligation Improvement Bonds issued September 28, 2023, maturing February 15, 2043. Interest payable February 15 and August 15 at rates ranging from 4.0% to 5.0%.	34,345,000	2,380,000	36,725,000
2023 Certificates of Obligation issued September 28, 2023, maturing August 15, 2043. Interest payable February 15 and August 15 at rates ranging from 4.0% to 5.0%.	-	7,745,000	7,745,000
2024 General Obligation Bonds issued September 19, 2024 maturing February 15, 2044. Interest payable February 15 and August 15 at rates ranging from 4.0% to 5.0%.	31,825,000	-	31,825,000
2024 Waterworks and Sewer System Revenue Bonds issued September 19, 2024, maturing August 15, 2044. Interest payable February 15 and August 15 at rates ranging from 4.0% to 5.0%.	-	28,645,000	28,645,000
2025 General Obligation Bonds issued September 17, 2025 maturing February 15, 2045. Interest payable February 15 and August 15 at rates ranging from 4.0% to 5.0%.	27,975,000	5,380,000	33,355,000
2025 Waterworks and Sewer System Revenue Bonds issued September 17, 2025, maturing August 15, 2045. Interest payable February 15 and August 15 at rates ranging from 4.0% to 5.0%.	-	33,095,000	33,095,000
	\$ 211,660,431	\$ 102,914,569	\$ 314,575,000

The annual requirements to amortize the combined debt outstanding for the Debt Service Fund, Stormwater Drainage Fund and Water and Sewer Fund as of September 30, 2025, are as follows:

Year Ended September 30,	Governmental Activities		Business-Type Activities		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2026	\$ 12,688,512	8,528,361	\$ 3,831,489	\$ 4,628,212	\$ 16,520,001	\$ 13,156,573
2027	10,602,894	8,101,930	4,637,106	4,625,945	15,240,000	12,727,875
2028	11,125,313	7,583,105	4,774,687	4,387,670	15,900,000	11,970,775
2029	11,666,469	7,035,862	5,008,532	4,151,062	16,675,001	11,186,924
2030	11,295,097	6,486,248	5,164,903	3,906,602	16,460,000	10,392,850
2031-2035	63,760,506	24,455,254	28,079,492	15,635,030	91,839,998	40,090,284
2036-2034	60,841,640	11,629,416	27,653,360	9,216,431	88,495,000	20,845,847
2041-2045	29,680,000	2,192,453	23,765,000	2,961,482	53,445,000	5,153,935
Total	<u>\$ 211,660,431</u>	<u>\$ 76,012,629</u>	<u>\$ 102,914,569</u>	<u>\$ 49,512,434</u>	<u>\$ 314,575,000</u>	<u>\$ 125,525,063</u>

Lease Liability

As of September 30, 2025, Prosper, TX had eleven active leases that allow the right-to-use the vendor's assets over the lease term. The rate, term and ending liability are as follows:

Purpose	Interest Rate	Initial Year	Monthly Terms	Amount of Initial Liability	Amounts Outstanding 09/30/25	Amounts Due Within One Year
Leases:						
Flock 1 - Falcon LPRs	3.451%	2024	60	\$ 568,947	\$ 342,120	\$ 110,193
Flock 2 - 24ft Trailer	2.838%	2025	36	58,213	38,359	18,911
Flock 2 - 30ft Trailer	2.838%	2025	36	61,123	40,277	19,857
Flock 2 - Condor	2.838%	2025	36	52,391	34,523	17,020
Flock 2 - Falcon	2.838%	2025	36	139,710	92,063	45,387
Flock 2 - Flock911	2.838%	2025	36	58,213	38,359	18,911
Flock 2 - Livestream	2.838%	2025	36	1,455	959	473
Flock 2 - VMS	2.838%	2025	36	8,103	5,340	2,632
Flock 3 - 24ft Trailer	2.838%	2024	36	58,222	38,359	18,911
Flock 3 - 30ft Trailer	2.838%	2024	36	61,133	40,277	19,857
Striker Medical Devices	0.804%	2021	73	453,788	196,023	64,819
Totals					<u>\$ 866,659</u>	<u>\$ 336,971</u>

Annual requirements to amortize the lease liability for the General Fund as of September 30, 2025, are as follows:

Year Ended September 30,	Governmental Activities	
	Principal	Interest
2026	\$ 336,971	\$ 22,706
2027	345,893	13,786
2028	183,795	4,599
Total	<u>\$ 866,659</u>	<u>\$ 41,091</u>

SBITA Liability

As of September 30, 2025, Prosper, TX had four active subscriptions that allow the right-to-use the SBITA vendors' information technology software over the subscription term. The SBITA rate, term and ending liability are as follows:

Purpose	Interest Rate	Initial Year	Monthly Terms	Amount of Initial Liability	Amounts Outstanding 09/30/25	Amounts Due Within One Year
Right to Use:						
ESRI - GIS	3.207%	2025	37	\$ 137,309	\$ 86,230	\$ 42,435
CDW	2.702%	2023	66	95,904	48,557	15,756
Flock - Analytics	3.018%	2024	36	69,911	23,297	23,297
TargetSolutions	3.591%	2024	36	53,074	18,575	18,575
Totals					<u>\$ 176,659</u>	<u>\$ 100,063</u>

Annual requirements to amortize the SBITA liability for the General Fund as of September 30, 2025, are as follows:

Year Ended September 30,	Governmental Activities	
	Principal	Interest
2026	\$ 100,063	\$ 5,448
2027	59,977	2,291
2028	16,619	449
Total	<u>\$ 176,659</u>	<u>\$ 8,188</u>

IX. RESTRICTED ASSETS

The balances of restricted asset accounts as of September 30, 2025 are as follows:

	Cash	Investments	Reason for restriction
Business-type activities:			
Water and Sewer fund	\$ 55,905,967	\$ 3,603,341	Capital projects (unspent bond proceeds)
Water and Sewer fund	1,346,800	-	Debt service
Water and Sewer fund	8,426,413	2,573,535	Impact fees
Total business-type activities	<u>\$ 65,679,180</u>	<u>\$ 6,176,876</u>	
Governmental activities:			
Impact Fees fund	\$ 6,661,803	\$ 2,028,965	Impact fees
Debt Service fund	1,030,731	315,612	Debt service
Capital Projects fund	52,931,690	13,363,073	Capital projects (unspent bond proceeds)
Escrow Fund	4,794,240	1,464,038	Customer deposits/escrow
Nonmajor governmental funds	4,268,191	1,303,886	Special revenue funds
Total governmental activities	<u>\$ 69,686,655</u>	<u>\$ 18,475,574</u>	

X. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located in Texas. The Town pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and the Property-Liability Fund are considered self-sustaining risk pools that provide coverage for their members for up to \$2,000,000 per insured event. The Town also maintains insurance coverage for cyber-attacks. There were no significant reductions in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage in any of the past three years.

The Town of Prosper initiated a self-funded health and dental plan effective January 1, 2017 for Town Employees and their dependents. The Town maintains the Health Insurance Fund to account for the Town's employee health and dental care coverage. In addition, excess insurance of up to \$1,000,000 has been obtained for an individual unit health and prescription drugs claims exceeding \$75,000 and for health claims in the aggregate exceeding \$4,573,109. The Town's claim administrator is UMR.

Revenues are recognized from payroll deductions and Town contributions. At September 30, 2025, a liability of \$395,360 has been recorded, which represents estimated claims incurred but not yet reported. Changes in this claims liability during fiscal years 2023, 2024, and 2025 respectively were as follows

Fiscal Year	Beginning Balance	Current Year Claims	Claim Payments	Ending Balance
2023	\$ 156,854	\$ 2,207,581	\$ 2,190,249	\$ 174,186
2024	174,186	2,210,359	2,175,697	208,848
2025	208,848	5,215,397	5,028,885	395,360

XI. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

As a municipality exceeding 25,000 population, the town is required to provide its retirees health insurance coverage but can recover up to the full cost of that coverage. The Town has adopted a policy requiring retirees to pay an actuarially determined age-based rate and therefore has no OPEB liability under GASB standards.

XII. DEFINED BENEFIT PENSION PLAN

Plan Description

The Town participates as one of 900+ plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.TMRS.com.

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

Benefits Provided

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

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

Beginning in 2009, the Town granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2009, the Town provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

Employee deposit rate	7%
Matching ratio (Town to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated service credit	100% repeating, transfers
Annuity increase to retirees	70% of CPI repeating

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	53
Inactive employees entitled to but not yet receiving benefits	214
Active employees	374
Total	<u>641</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the municipal matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the municipality. Under the state law governing TMRS, the contribution rate for each municipality is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The Town's contribution rate is based on the liabilities created from the benefit plan options selected by the Town and any changes in benefits or actual experience over time.

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 14.29% and 15.01% in calendar years 2024 and 2025, respectively. The Town's contributions to TMRS for the year ended September 30, 2025, were \$5,111,708, and were equal to the required contributions. The PEDC's contributions to TMRS for the year were \$53,659 and were equal to the required contributions.

Net Pension Liability

The Town'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	2.75% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with 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. Male rates are multiplied by 103% and females rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions 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 of 6.75% was originally effective for the December 31, 2015 valuation and is periodically verified along with all other actuarial assumptions through an actuarial experience study at least every five years. The most recent experience study was approved by the TMRS Board in September 2023. The estimate is based on a weighted average calculation of the long-term rates of return expected for each asset class. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates 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 equity	35.00%	6.70%
Core fixed income	6.00%	4.70%
Non-core fixed income	20.00%	8.00%
Other public and private markets	12.00%	8.00%
Real estate	12.00%	7.60%
Hedge funds	5.00%	6.40%
Private equity	10.00%	11.60%
Total	100.00%	

Discount Rate

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

Changes in Net Pension Liability

The Town's net pension liability is generally liquidated by the General Fund and proprietary funds. The Town reported the following changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2023	\$ 54,936,012	\$ 47,718,260	\$ 7,217,752
Changes for the year:			
Service cost	6,595,686	-	6,595,686
Interest	3,899,294	-	3,899,294
Difference between expected and actual experience	199,969	-	199,969
Change in assumptions	-	-	-
Contributions - employer	-	4,642,973	(4,642,973)
Contributions - employee	-	2,274,374	(2,274,374)
Net investment income	-	5,004,596	(5,004,596)
Benefit payments, including refunds of employee contributions	(978,588)	(978,588)	-
Administrative expense	-	(31,812)	31,812
Other changes	22,755	19,022	3,733
Net changes	9,739,116	10,930,565	(1,191,449)
Balance at December 31, 2024	\$ 64,675,128	\$ 58,648,825	\$ 6,026,303

The PEDC reported the following changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2023	\$ 599,671	\$ 520,884	\$ 78,787
Changes for the year:			
Service cost	69,237	-	69,237
Interest	40,932	-	40,932
Difference between expected and actual experience	2,099	-	2,099
Change in assumptions	-	-	-
Contributions - employer	-	48,739	(48,739)
Contributions - employee	-	23,875	(23,875)
Net investment income	-	52,535	(52,535)
Benefit payments, including refunds of employee contributions	(10,273)	(10,273)	-
Administrative expense	-	(334)	334
Other changes	(22,754)	(19,773)	(2,981)
Net changes	79,241	94,769	(15,528)
Balance at December 31, 2024	<u>\$ 678,912</u>	<u>\$ 615,653</u>	<u>\$ 63,259</u>

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

	1% Decrease in Discount Rate (5.75)%	Current Single Discount Rate (6.75)%	1% Increase in Discount Rate (7.75)%
Town's net pension liability	\$ 17,756,951	\$ 6,026,303	\$ (3,362,900)
EDC's net pension liability	186,397	63,259	(35,301)
Total	<u>\$ 17,943,348</u>	<u>\$ 6,089,562</u>	<u>\$ (3,398,201)</u>

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 electronically at www.TMRS.com.

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

For the year ended September 30, 2025, the Town and component unit recognized pension expense of \$5,501,405 and \$57,750, respectively.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,247,183	\$ -
Changes in actuarial assumptions	83,465	-
Difference between projected and actual investment earnings	-	881,196
Contributions subsequent to the measurement date	3,777,721	-
Total	<u>\$ 5,108,369</u>	<u>\$ 881,196</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 13,092	\$ -
Changes in actuarial assumptions	876	-
Difference between projected and actual investment earnings	-	9,250
Contributions subsequent to the measurement date	39,656	-
Total	<u>\$ 53,624</u>	<u>\$ 9,250</u>

The Town and component unit reported \$3,777,721 and \$39,656, respectively, as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ended September 30,	Town	Component Unit
2026	\$ 397,412	\$ 4,171
2027	646,468	6,786
2028	(434,424)	(4,560)
2029	(191,704)	(2,012)
2030	31,700	333
Thereafter	-	-
Total	<u>\$ 449,452</u>	<u>\$ 4,718</u>

XIII. TAX ABATEMENTS AND ECONOMIC INCENTIVES

The Town enters into economic development agreements designed to promote development and redevelopment within the Town, spur economic improvement, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of the Town. These programs abate or rebate property tax and sales tax and include incentive payments and reductions in fees that are not tied to taxes.

The Town's economic development agreements are authorized under Chapter 380 of the Texas Local Government Code and Chapter 311 (Tax Increment Financing Act) of the Texas Tax Code. Recipients may be eligible to receive economic assistance based on the employment impact, economic impact or community impact of the project requesting assistance. Recipients receiving assistance generally commit to building or remodeling real property and related infrastructure, expanding operations or bringing targeted businesses to the Town.

General Economic Development

The Town has entered into various agreements that may rebate a flat amount or percentage of property taxes or sales tax received by the Town or repay developers for the construction of impact fee eligible projects. For fiscal year 2025, the Town rebated \$463,725 in property and sales taxes and repaid developers for infrastructure agreements with \$4,190,303 in impact fees.

Tax Increment Reinvestment Zone

The Town has established two tax increment reinvestment zone (TIRZ) districts under Chapter 311, Texas Tax Code to promote local economic development and stimulate business and commercial activity within the Town and to develop and diversify the economy of the state by eliminating unemployment and underemployment and developing or expanding commerce in the state, including the enhancement of land and the Town. Each district has a base year, and incremental property tax revenues exceeding the base year amount are collected into a special revenue fund. Additionally, other taxing entities may participate in the TIRZ districts. Each participating entity's governing body sets the percentage of increment that they will contribute to the TIRZ fund.

In December 2015, Town Council appointed a TIRZ Board to approve final projects and finance plans and to enter into a participation agreement that provides participation in the TIRZ. Unlike other contractual obligations, TIRZ grants are subject to availability of TIRZ funds, and any balance owed to a developer at the termination of the TIRZ district will no longer be considered an obligation of the Town.

The following table summarizes key statistics of each of the Town's TIRZ districts.

	TIRZ 1	TIRZ 2
Tax year established	2008	2012
Town's participation	70%	70%
Other taxing entities	Collin County	Collin County
Participating	50%	50%
Tax year terminates	2045	2037

The development agreement for TIRZ 1 provides for development of approximately 600 acres of land located in the Town and known as the Gates of Prosper. This agreement provides for an economic development grant of \$58,000,000 plus 3.5% interest compounded annually until paid in full or termination of the agreement. Funding for this grant is contingent upon the availability of tax revenues and impact fee revenues in TIRZ 1. Interest payments of \$859,544 and payment towards construction of \$5,207,392 were made during fiscal year 2025.

The development agreement for TIRZ 2 provides for development of approximately 157 acres of land located in the Town of Prosper at the intersection of Dallas North Tollway and US Highway 380. This agreement provided for an economic development grant of \$28,566,057 plus 3.5% interest compounded annually until paid in full or termination of the agreement. This development agreement was determined to be in default and the Town's obligation is to pay all amounts due at the time of default. No interest will be calculated from the date of default, September 22, 2020, and forward. The agreement is used as a template for reimbursements to other entities. The Town requested reimbursement of \$3,835,592 for construction of NTTA's braided ramps. The total amount outstanding at September 30, 2025 is \$4,925,988. Funding for this grant is contingent upon the availability of tax revenues and impact fee revenues in TIRZ 2. A construction payment of \$131,724 and no payment towards interest were made during fiscal year 2025.

The following is a summary of the principal balance of the infrastructure reimbursement grants and development agreements associated with the Tax Increment Reinvestment Zones:

	TIRZ 1	TIRZ 2	Total
Balance, September 30, 2024	\$ 24,558,388	\$ 1,222,120	\$ 25,780,508
Additions/adjustments	6,110,298	3,835,592	9,945,890
Payments	(6,066,937)	(131,724)	(6,198,661)
Balance, September 30, 2025	<u>\$ 24,601,749</u>	<u>\$ 4,925,988</u>	<u>\$ 29,527,737</u>

XIV. COMMITMENTS AND CONTINGENCIES

At September 30, 2025, the total estimated costs to complete significant construction projects in progress at year-end totaled approximately \$153,187,392 for the Capital Projects Fund.

XIV. SUBSEQUENT EVENTS

The following material events transpired after the reporting period but before issuance of the financial statements.

November 4, 2025:

The Town held a bond election with the following results:

- Proposition A: Streets \$92.8 million (Passed)
- Proposition B: Police \$29 million (Failed)
- Proposition C: Library \$34.2 million (Failed)
- Proposition D: Parks and Recreation \$24 million (Failed)
- Proposition E: Public Works and Parks Service Center \$10 million (Failed)
- Proposition F: Downtown Improvements \$2.3 million (Passed)

November 20, 2025:

The outstanding portion of the 2014 General Obligation Bonds, totaling \$550,000, were redeemed at par.

December 9, 2025:

Town Council approved Ordinance No. 2025-62, establishing TIRZ #3. The first TIRZ #3 board meeting was held on February 10, 2026.



REQUIRED SUPPLEMENTARY INFORMATION SECTION

TOWN OF PROSPER, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM

LAST TEN FISCAL YEARS
(UNAUDITED)

Measurement year December 31,	2015	2016	2017
Total pension liability			
Service cost	\$ 1,457,871	\$ 1,719,445	\$ 2,156,520
Interest on total pension liability	732,791	874,511	1,046,888
Difference between expected and actual experience	264,111	(103,100)	(42,762)
Change or assumptions	(14,368)	-	-
Benefit payments/refunds of contributions	(71,162)	(96,666)	(214,667)
Net change in total pension liability	<u>2,369,243</u>	<u>2,394,190</u>	<u>2,945,979</u>
Total pension liability, beginning	<u>9,775,088</u>	<u>12,144,331</u>	<u>14,538,521</u>
Total pension liability, ending (a)	<u>\$ 12,144,331</u>	<u>\$ 14,538,521</u>	<u>\$ 17,484,500</u>
Plan fiduciary net position			
Contributions - employer	\$ 914,153	\$ 1,101,478	\$ 1,526,920
Contributions - employee	539,096	623,310	794,089
Net investment income	12,145	650,853	1,650,563
Benefit payments/refunds of contributions	(71,162)	(96,666)	(214,667)
Administrative expenses	(7,392)	(7,335)	(8,534)
Other	(365)	(397)	(433)
Net change in fiduciary net position	<u>1,386,475</u>	<u>2,271,243</u>	<u>3,747,938</u>
Fiduciary net position, beginning	<u>8,224,131</u>	<u>9,610,606</u>	<u>11,881,849</u>
Fiduciary net position, ending (b)	<u>\$ 9,610,606</u>	<u>\$ 11,881,849</u>	<u>\$ 15,629,787</u>
Net pension liability = (a)-(b)	<u>2,533,725</u>	<u>2,656,672</u>	<u>1,854,713</u>
Fiduciary net position as a percentage of total pension liability	79.14%	81.73%	89.39%
Covered - employee payroll	\$ 7,701,377	\$ 8,904,427	\$ 11,344,133
Net Pension liability as a percentage of covered employee payroll	32.90%	29.84%	16.35%

2018	2019	2020	2021	2022	2023	2024
\$ 2,559,835	\$ 2,900,937	\$ 3,591,897	\$ 4,056,030	\$ 4,677,258	\$ 5,553,834	\$ 6,664,921
1,255,581	1,541,809	1,902,755	2,304,810	2,761,182	3,312,214	3,940,226
526,914	693,569	522,514	489,219	753,591	511,016	202,068
-	85,186	-	-	-	115,474	-
(326,425)	(218,532)	(220,713)	(365,014)	(434,199)	(499,558)	(988,861)
4,015,905	5,002,969	5,796,453	6,485,045	7,757,832	8,992,980	9,818,354
17,484,500	21,500,405	26,503,374	32,299,827	38,784,872	46,542,704	55,535,684
<u>\$ 21,500,405</u>	<u>\$ 26,503,374</u>	<u>\$ 32,299,827</u>	<u>\$ 38,784,872</u>	<u>\$ 46,542,704</u>	<u>\$ 55,535,684</u>	<u>\$ 65,354,038</u>
\$ 1,802,566	\$ 2,051,549	\$ 2,537,000	\$ 2,892,539	\$ 3,432,076	\$ 4,011,261	\$ 4,691,711
932,591	1,059,841	1,311,595	1,473,637	1,685,932	1,988,585	2,298,249
(469,840)	2,727,479	1,766,968	3,741,751	(2,665,583)	4,472,057	5,057,131
(326,425)	(218,532)	(220,713)	(365,014)	(434,199)	(499,558)	(988,861)
(9,048)	(15,339)	(11,377)	(17,219)	(22,912)	(28,197)	(32,146)
(473)	(460)	(445)	119	27,342	(197)	(752)
1,929,371	5,604,538	5,383,028	7,725,813	2,022,656	9,943,951	11,025,332
15,629,787	17,559,158	23,163,696	28,546,724	36,272,537	38,295,193	48,239,144
<u>\$ 17,559,158</u>	<u>\$ 23,163,696</u>	<u>\$ 28,546,724</u>	<u>\$ 36,272,537</u>	<u>\$ 38,295,193</u>	<u>\$ 48,239,144</u>	<u>\$ 59,264,476</u>
3,941,247	3,339,678	3,753,103	2,512,335	8,247,511	7,296,540	6,089,562
81.67%	87.40%	88.38%	93.52%	82.28%	86.86%	90.68%
\$ 13,304,757	\$ 15,140,587	\$ 18,737,073	\$ 20,662,405	\$ 24,084,746	\$ 28,408,360	\$ 32,832,131
29.62%	22.06%	20.03%	12.16%	34.24%	25.68%	18.55%

TOWN OF PROSPER, TEXAS

SCHEDULE OF EMPLOYER CONTRIBUTIONS TEXAS MUNICIPAL RETIREMENT SYSTEM

LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year ended September 30,	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contribution	\$ 1,073,556	\$ 1,460,414	\$ 1,739,754
Contributions in relation to the actuarially determined contribution	<u>1,072,237</u>	<u>1,431,283</u>	<u>1,739,754</u>
Contribution deficiency (excess)	1,319	29,131	-
Covered payroll	\$ 7,678,705	\$ 10,850,030	\$ 12,884,881
Contributions as a percentage of covered payroll	13.96%	13.19%	13.50%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	20 Years (longest amortization ladder)
Asset valuation method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary increases	3.60% to 11.85% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 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). Pre-retirement: PUB(10) mortality tables, with 110% of the Public Safety table used for males and 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Notes There were no benefit changes during the year.

<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
\$ 1,974,212	\$ 2,364,494	\$ 2,790,352	\$ 3,221,511	\$ 3,829,116	\$ 4,534,305	\$ 5,165,367
<u>1,974,212</u>	<u>2,364,494</u>	<u>2,790,352</u>	<u>3,221,511</u>	<u>3,829,116</u>	<u>4,534,305</u>	<u>5,165,367</u>
-	-	-	-	-	-	-
\$ 14,574,706	\$ 17,470,665	\$ 20,382,993	\$ 22,814,839	\$ 27,053,229	\$ 31,830,926	\$ 34,865,322
13.55%	13.53%	13.69%	14.12%	14.15%	14.24%	14.82%

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

THIS PAGE INTENTIONALLY LEFT BLANK

Proposed Form of Opinion of Bond Counsel

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

**TOWN OF PROSPER, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2026**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____

AS BOND COUNSEL for the Town of Prosper, Texas (the "Town"), the issuer of the above-described Bonds (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the date specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

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 Town, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered, all in accordance with law; and that, except as may be limited by laws applicable to the Town relating to governmental immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Bonds will constitute valid and legally binding special obligations of the Town, and that the principal of and interest on the Bonds, together with other outstanding revenue bonds of the Town, are payable from and secured by a lien on and pledge of Pledged Revenues of the Town's combined Waterworks and Sewer System (the "System"). The Town has reserved the right, subject to the covenants and conditions stated in the Ordinance, to issue additional revenue obligations payable from and secured by a lien on and pledge of the net revenues of the System on a parity with the Bonds. The holders of the Bonds shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation.

IT IS FURTHER OUR OPINION that, except as discussed below, the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this



opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the Town fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, 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 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Town as the taxpayer. We observe that the Town has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Town, and, in that capacity, we have been engaged by the Town for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under



the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Town, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Town as to the sufficiency of the pledged revenues of the Town. Our role in connection with the Town's Official Statement prepared for use in connection with the sale of the Bonds 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,

THIS PAGE INTENTIONALLY LEFT BLANK

Municipal Advisory Services
Provided By

