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**HTS Continuing Disclosure Services**  
A Division of Hilltop Securities  
(See “Continuing Disclosure of Information” herein)

**PRELIMINARY OFFICIAL STATEMENT**

**Dated April 14, 2026**

**Ratings:**  
**S&P: “AA+”**  
**Moody’s: “Aa2”**  
**See “OTHER INFORMATION – Ratings” herein**

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein.

**THE CERTIFICATES WILL NOT BE DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS**



**\$8,905,000\***  
**CITY OF THE COLONY, TEXAS**  
**(Denton County)**  
**COMBINATION TAX AND LIMITED SURPLUS REVENUE**  
**CERTIFICATES OF OBLIGATION, SERIES 2026**

**Dated Date: April 15, 2026**

**Due: August 15, as shown on page 2**

**Interest to accrue from Date of Delivery**

**PAYMENT TERMS** . . . Interest on the \$8,905,000\* City of The Colony, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026 (the “Certificates”), will accrue from the Date of Delivery (anticipated to be May 21, 2026), will be payable February 15 and August 15 of each year, commencing February 15, 2027, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See “THE CERTIFICATES - Book-Entry-Only System” herein. The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, Irving, Texas (see “THE CERTIFICATES - Paying Agent/Registrar”).

**AUTHORITY FOR ISSUANCE** . . . The Certificates are issued pursuant to the Texas Constitution and the general laws of the State of Texas (the “State”), particularly, Chapter 271, Subchapter C, Texas Local Government Code, as amended, and the City’s Home Rule Charter and are direct obligations of the City, payable from a combination of (i) the levy and collection of an annual ad valorem tax, within the limits prescribed by law, and (ii) a limited pledge (not to exceed \$1,000) of the surplus net revenues of the City’s waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City’s revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City’s waterworks and sewer system (see “THE CERTIFICATES – Security and Source of Payment”).

**PURPOSE** . . . Proceeds from the sale of the Certificates will be used for: (i) acquiring equipment and vehicles for the fleet, street, emergency management, facilities maintenance and community image departments of the City, (ii) constructing, improving and renovating streets, alleys, culverts and bridges, including drainage and erosion control, landscaping, screening walls, curbs, gutters, sidewalks, lighting, signage and traffic signalization incidental thereto and the acquisition of land and rights-of-way therefor, (iii) constructing, improving and equipping the City’s waterworks and sewer system and the acquisition of land and rights-of-way therefor, (iv) constructing, improving, renovating and equipping fire and police facilities and the acquisition of equipment, vehicles, land and rights-of-way therefor, (v) constructing and improving flood control and drainage improvements, including the acquisition of land and rights-of-way therefor, (vi) improving and equipping administrative office buildings housing governmental functions of the City, and (vii) professional services rendered in connection therewith.

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**CUSIP PREFIX: 19624K**  
**MATURITY SCHEDULE & 9 DIGIT CUSIP**  
**See Schedule on Page 2**

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**LEGALITY** . . . The Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser of the Certificates and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas (see APPENDIX C, “Form of Bond Counsel’s Opinion”).

**DELIVERY** . . . It is expected that the Certificates will be available for delivery through DTC on May 21, 2026 (the “Date of Delivery”).

**BIDS DUE TUESDAY, APRIL 21, 2026 AT 10:00 AM, CDT**

\* Preliminary, subject to change.

## MATURITY SCHEDULE\*

<u>15-Aug Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix</u>
2027	\$ 555,000			
2028	680,000			
2029	710,000			
2030	750,000			
2031	790,000			
2032	420,000			
2033	440,000			
2034	465,000			
2035	485,000			
2036	505,000			
2037	255,000			
2038	265,000			
2039	280,000			
2040	290,000			
2041	305,000			
2042	315,000			
2043	330,000			
2044	340,000			
2045	355,000			
2046	370,000			

**(Interest to accrue from Date of Delivery)**

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Municipal Advisor nor the Initial Purchaser take any responsibility for the accuracy of such numbers.

**OPTIONAL REDEMPTION.** . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2036, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – Optional Redemption").

\* Preliminary, subject to change.

*(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)*

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

This Preliminary 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 to give information or to make any representation other than those contained in this Preliminary Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Preliminary Official Statement does not constitute an offer to sell Certificates in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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

See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

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

NEITHER THE CITY NOR ITS MUNICIPAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS PRELIMINARY OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

THIS PRELIMINARY 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.

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## PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of The Colony, Texas (the “City”) is a political subdivision and home-rule municipal corporation of the State, located in Denton County, Texas. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The Mayor and Councilmembers serve staggered three-year terms. The City Manager is the chief administrative officer for the City. The City covers approximately 15.86 square miles (see “INTRODUCTION - Description of City”).
- THE CERTIFICATES** ..... The \$8,905,000\* City of The Colony, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026 are expected to be issued as serial certificates maturing on August 15 in each of the years 2027 through 2046 (see “THE CERTIFICATES - Description of the Certificates”).
- PAYMENT OF INTEREST** ..... Interest on the Certificates accrues from the Date of Delivery, and is payable February 15, 2027, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE CERTIFICATES - Description of the Certificates”).
- AUTHORITY FOR ISSUANCE** ..... The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, the City’s Home Rule Charter, and an ordinance (the “Certificate Ordinance” or the “Ordinance”) to be adopted by the City Council of the City (see “THE CERTIFICATES - Authority for Issuance”).
- SECURITY FOR THE CERTIFICATES** ..... The Certificates constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, levied within the limits prescribed by law, on all taxable property located within the City, and a limited pledge (not to exceed \$1,000) of the surplus net revenues of the City’s waterworks and sewer system (the “System”), as provided in the Certificate Ordinance (see “THE CERTIFICATES - Security and Source of Payment”).
- REDEMPTION** ..... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES - Optional Redemption”).
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS” herein.
- USE OF PROCEEDS** ..... Proceeds from the sale of the Certificates will be used for: (i) acquiring equipment and vehicles for the fleet, street, emergency management, facilities maintenance and community image departments of the City, (ii) constructing, improving and renovating streets, alleys, culverts and bridges, including drainage and erosion control, landscaping, screening walls, curbs, gutters, sidewalks, lighting, signage and traffic signalization incidental thereto and the acquisition of land and rights-of-way therefor, (iii) constructing, improving and equipping the City’s waterworks and sewer system and the acquisition of land and rights-of-way therefor, (iv) constructing, improving, renovating and equipping fire and police facilities and the acquisition of equipment, vehicles, land and rights-of-way therefor, (v) constructing and improving flood control and drainage improvements, including the acquisition of land and rights-of-way therefor, (vi) improving and equipping administrative office buildings housing governmental functions of the City, and (vii) professional services rendered in connection therewith.
- RATINGS** ..... The Certificates and the presently outstanding tax supported debt of the City are rated “AA+” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) and “Aa2” by Moody’s Investors Service, Inc. (“Moody’s”), without regard to credit enhancement (see “OTHER INFORMATION - Ratings”).

\* Preliminary, subject to change.

**BOOK-ENTRY-ONLY**

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

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

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Per Capita Taxable Assessed Valuation	Funded Tax Debt at End of Year <sup>(3)</sup>	Per Capita Funded Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2022	55,000	\$ 5,967,213,214	\$ 108,495	\$ 127,565,000	\$ 2,319	2.14%	98.01%
2023	55,000	6,814,607,170	123,902	117,040,000	2,128	1.72%	99.71%
2024	55,000	7,887,574,115	143,410	141,170,000	2,567	1.79%	98.53%
2025	55,000	8,315,920,572	151,199	174,825,000	3,179	2.10%	99.70%
2026	47,308	8,648,245,805	182,807	172,735,000 <sup>(4)</sup>	3,651 <sup>(4)</sup>	2.00% <sup>(4)</sup>	96.80% <sup>(5)</sup>

(1) Source: City officials.

(2) As reported by the Denton Central Appraisal District on the City’s annual State Property Tax Reports; subject to change during the ensuing year including values under protest.

(3) Includes self-supporting debt.

(4) Projected. Includes the Certificates. Preliminary, subject to change.

(5) Collections as of February 28, 2026.

**GENERAL FUND CONSOLIDATED STATEMENT SUMMARY**

	For Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
Beginning Balance	\$ 37,189,840	\$ 41,316,364	\$ 30,118,466	\$ 22,925,587	\$ 19,213,579
Total Revenues	78,962,280	54,596,025	64,483,186	52,696,107	46,522,999
Total Expenditures	92,944,896	53,537,087	51,798,030	45,226,148	42,751,991
Net Transfers	3,858,817	(5,185,462)	(1,487,258)	(277,080)	(59,000)
Net Funds Available	<u>(10,123,799)</u>	<u>(4,126,524)</u>	<u>11,197,898</u>	<u>7,192,879</u>	<u>3,712,008</u>
Ending Balance	<u>\$ 27,066,041</u>	<u>\$ 37,189,840</u>	<u>\$ 41,316,364</u>	<u>\$ 30,118,466</u>	<u>\$ 22,925,587</u>

For additional information regarding the City, please contact:

Ryan Bredehoeft  
 Finance Director  
 City of The Colony, Texas  
 6053 Main Street  
 The Colony, Texas 75056  
 (972) 625-1756

or

Jason L. Hughes  
 Senior Managing Director  
 Hilltop Securities Inc.  
 717 N. Harwood Street, Suite 3400  
 Dallas, Texas 75201  
 (214) 953-4000

**CITY OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>City Council</u>	<u>Total Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Richard Boyer Mayor	15 Years	November, 2027	Corporate Compliance Officer
Judy Ensweiler Councilmember, Place 1	3 Years	November, 2027	Self Employed
Robyn Holtz Councilmember, Place 2	3 Years	November, 2027	Insurance
Brian Wade Councilmember, Place 3	10 Years	November, 2026	Construction Management
Dan Rainey Councilmember, Place 4	1 Year	November, 2026	Retired Civil Engineer
Perry Schrag Councilmember, Place 5	22 Years	November, 2026	Self Employed
Joel Marks Councilmember, Place 6	22 Years	November, 2026	Sales

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>	<u>Total Length of Governmental Service</u>
Troy Powell	City Manager	14 Years	27 Years
Tim Miller	Assistant City Manager	14 Years	27 Years
Ryan Bredehoeft	Director of Finance	6 Months	23 Years
Tina Stewart	City Secretary	7 Years	18 Years
Keri Samford	Economic Development Director	16 Years	32 Years

**CONSULTANTS AND ADVISORS**

Certified Public Accountants ..... Eide Bailly LLP  
Abilene, Texas

Bond Counsel ..... Norton Rose Fulbright US LLP  
Dallas, Texas

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

## PRELIMINARY OFFICIAL STATEMENT

### RELATING TO

**\$8,905,000\***

**CITY OF THE COLONY, TEXAS**

**COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026**

### INTRODUCTION

This Preliminary Official Statement, which includes the cover page and Appendices hereto, provides certain information regarding the issuance of the \$8,905,000\* City of The Colony, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the "Certificate Ordinance" or the "Ordinance") to be adopted by the City Council of the City on the date of the sale of the Certificates and which will authorize the issuance of the Certificates.

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

**DESCRIPTION OF THE CITY.** . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1977, and first adopted its Home Rule Charter in 1979; the Home Rule Charter was last amended on May 31, 2011. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The Mayor and Councilmembers serve staggered three-year terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, culture-recreation, planning and zoning, and general administrative services. The City covers approximately 15.86 square miles and the estimated 2026 population is 47,308.

### THE CERTIFICATES

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

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

### SECURITY AND SOURCE OF PAYMENT

*Tax Pledge* . . . The Certificates constitute direct obligations of the City payable from an annual direct and continuing ad valorem tax levied against all taxable property within the City, within the limits prescribed by law (see "THE CERTIFICATES- Tax Rate Limitation" below).

*Pledge of Surplus Waterworks and Sewer System Net Revenues for Certificates* . . . The Certificates are additionally payable from and secured by a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system. (See "THE CERTIFICATES - Tax Rate Limitation" and "TAX INFORMATION - Effective Tax Rate and Rollback Tax Rate").

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\* Preliminary, subject to change.

**OPTIONAL REDEMPTION.** . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

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

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

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

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

**DEFEASANCE.** . . The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on such Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government 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 Certificates. The Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Certificates. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners 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 Government Securities or that for any other Government Security will be maintained at any particular rating category.

Upon such deposit as described above, such Certificates 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 City for purposes of taxation or applying any limitation on the City'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 Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

**AMENDMENTS.** . . The City may, without the consent of or notice to any Holders of the Certificates, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the Holders of the Certificates, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of Holders of the Certificates holding a majority in aggregate principal amount of the Certificates then Outstanding, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all Holders of the Outstanding Certificates, affected by any such amendment, additional or rescission no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Certificates, reduce the principal amount thereof, the redemption price, if applicable, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, or (3) reduce the aggregate principal amount of the Certificates required to be held by Holders for consent to any such amendment, addition, or rescission.

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

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

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

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

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well

as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

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

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

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

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

Principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates 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 in 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, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds 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 City 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 Certificates at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered.

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

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

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

**EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . .** In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City with respect to the Certificates, printed Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE CERTIFICATES - Transfer, Exchange and Registration" below.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar for the Certificates is U.S. Bank Trust Company, National Association, Irving, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, 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 Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

**PAYMENT PROVISIONS . . .** Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent by United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Certificates will be paid to the registered owner at the stated maturity or earlier redemption of a Certificate 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 Certificates, all payments will be made as described under "Book-Entry-Only System" herein. If the date for the payment of the principal or interest on the Certificates 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.

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

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

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

**REMEDIES . . .** The Ordinance does not specify events of default with respect to the Certificates. If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates if there is no other available remedy at law to compel performance of the Certificates or Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates

in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“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 ruled has in *Tooke v. City of Mexia* 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, holders of Certificates may not be able to bring such a suit against the City for breach of the Certificates or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of Certificates of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce 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 the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

**SOURCES AND USES OF PROCEEDS . . .** Proceeds from the sale of the Certificates are expected to be expended as follows:

<u>Sources of Funds</u>	<u>The Certificates</u>
Par Amount	
Reoffering Premium	
TOTAL SOURCES	\$ -
<u>Uses of Funds</u>	
Deposit to Project Construction Fund	
Initial Purchaser's Discount	
Costs of Issuance	
TOTAL USES	\$ -

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## AD VALOREM PROPERTY TAXATION

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,000,000 (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal district office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. After the 2024 tax year, through December 31, 2026 (unless extended by the State Legislature), the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value. For the 2026 tax year, the maximum property value was increased to \$5,320,000.

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

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

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

**LOCAL OPTION HOMESTEAD EXEMPTIONS.** . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. Cities, counties and school districts that adopted an optional homestead exemption described in (1), above, for the 2022 tax year are prohibited from repealing or reducing the exemption through December 31, 2027. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentation of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

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

**PERSONAL PROPERTY.** . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. Effective January 1, 2026, a person is entitled to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

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

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

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

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

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

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

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

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

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

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$62,883,169 for the 2026 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

**LEVY AND COLLECTION OF TAXES.** . . The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

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

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property.

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

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

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

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

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

“foregone revenue amount” means the greater of zero or the amount expressed in dollars calculated according to the following formula: the voter-approval tax rate in the applicable preceding tax year less the unused increment rate for that preceding tax year, less the actual tax rate, then multiplied by the taxing unit’s current total value in the applicable preceding tax year.

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

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

“unused increment rate” means the greater of (i) zero; or (ii) the sum of the foregone revenue amount for each of the tax years 2023 through 2025 divided by the current total value.

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

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

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

Furthermore, during the 89th Regular Session, the Legislature adopted Senate Bill 1851 ("SB 1851"), which will become effective in connection with the adoption of an ad valorem tax rate for tax year 2026 and thereafter. Under SB 1851, if the Texas Attorney General determines that a city has (a) not had its records and accounts audited and an annual financial statement prepared based on the audit or (b) failed to file its financial statements and auditor's opinion on such financial statements with the city secretary or city clerk before the 180<sup>th</sup> day after the city's fiscal year end, the city may not adopt an ad valorem tax rate that exceeds the city's no-new-revenue tax rate for (i) the tax year that begins on or after the date of the Attorney General's determination or (ii) a subsequent tax year that begins before the date the city has had an annual audit completed and financial statements prepared or filed the financial statement and auditor's opinion on such financial statement with the city secretary, as applicable.

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

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

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

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

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

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

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

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

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

**CITY APPLICATION OF TAX CODE** . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$15,000; the disabled are also granted an exemption of \$15,000.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

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

The City has established a freeze on the taxes on residence homesteads of persons 65 years of age or who are disabled.

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

The City does not tax non-business personal property; and Denton County collects taxes for the City.

The City does permit split payments, and discounts for early payment of taxes are not allowed.

The City does not tax freeport property.

The City does not tax “goods-in-transit”.

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

**TAX ABATEMENT POLICY** . . . The City has adopted a tax abatement policy and established a tax abatement program to encourage economic development. In order to be considered, a project must meet several criteria pertaining to job creation and property value enhancement.

**TAX REBATE AGREEMENT** . . . The City also has two tax rebate agreements with Tomfrim Tribute, LP, the developer for The Tribute for Plan Developments 18 and 23. Plan Development 18 ends in 2033 and provides for rebate of property taxes of 50%. Plan Development 23 ends in 2033 and provides for rebate of property taxes of 50%.

In December 2013, the Tax Increment Reinvestment Zone Number Two (the “TIRZ”) was established in conjunction with the existing Tribute tax abatement agreements and includes all the Developer’s 992 acres. The 25 year tax increment finance agreement sets the base appraisal value at \$113,899,462. Property taxes paid to the City in excess of the base value will be split 55% to the City and 45% to the Developer up to the amount of property taxes paid in the TIRZ. Projects financed within the TIRZ are a little over \$49 million and include: elevated water storage tank, Police/Fire Station, roadway and infrastructure, and marina park and lakeside entertainment improvements. Property tax payments up to the \$113,899,462 base will be paid to the City.

On November 8, 2011, the City, with the consent of Denton County, Texas, designated “Tax Increment Reinvestment Zone Number One, City of The Colony, Texas” (the “Zone”) in accordance with the provisions of the Tax Increment Financing Act, Chapter 311, Texas Tax Code, as amended (the “TIF Act”). The Zone is located entirely within the corporate limits of the City and consists of approximately 433 acres of open and undeveloped land located between State Highway 121 and Plano Parkway. Beginning with the current tax year, ad valorem taxes on incremental growth in real property values within the Zone from the base value of \$663,603 will be used to fund development within the Zone. The development project within the Zone consists of a large retail project involving Nebraska Furniture Mart, Inc. (“NFM”), a Nebraska corporation and a retailer of furniture, appliances, flooring, electronics and other merchandise. The City has committed all of its ad valorem tax increment in the Zone to the development of the NFM project. NFM opened for business in March of 2015.

In October 2012, the City has also created the City of The Colony Public Improvement District No. 1 (the “PID”). The boundaries of the PID include the entirety of the Zone as well as certain related rights-of-way. The PID will maintain the Zone grounds and infrastructure.

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**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

2025/26 Market Valuation Established by Denton Central Appraisal District (excluding totally exempt property)		\$ 9,229,734,737
Less Exemptions/Reductions at 100% Market Value:		
Over 65 Exemptions	\$ 45,573,375	
Homestead Exemption	229,352,582	
Disabled Exemptions	1,222,500	
Disabled Veterans	85,287,284	
Military Surviving Spouse	495,029	
Freeport	6,483,196	
Pollution Control	68,530	
Homestead Cap Adjustment	141,307,537	
Circuit Breaker Limitation	20,917,777	
Low Income Housing	5,125,000	
Personal Property Vehicle	25,777	
Productivity Loss	45,630,345	<u>\$ 581,488,932</u>
2025/26 Taxable Assessed Valuation <sup>(1)</sup>		\$ 8,648,245,805
General Obligation Debt Payable from Ad Valorem Taxes as of 2/28/2026	\$ 174,825,000	
The Certificates <sup>(2)</sup>	<u>8,905,000</u>	<u>\$ 183,730,000</u>
Less: Self-Supporting Debt <sup>(3)</sup>		\$ 30,750,000
Net General Obligation Debt Payable from Ad Valorem Taxes as of 2/28/2026		\$ 152,980,000
General Obligation Interest and Sinking Fund as of 1/31/2026		\$ 15,695,285
Ratio Net General Obligation Tax Debt to Taxable Assessed Valuation		1.77%

2026 Estimated Population - 47,308  
Per Capita Taxable Assessed Valuation - \$182,807  
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$3,884

- (1) As reported by the Appraisal District on the City’s annual Certified State Property Tax Board Reports; subject to change during the ensuing year.  
(2) Preliminary, subject to change.  
(3) Debt Service projected to be paid by water and sewer revenues, Economic Development Corporation (“EDC”) and Community Development Corporation (“CDC”) revenues. Transfers are based on historical transfers. The City plans to continue the water and sewer transfers but could change the amount of support in the future.

**TABLE 1(a) - ADDITIONAL DEBT LIABILITIES**

Please refer to “Pension Fund”, page 48 for a complete description of the City’s pension and other post-employment benefit liabilities. Additional information with regard to the City’s liability is also available via the TMRS website at [www.tmrs.org](http://www.tmrs.org).

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**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2026		2025		2024	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 6,139,003,371	66.51%	\$ 6,077,615,140	67.93%	\$ 6,078,242,237	68.98%
Real, Residential, Multi-Family	1,380,344,742	14.96%	1,230,045,769	13.75%	1,113,999,396	12.64%
Real, Vacant Lots/Tracts	60,965,013	0.66%	90,787,516	1.01%	104,980,538	1.19%
Real, Acreage (Land Only)	45,643,017	0.49%	34,572,585	0.39%	49,626,359	0.56%
Real, Farm and Ranch Improvements	9,409,128	0.10%	18,293,988	0.20%	11,502,530	0.13%
Real, Commercial & Industrial	1,229,916,171	13.33%	1,147,013,594	12.82%	1,111,525,936	12.61%
Real and Tangible Personal, Utilities	65,606,498	0.71%	56,295,728	0.63%	58,282,782	0.66%
Tangible Personal, Commercial & Industrial	274,647,573	2.98%	260,373,332	2.91%	237,408,654	2.69%
Tangible Personal, Other	24,190,735	0.26%	25,911,027	0.29%	42,585,937	0.48%
Real/Special Inventory	8,489	0.00%	5,979,359	0.07%	3,801,244	0.04%
Total Appraised Value Before Exemptions	\$ 9,229,734,737	100.00%	\$ 8,946,888,038	100.00%	\$ 8,811,955,613	100.00%
Less: Total Exemptions/Reductions	581,488,932		630,967,466		924,381,498	
Taxable Assessed Value	<u>\$ 8,648,245,805</u>		<u>\$ 8,315,920,572</u>		<u>\$ 7,887,574,115</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 5,046,233,625	67.53%	\$ 4,013,934,994	64.08%
Real, Residential, Multi-Family	928,115,399	12.42%	847,282,745	13.53%
Real, Vacant Lots/Tracts	72,122,597	0.97%	67,762,567	1.08%
Real, Acreage (Land Only)	52,383,466	0.70%	61,456,193	0.98%
Real, Farm and Ranch Improvements	18,275,310	0.24%	9,036,601	0.14%
Real, Commercial & Industrial	1,033,384,457	13.83%	996,510,168	15.91%
Real and Tangible Personal, Utilities	55,682,623	0.75%	57,891,313	0.92%
Tangible Personal, Commercial & Industrial	240,719,890	3.22%	192,415,525	3.07%
Tangible Personal, Mobile Homes	22,762,245	0.30%	-	0.00%
Real/Special Inventory	3,031,165	0.04%	17,801,147	0.28%
Total Appraised Value Before Exemptions	\$ 7,472,710,777	100.00%	\$ 6,264,091,253	100.00%
Less: Total Exemptions/Reductions	658,103,607		296,878,039	
Taxable Assessed Value	<u>\$ 6,814,607,170</u>		<u>\$ 5,967,213,214</u>	

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

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**TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

Fiscal Year Ended 9/30	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Per Capita Taxable Assessed Valuation	Funded Tax Debt at End of Year <sup>(3)</sup>	Per Capita Funded Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation
2022	55,000	\$ 5,967,213,214	\$108,495	\$ 127,565,000	\$ 2,319	2.14%
2023	55,000	6,814,607,170	123,902	117,040,000	2,128	1.72%
2024	55,000	7,887,574,115	143,410	141,170,000	2,567	1.79%
2025	55,000	8,315,920,572	151,199	174,825,000	3,179	2.10%
2026	47,308	8,648,245,805	182,807	172,735,000 <sup>(4)</sup>	3,651 <sup>(4)</sup>	2.00% <sup>(4)</sup>

(1) Source: City officials.

(2) As reported by the Denton Central Appraisal District on City's annual State Property Tax Reports; subject to change during the ensuing year. The City's fiscal year 2025 Certified Taxable Assessed Valuation is \$8,315,920,572.

(3) Includes self-supporting debt.

(4) Projected. Includes the Certificates. Preliminary, subject to change.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 9/30	Total Tax Rate	Tax Rate Distribution		Tax Levy	% of Current Collections	% of Total Collections
		General Fund	Interest and Sinking Fund			
2022	\$ 0.65000	\$ 0.49000	\$ 0.16000	\$ 39,613,235	97.90%	98.01%
2023	0.64500	0.54000	0.10500	43,942,382	98.96%	99.71%
2024	0.64000	0.53400	0.10600	49,169,659	98.74%	98.53%
2025	0.63500	0.48120	0.15380	51,298,063	99.54%	99.70%
2026	0.63000	0.48130	0.14870	52,972,600	96.80% <sup>(1)</sup>	96.80% <sup>(1)</sup>

(1) Collections as of February 28, 2026.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2025/26 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
LMG Ventures LLC	Retail	\$ 311,701,705	3.60%
TXFM Inc.	Retail	124,913,250	1.44%
Austin Ranch Phase VI Investors LLC	Apartment Complex	98,500,000	1.14%
ICON The Colony Land Owner Pool 2 LLC	Wholesale Supplier/Distribution Center	97,923,850	1.13%
Hudson MF LLC	Apartment Complex	93,400,000	1.08%
The Residences of Lake District No 1 LTD	Apartment Complex	92,785,043	1.07%
AR9L Land LTD	Apartment Complex	90,022,309	1.04%
AR Phase 1 LLC	Apartment Complex	89,500,000	1.03%
AR No. 5, LLC	Apartment Complex	82,847,893	0.96%
AR Phase 2 LLC	Apartment Complex	79,400,000	0.92%
		<u>\$ 1,160,994,050</u>	<u>13.42%</u>

**GENERAL OBLIGATION DEBT LIMITATION.** . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "AD VALOREM PROPERTY TAXATION - Debt Tax Rate Limitations").

**TABLE 6 - ESTIMATED OVERLAPPING DEBT**

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

Jurisdiction	2025/26 Taxable Assessed Value	2025/26 Tax Rate	Total Funded Debt As Of 3/31/2026	Estimated % Applicable	Direct and Overlapping Funded Debt As Of 3/31/2026	Authorized But Unissued Debt As Of 3/31/2026
City of The Colony	\$ 8,648,245,805	\$0.63500	\$ 152,980,000 <sup>(1)</sup>	100.00%	\$ 152,980,000 <sup>(1)</sup>	\$ -
Denton County	207,352,205,545	0.18800	758,115,000	4.21%	31,916,642	324,090,625
Lewisville Independent School District	55,095,464,635	1.11800	1,545,585,000	10.04%	155,176,734	210,177,000
Little Elm Independent School District	8,967,489,382	1.22500	566,766,058	16.37%	92,779,604	-
Total Direct and Overlapping Funded Debt					<u>\$ 432,852,979</u>	
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation . . . . .				5.01%		
Per Capita Direct and Overlapping Funded Debt . . . . .					\$ 7,870	

(1) Excludes self-supporting debt. Includes the Certificates. Preliminary, subject to change.

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**DEBT INFORMATION**

**TABLE 7 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Year Ending 9/30	Outstanding Debt Service <sup>(1)</sup>			The Certificates <sup>(2)</sup>			Total Tax Supported Debt Service	Self-Supporting Debt Payments			Net Debt Paid by Taxes	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		Debt Service Paid by Water/Sewer Revenues <sup>(3)</sup>	Debt Service Paid by Transfer from EDC <sup>(4)</sup>	Debt Service Paid by Transfer from CDC <sup>(5)</sup>		
2026	\$ 10,995,000	\$ 8,046,006	\$ 19,041,006	\$ -	\$ -	\$ -	\$ 19,041,006	\$ 4,891,774	\$ 374,678	\$ 252,955	\$ 13,521,599	
2027	10,630,000	6,808,013	17,438,013	555,000	523,434	1,078,434	18,516,447	3,533,768	153,931	256,900	14,571,848	
2028	9,715,000	6,366,156	16,081,156	680,000	396,656	1,076,656	17,157,813	2,977,218	154,331	254,150	13,772,114	
2029	9,895,000	5,930,938	15,825,938	710,000	362,656	1,072,656	16,898,594	2,972,843	154,531	256,150	13,515,070	
2030	10,055,000	5,491,047	15,546,047	750,000	327,156	1,077,156	16,623,203	2,979,345	154,063	257,651	13,232,145	29.38%
2031	9,440,000	5,034,047	14,474,047	790,000	289,656	1,079,656	15,553,703	2,691,468	153,375	138,650	12,570,211	
2032	9,850,000	4,622,975	14,472,975	420,000	250,156	670,156	15,143,131	2,691,668	152,469	140,150	12,158,845	
2033	10,260,000	4,202,075	14,462,075	440,000	229,156	669,156	15,131,231	2,692,380	151,344	141,400	12,146,108	
2034	10,545,000	3,767,703	14,312,703	465,000	207,156	672,156	14,984,859	2,694,674	-	142,400	12,147,786	
2035	10,985,000	3,321,863	14,306,863	485,000	183,906	668,906	14,975,769	2,698,418	-	138,150	12,139,201	58.60%
2036	9,120,000	2,903,519	12,023,519	505,000	159,656	664,656	12,688,175	2,694,330	-	138,900	9,854,945	
2037	9,500,000	2,514,763	12,014,763	255,000	134,406	389,406	12,404,169	2,682,893	-	139,400	9,581,876	
2038	8,920,000	2,130,575	11,050,575	265,000	121,656	386,656	11,437,231	2,693,643	-	139,650	8,603,939	
2039	8,535,000	1,748,138	10,283,138	280,000	108,406	388,406	10,671,544	2,694,943	-	139,650	7,836,951	
2040	7,785,000	1,387,988	9,172,988	290,000	94,406	384,406	9,557,394	2,322,568	-	139,400	7,095,426	83.34%
2041	7,085,000	1,066,538	8,151,538	305,000	82,806	387,806	8,539,344	1,556,893	-	140,000	6,842,451	
2042	6,825,000	788,800	7,613,800	315,000	70,606	385,606	7,999,406	1,494,729	-	140,400	6,364,278	
2043	5,510,000	540,700	6,050,700	330,000	58,006	388,006	6,438,706	914,945	-	140,600	5,383,161	
2044	5,740,000	318,300	6,058,300	340,000	44,394	384,394	6,442,694	916,469	-	140,600	5,385,625	
2045	3,435,000	137,400	3,572,400	355,000	30,369	385,369	3,957,769	686,400	-	140,400	3,130,969	99.80%
2046	-	-	-	370,000	15,725	385,725	385,725	-	-	-	385,725	100.00%
	<u>\$ 174,825,000</u>	<u>\$ 67,127,540</u>	<u>\$ 241,952,540</u>	<u>\$ 8,905,000</u>	<u>\$ 3,690,372</u>	<u>\$ 12,595,372</u>	<u>\$ 254,547,912</u>	<u>\$ 53,687,381</u>	<u>\$ 1,670,027</u>	<u>\$ 3,491,806</u>	<u>\$ 200,240,272</u>	

(1) "Outstanding Debt" does not include lease purchase obligations.

(2) Average life of the Certificates – 9.094 years. Interest on the Certificates has been calculated at an estimated rate for purposes of illustration. Preliminary, subject to change.

(3) Debt Service projected to be paid by water and sewer revenues transfers are based on historical transfers. The City plans to continue the water and sewer transfers but could change the amount of support in the future.

(4) Debt Service to be paid from sales and use tax revenues transferred from the City's Economic Development Corporation ("EDC") to the City. See "Table 12 – Municipal Sales Tax History" for a description of the EDC and the one-half of one percent sales and use tax approved by the City's voters for economic development.

(5) Debt Service to be paid from sales and use tax revenues transferred from the City's Community Development Corporation ("CDC") to the City. See "Table 12 – Municipal Sales Tax History" for a description of the CDC, the one-half of one percent sales and use tax approved by the City's voters for economic development, and the agreement between the City and the CDC.

**TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION**

Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/26 <sup>(1)</sup>		\$ 13,521,599
Interest and Sinking Fund, Fiscal Year Ending 9/30/25	\$ 5,544,847	
Delinquent Property Taxes	25,000	
Penalty & Interest	25,000	
Investment Income Less Fiscal Fees	500,000	
Budgeted Interest and Sinking Fund Tax Levy	<u>11,452,628</u>	<u>\$ 17,547,475</u>
Estimated Balance, Fiscal Year Ending 9/30/26		<u><u>\$ 4,025,876</u></u>

(1) Excludes self-supporting debt. Includes the Certificates. Preliminary, subject to change.

**TABLE 9 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

The City has no authorized but unissued general obligation bonds.

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

**TABLE 10 – OTHER OBLIGATIONS**

Financed Purchases

During 2015, the City entered into a financed purchase agreement of \$1,641,970 with principal and interest from 2.63% to 3.29% being paid through fiscal year 2024.

During 2023, the City entered into a financed purchase agreement of \$6,969,000 with principal and interest of 1.0% being paid through fiscal year 2032. The agreement requires annual payments of \$728,517. The City entered into the agreement to acquire land and building. The Capital Projects fund has typically been used to liquidate the liability.

The annual requirements to retire the financed purchase, including interest, as of September 30, 2025 are as follows:

Fiscal Year Ending	Principal	Interest	Amount
<u>30-Sep</u>			
2026	\$ 679,500	\$ 49,016	\$ 728,516
2027	686,295	42,221	728,516
2028	693,158	35,358	728,516
2029	700,090	28,426	728,516
2030-2032	<u>2,142,556</u>	<u>42,994</u>	<u>2,185,550</u>
Total	<u>\$ 4,901,599</u>	<u>\$ 198,015</u>	<u>\$ 5,099,614</u>

Lease Liability

The annual requirements to retire lease obligations, including interest, as of September 30, 2025 are as follows:

Fiscal Year Ending	Principal	Interest	Amount
<u>30-Sep</u>			
2026	\$ 203,522	\$ 14,947	\$ 218,469
2027	206,362	10,253	216,615
2028	211,180	5,436	216,616
2029	40,094	496	40,590
2030	<u>6,092</u>	<u>87</u>	<u>6,179</u>
Total	<u>\$ 667,250</u>	<u>\$ 31,219</u>	<u>\$ 698,469</u>

## SBITA Liability

The annual requirements to retire SBITA obligations, including interest, as of September 30, 2025 are as follows:

Fiscal Year Ending 30-Sep	Principal	Interest	Amount
2026	\$ 376,438	\$ 73,517	\$ 449,955
2027	324,253	54,954	379,207
2028	330,799	37,458	368,257
2029	348,959	19,297	368,256
Total	<u>\$ 1,380,449</u>	<u>\$ 185,226</u>	<u>\$ 1,565,675</u>

Fiscal Year Ending 30-Sep	Principal	Interest	Amount
2024	\$ 196,454	\$ 21,212	\$ 217,666
2025	185,109	16,982	202,091
2026	160,016	12,745	172,761
2027	156,992	8,592	165,584
2028	161,232	4,353	165,585
Total	<u>\$ 859,803</u>	<u>\$ 63,884</u>	<u>\$ 923,687</u>

## **PENSION FUND**

Plan Description – The City participates as one of more than 940 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](http://www.tmrs.com).

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

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of 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.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. The City has elected that members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

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	267
Inactive employees entitled to but not yet receiving benefits	269
Active employees	437
Total	<u>973</u>

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.45% and 13.75% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025, were \$5,533,309, and were equal to the required contributions.

Net Pension Liability - The City's Net Pension Liability (NPL) was measured as of December 31, 2024 and the Total Pension Liability (TPL) used to calculate the NPL 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	2.5% per year
Overall payroll growth	3.6% to 11.85% per year including inflation
Investment Rate of Return	6.75%

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees 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 a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of 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 was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, 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 real rates of return for each major asset class in fiscal year 2025 are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Global Equity	35.00%	7.10%
Core Fixed Income	6.00%	5.00%
Non-Core Fixed Income	6.00%	6.80%
Private Debt	13.00%	8.20%
Real Estate	12.00%	6.70%
Hedge Funds	5.00%	6.40%
Infrastructure	6.00%	6.00%
Other Private Markets	4.00%	7.30%
Private Equity	13.00%	8.50%
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 the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2023	\$ 140,423,549	\$ 123,954,122	\$ 16,469,427
Changes for the year:			
Service Cost	6,443,243	-	6,443,243
Interest	9,481,413	-	9,481,413
Change of benefit terms	-	-	-
Differences between expected and actual experience	1,441,699	-	1,441,699
Changes of assumptions	-	-	-
Contributions - employer	-	4,943,110	(4,943,110)
Contributions - employee	-	2,561,198	(2,561,198)
Net investment income	-	12,894,094	(12,894,094)
Benefit payments, including refunds	-	-	-
Free contributions;	(6,359,577)	(6,359,577)	-
Administrative expenses	-	(82,600)	82,600
Other	-	(1,934)	1,934
Net changes	<u>11,006,778</u>	<u>13,954,291</u>	<u>(2,947,513)</u>
Balance at 12/31/24	<u>\$ 151,430,327</u>	<u>\$ 137,908,413</u>	<u>\$ 13,521,914</u>

Net Pension Liability as a percentage of covered employee payroll 36.96%.

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 35,039,876	\$ 13,521,914	\$ (4,170,505)

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 at [www.tmrs.com](http://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 City recognized pension expense of \$5,729,401. At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,987,878	-
Changes in actual assumptions	-	202,295
Difference between projected and actual investment earnings	-	1,493,796
Contributions subsequent to the measurement date	4,254,136	-
Total	<u>\$ 6,242,014</u>	<u>\$ 1,696,091</u>

\$4,254,136 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year 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:

Fiscal Year Ended Sept. 30:	Net deferred outflows (inflows) of resources
2026	\$ 668,767
2027	1,880,847
2028	(1,523,870)
2029	(733,957)
	<u>\$ 291,787</u>

### ***Other Post-Employment Benefits***

Plan Description – The City also participates in a single employer, defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage (Supplemental Death Benefits) for their active members, including or not including retirees.

Benefits Provided – The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree employees, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan. Texas Local Government Code Section 177.001 assigns the authority to establish and amend benefit provisions to the City Council.

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	178
Inactive employees entitled to but not yet receiving benefits	50
Active employees	<u>437</u>
Total	<u>665</u>

Contributions – The City contributes to the SDBF program at a contractually required rate. An annual actuarial valuation is performed, and the contractual rate is equal to the cost of providing one-year term life insurance. The premium rate is expressed as a percentage of the covered payroll of members employed by the participating employer. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

The SDBF program is voluntary and employers can cease participation by adopting an ordinance before November 1 of any year to be effective the following January 1. Therefore, the funding policy of the program is to ensure that adequate resources are available to meet all insurance benefit payments for the upcoming year. It is not the intent of the funding policy to pre-fund retiree term life insurance during employees’ entire careers. The City’s contribution, which equaled the required contribution, was as follows for the year ended September 30:

	<u>2025</u>
Employer rate	0.20%
Employer contributions	\$ 25,612

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

Inflation	2.5% per year
Salary increases	3.60% to 11.85%, including inflation
Discount rate	4.08%

Mortality rates for service retirees were based on the 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

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

Actuarial assumptions used in the December 31, 2024 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period ending December 31, 2022.

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. A discount rate of 4.08% was based on the Fidelity Index's 20-Year Municipal GO AA Index as of December 31, 2024.

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

At September 30, 2025, the City reported a total OPEB liability of \$1,024,296 measured at December 31, 2024. For the year ended September 30, 2025, the City recognized OPEB expense of \$47,316.

As of December 31, 2024, the discount rate used in the development of the total OPEB liability was 4.08% compared to 3.77% as of December 31, 2023.

Changes in the total OPEB liability for the measurement year ended December 31, 2024 are as follows:

	<u>Total OPEB Liability Entity-Wide</u>
Balance at December 31, 2023	\$ 1,026,050
Changes for the year:	
Service Cost	47,565
Interest on total OPEB liability	39,096
Changes of benefit terms	-
Differences between expected and actual experience	(7,194)
Effect of assumption changes or inputs	(55,609)
Benefit payments*	<u>(25,612)</u>
Balance at December 31, 2024	<u>\$ 1,024,296</u>

\*Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Discount Rate Sensitivity

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

	<u>1% Decrease in Discount Rate (3.08%)</u>	<u>Discount Rate (4.08%)</u>	<u>1% Increase in Discount Rate (5.08%)</u>
Total OPEB liability	\$ 1,220,660	\$ 1,024,296	\$ 869,345

At December 31, 2024, the City reported its deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in actual assumptions	\$ 116,235	\$ 312,119
Difference between expected and actual economic experience	4,257	55,436
Contributions subsequent to the measurement date	<u>19,462</u>	<u>-</u>
Total	<u>\$ 139,954</u>	<u>\$ 367,555</u>

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ended September 30, 2026 in the amount of \$19,462. The other net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB, excluding contributions made subsequent to the measurement date, will be recognized in OPEB expense as follows:

<u>Fiscal Year Ended Sept. 30:</u>	<u>Net deferred outflows (inflows) of resources</u>
2026	\$ (38,125)
2027	(59,683)
2028	(77,397)
2029	(62,475)
2030	(2,408)
Thereafter	<u>(6,975)</u>
	<u>\$ (247,063)</u>

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**FINANCIAL INFORMATION**

**TABLE 11 – SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
<b>Revenues:</b>					
Ad Valorem Taxes	\$ 35,017,518	\$27,451,030	\$36,816,240	\$29,245,888	\$27,632,087
Fines and Forfeitures	1,148,862	826,086	842,719	1,087,855	722,584
Licenses and Permits	1,634,545	1,909,454	1,933,144	2,757,342	1,504,112
Franchise Taxes	2,987,086	5,159,631	2,911,718	2,873,419	2,517,283
Municipal Sales Tax	21,172,289	9,990,559	11,812,142	11,426,569	9,721,676
Grants	90,281	694,343	840,320	406,265	301,552
Charges for Services	5,165,305	2,162,854	2,141,478	1,941,188	1,967,559
Gifts and Contributions	-	-	298,797	943,857	942,148
Intergovernmental	5,309,476	745,364	1,753,827	-	-
Interest	3,356,437	3,725,189	3,541,956	374,332	22,213
Miscellaneous	3,080,481	1,931,515	1,590,845	1,639,392	1,191,785
Total Revenues	<u>\$ 78,962,280</u>	<u>\$54,596,025</u>	<u>\$64,483,186</u>	<u>\$52,696,107</u>	<u>\$46,522,999</u>
<b>Expenditures:</b>					
General Government	\$ 24,016,429	\$11,053,749	\$13,230,280	\$ 9,598,794	\$10,435,502
Economic development	23,534,525	-	-	-	-
Public Safety	34,179,120	31,710,033	29,770,258	26,577,967	24,393,366
Public Works	2,356,275	4,347,408	4,172,101	4,108,137	3,542,199
Capital Outlay	2,835,322	780,639	-	270,538	84,025
Cultural and Recreation	4,791,887	5,142,564	4,625,391	4,623,933	4,296,899
Debt Service	1,231,338	502,694	-	46,779	-
Total Expenditures	<u>\$ 92,944,896</u>	<u>\$53,537,087</u>	<u>\$51,798,030</u>	<u>\$45,226,148</u>	<u>\$42,751,991</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (13,982,616)	\$ 1,058,938	\$12,685,156	\$ 7,469,959	\$ 3,771,008
Budgeted Transfers In (Out)	\$ 1,874,684	\$ (5,444,000)	\$ (1,817,000)	\$ (375,000)	\$ (59,000)
Subscription IT proceeds	1,942,391	-	-	-	-
Proceeds from Leases	41,742	258,538	329,742	97,920	-
Total Other Financing Sources	<u>\$ 3,858,817</u>	<u>\$ (5,185,462)</u>	<u>\$ (1,487,258)</u>	<u>\$ (277,080)</u>	<u>\$ (59,000)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(10,123,799)	(4,126,524)	11,197,898	7,192,879	3,712,008
Beginning Fund Balance	<u>37,189,840</u>	<u>41,316,364</u>	<u>30,118,466</u>	<u>22,925,587</u>	<u>19,213,579</u>
Ending Fund Balance	<u>\$ 27,066,041</u>	<u>\$37,189,840</u>	<u>\$41,316,364</u>	<u>\$30,118,466</u>	<u>\$22,925,587</u>

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**TABLE 11A - SCHEDULE OF CHANGES IN NET ASSETS – GOVERNMENTAL ACTIVITIES**

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
<b>Revenues</b>					
Program Revenues:					
Charges for Services	\$ 12,260,327	\$ 8,219,593	\$ 8,474,524	\$ 8,585,665	\$ 7,783,482
Operating Grants and Contributions	5,309,476	745,364	894,411	723,463	352,792
Capital Grants and Contributions	11,269,848	11,841,212	14,545,732	4,821,561	6,233,192
General Revenues:					
Property Taxes	45,551,241	36,615,211	43,837,943	38,701,240	36,510,300
Sales Taxes	20,245,550	9,990,559	11,812,142	11,426,569	9,721,676
Franchise Taxes	2,987,086	5,159,631	2,911,718	2,873,419	2,517,283
Hotel/Motel Taxes	2,332,854	2,538,159	2,509,501	1,937,274	1,044,987
Other Taxes	926,739	925,917	-	106,926	96,423
Investment Income	4,010,660	4,504,997	4,202,359	456,215	26,889
Miscellaneous	3,925,239	3,356,911	5,666,513	5,196,325	1,715,059
Total revenues	<u>\$ 108,819,020</u>	<u>\$ 83,897,554</u>	<u>\$ 94,854,843</u>	<u>\$ 74,828,657</u>	<u>\$ 66,002,083</u>
<b>Expenditures</b>					
General Government	\$ 28,526,147	\$ 18,523,136	\$ 21,031,863	\$ 15,353,052	\$ 15,835,564
Economic development	23,534,525	-	-	-	-
Public Safety	38,277,402	33,148,673	31,659,259	26,743,262	25,340,611
Public Services	13,991,191	14,521,855	11,679,662	11,016,099	10,425,482
Culture and Recreation	8,679,083	8,504,034	7,786,848	7,391,239	7,818,786
Interest on Long-term Debt	5,181,255	1,447,788	1,733,621	3,087,504	1,825,404
Total expenses	<u>\$ 118,189,603</u>	<u>\$ 76,145,486</u>	<u>\$ 73,891,253</u>	<u>\$ 63,591,156</u>	<u>\$ 61,245,847</u>
Increase (Decrease)					
in net position before transfers	(9,370,583)	5,752,068	20,963,590	11,237,501	4,756,236
Transfers	<u>(2,547,395)</u>	<u>(4,400,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>(400,000)</u>
Increase (Decrease) in net position	(11,917,978)	1,352,068	20,863,590	11,137,501	4,356,236
Net position-October 1	260,010,202	255,196,641	234,333,051	223,195,550	218,839,314
Change in accounting principle	1,876,885	-	-	-	-
Prior period adjustment	-	3,461,493	-	-	-
Net position-September 30	<u>\$ 249,969,109</u>	<u>\$ 260,010,202</u>	<u>\$ 255,196,641</u>	<u>\$ 234,333,051</u>	<u>\$ 223,195,550</u>

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**TABLE 12 - MUNICIPAL SALES TAX HISTORY**

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

On January 17, 1998, the voters of the City approved a proposition imposing an additional one-half of one percent sales and use tax for an economic development corporation created by the City pursuant to Section 4A of Article 5190.6, V.T.C.A.; now codified as Chapter 504, Texas Local Government Code (the "EDC Sales Tax"), and at the same election the voters of the City also approved a separate proposition imposing an additional one-half of one percent sales and use tax for a community development corporation created by the City pursuant to Section 4B of Article 5190.6, V.T.C.A.; now codified as Chapter 505, Texas Local Government Code (the "CDC Sales Tax"). Collection of the additional sales and uses taxes began July 1, 1998. Such additional sales and use taxes are collected solely for the benefit of the respective development corporations and may be pledged to secure payment of sales tax revenue bonds issued by the corporations and are not pledged to the payment of the Certificates.

Fiscal Year Ended 9/30	1% City Sales and Use Tax				EDC Sales Tax	CDC Sales Tax
	Total Collected	% of	Equivalent of	Per Capita	Total Collected	Total Collected
		Ad Valorem Tax Levy	Ad Valorem Tax Rate			
2022	\$ 11,426,569	28.85%	\$ 0.1915	\$ 207.76	\$ 5,713,285	\$ 5,713,285
2023	10,903,121	24.81%	0.1600	198.24	5,451,561	5,451,561
2024	13,169,444	26.78%	0.1670	239.44	6,584,722	6,584,722
2025	23,684,374	46.17%	0.2848	430.62	11,842,187	11,842,187
2026	8,509,236 <sup>(1)</sup>	16.06%	0.0984	179.87	4,254,618 <sup>(1)</sup>	4,254,618 <sup>(1)</sup>

(1) Collections through January 31, 2026

The sales tax breakdown for the City is as follows:

Economic and Community Development (EDC and CDC)	1.00%
City Sales and Use Tax	1.00%
State Sales and Use Tax	<u>6.25%</u>
Total	8.25%

**TABLE 13 - HOTEL OCCUPANCY TAX HISTORY**

On September 8, 1997, the City adopted an ordinance imposing a Hotel Occupancy Tax at a rate of seven percent of gross room sales, effective September 8, 1997. The Hotel Occupancy Taxes are not pledged to the payment of the Certificates. A history of Hotel Occupancy tax collections follows:

Fiscal Year Ended 9/30	Total Collected
2022	\$ 1,937,274
2023	2,356,975
2024	2,538,160
2025	1,562,996
2026	474,014 <sup>(1)</sup>

(1) Collections through January 31, 2026.

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## FINANCIAL POLICIES

*Measurement Focus/Basis of Accounting* . . . Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurements focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for non-matured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated and expendable available financial resources.

Property taxes, sales taxes, franchise taxes and interest are susceptible to accrual. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

*General Fund Balance* . . . The City's policy is to maintain surplus and unencumbered funds equal to 80 days of expenditures combined in the General Fund and other funds of the City. This allows the City to avoid interim borrowing pending tax receipts.

*Use of Bond Proceeds* . . . The City's policy is to use bond proceeds, grants, revenue sharing or other non-recurring revenues for capital expenditures only. Such revenues are never to be used to fund normal City operations.

*Budgetary Data* . . . The city follow these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 31, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October. The operating budget includes proposed expenditures and the means of financing them.
2. The proposed budget is filed with the City Secretary by July 31 and not less than 30 days prior to the time the city Council approves the tax levy for the fiscal year commencing the following October 1. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through the passage of an ordinance.
4. The City Manager has authority to transfer appropriation balances from one expenditure account to another within a single department of the City. Only the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another. Appropriations lapse at the end of the fiscal year. Individual amendments were not material in relation to the original appropriations, which were amended.

The City prepares its annual budgets on a basis, which substantially conforms to generally accepted accounting principles (GAAP basis).

## INVESTMENTS

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

**LEGAL INVESTMENTS.** . . Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change. Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in

the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (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 City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (13) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (14) a no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission that provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

**INVESTMENT POLICIES.** . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended). All City 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, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

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

**TABLE 14 - CURRENT INVESTMENTS**

As of February 28, 2026, the City’s investable funds were invested in the following categories:

Description	% of Portfolio	Book Value	Market Value
TexPool	80.43%	\$ 156,417,714	\$ 156,417,714
TexPool Prime	19.57%	38,062,360	38,062,360
	<u>100.00%</u>	<u>\$ 194,480,074</u>	<u>\$ 194,480,074</u>

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## TAX MATTERS

**TAX EXEMPTION.** . . The delivery of the Certificates is subject to the opinion of Bond Counsel to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. The form of Bond Counsel's opinion is reproduced as APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinion, Bond Counsel will rely upon representations and certifications of the City made in certificates dated the date of delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Certificates. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Bond Counsel's opinion is not a guarantee of a result, but represent its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the City as the “taxpayer,” and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust (“FASIT”), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Certificates. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Certificates.

Existing law may change to reduce or eliminate the benefit to certificate holders of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

**TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES** . . . The initial public offering price of certain Certificates (the “Discount Certificates”) may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Certificates described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The purchase price of certain Certificates (the "Premium Certificates") paid by an owner may be greater than the amount payable on such Certificates at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Certificate over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Certificate in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity (or, in some cases with respect to a callable Certificate, the yield based on a call date that results in the lowest yield on the Certificate).

Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available from the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The City will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 14 and in Appendix B. The City will update and provide the information in Tables 1 through 5 and 7 through 14 within six months after the end of each fiscal year ending in and after 2026. The City will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2026. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City 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. Financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. The City may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the "SEC"). While the City will not be obligated to provide financial statements until twelve months after fiscal year end, it intends to attempt to do so within six months after year end.

The City's current fiscal year end is September 30. Accordingly, the City must provide the information under Tables numbered 1 through 5 and 7 through 14 by March 31 in each year and the audited financial statements (or unaudited financial statements if the audit is not available) by September 30 of each year. If the City changes its fiscal year, it will notify the MSRB of the change.

**NOTICE OF CERTAIN EVENTS . . .** The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten 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 Certificates, or other

material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; and (15) incurrence of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation of the City, or a guarantee 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 financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the City, any of which reflect financial difficulties.

In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under “Annual Reports”.

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

**AVAILABILITY OF INFORMATION . . .** The City 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](http://www.emma.msrb.org).

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

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

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

## OTHER INFORMATION

### RATINGS

The Certificates and the presently outstanding tax supported debt of the City are rated “AA+” by S&P and “Aa2” by Moody’s, without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, or either of them, may have an adverse effect on the market price of the Certificates.

### LITIGATION

The City is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the City, would have a material adverse effect on the financial statements of the City.

### REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

### LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments, 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 Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states. No representation is made that the Certificates will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Certificates for such purposes.

### LEGAL MATTERS

The City will furnish the Initial Purchaser complete a transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Certificate and to the effect that the Certificates are valid and legally binding obligations of the City and, based upon examination of such transcripts of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. The customary closing papers, including a certificate of the City as described under “OTHER INFORMATION - Certification of Official Statement” will also be furnished to the Initial Purchaser. Though it represents the Municipal Advisor and investment banking firms such as the Initial Purchaser from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates. 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 therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates.

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

#### **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

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

#### **MUNICIPAL ADVISOR**

Hilltop Securities Inc. is employed as Municipal Advisor to the City in connection with the issuance of the Certificates. The Municipal Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. The Municipal Advisor has agreed, in its Municipal Advisory contract, not to bid for the Certificates, either independently or as a member of a syndicate organized to submit a bid for the Certificates. 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 Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Municipal Advisor to the City 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 City 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 Certificates, the City accepted the bid of \_\_\_\_\_ (the "Initial Purchaser") to purchase the Certificates 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 Certificates after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yields at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

#### **FORWARD-LOOKING STATEMENTS DISCLAIMER**

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City'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 City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

#### **CERTIFICATION OF OFFICIAL STATEMENT**

At the time of payment for and delivery of the Certificates, the City will furnish the Initial Purchaser a certificate, executed by an authorized representative of the City, 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 City 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 Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City 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 the statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in the Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City 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 City since the date of the last audited financial statements of the City.

**MISCELLANEOUS**

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

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

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Mayor  
City of The Colony, Texas

ATTEST:

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City Secretary  
City of The Colony, Texas

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**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

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## THE CITY

### LOCATION

The City of The Colony (the “City”) is a residential community in Denton County located on the southeastern shore of Lake Lewisville. The City is adjacent to and accessible from State Highway 121, Farm-to-Market Road 423, State Highway 289, and Interstate Highways 35E and 35W. The Dallas-Fort-Worth International Airport is located 18 miles southwest of The Colony.

### POPULATION

The City was incorporated on January 24, 1977, and adopted its Home Rule City Charter on January 20, 1979. The total area of the City is approximately 15.86 square miles. The City has experienced a steady growth in population since its incorporation. The 2020 Census reported a population of 44,534 with the current 2025 population estimated at 55,000. Historical population figures are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Estimated</u> <u>Population</u>
2017	53,000
2018	53,000
2019	55,000
2020	55,000
2021	55,000
2022	55,000
2023	55,000
2024	55,000
2025	55,000
2026	47,308

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Source: City of The Colony.

The City derives its name from the historic Peter’s Colony settlement, which occupied the area during the days of the Republic of Texas. Some portions of the property were purchased from descendants of the original settlers and landmarks, such as Stewart Creek and Office Creek, as well as other natural features of historic or ecological value, are being preserved. The Colony features greenbelt and open space areas with land set aside for schools, churches and shopping facilities.

### EDUCATION

Residents of the City are served by the Lewisville Independent School District and the Little Elm Independent School District. Lewisville ISD has 8 schools in the City (5 elementary schools, 2 middle schools, and 1 high school), while Little Elm ISD has 2 schools within the City (1 elementary school and 1 middle school). The 2024-2025 school enrollment for these schools was 5,998.

The City is situated within driving distance of 34 campuses of both private and state colleges and universities, as well as community colleges. Extensive academic selections offered at area universities such as the University of North Texas at Denton, Southern Methodist University at Dallas, the University of Texas at Dallas, the University of Texas at Arlington, Texas Christian University at Fort Worth, and Texas Woman’s University at Denton. Additionally, City residents are just five minutes from the new Collin County Community College campus.

### ECONOMIC DEVELOPMENT

In 1997, the City Council commissioned the City’s first comprehensive Economic Development Strategic Plan. The City Council also authorized the hiring of an Economic Development Director to oversee the implementation of the City’s Economic Development Program. A major strategy included the passage of two sales tax initiatives during a January 17, 1998 election, each of which authorized the levy of collection of a half cent (1/2¢) sales and use tax within the City. The proceeds are to be used to finance economic development incentives (known then as a Section 4A tax, now a Type A tax) and specific projects within the areas of community development (known then as a Section 4B tax, now a Type B tax). The City Council has appointed community leaders to serve on two separate economic development corporations, to oversee the expenditures of the Type A and Type B taxes.

The wave of growth that occurred in the North Dallas area throughout the 1990's has created new demand for housing and services in communities located along the State Highway 121 Corridor ("SH 121 Corridor"). From 1977 to May 2003, three large planned communities were developed with a total of 2,684 new single family homes. The Wynnwood Peninsula residential development will accommodate 1,800 single-family units, town homes and multi-family apartments, along with an integrated town center and marina. The "Tribute" and the new "Old American Golf Course," are two 18-hole golf courses and clubhouses located on Wynnwood Peninsula. Additionally, the Stewart Peninsula Golf Course is also located on Lake Lewisville in The Colony. These three golf courses attract over 72,000 people annually to the City. Other major residential developments include the Austin Ranch traditional neighborhood development, which contains approximately 3,000 completed and occupied high quality multi-family units. In 2015, Austin Ranch started on a 200 lot residential development. The non-residential component of this project is likely to bring more commercial and retail use in the future. Pizza Inn has located its national headquarters, distribution and training center in The Colony section of Austin Ranch. An 187,000 square foot office/warehouse for Edward Don & Company is also located in Austin Ranch and opened for business on July 12, 2004. In 2015, two additional office/warehouses were constructed adjacent to the existing Edward Don office/warehouse.

Over the past decade, the City has attracted several major businesses, which include the Wal-Mart Super Store (208,580 sq. ft.), two limited service hotels, Comfort Suites (69 rooms), and Budget Suites (249 rooms), the Trinity Medical Center (34,170 sq. ft.), Home Depot (130,000 sq. ft.), Pizza Inn (140,000 sq. ft.), Edward Don & Company (187,000 sq. ft.) and Hawaiian Falls (a water park).

Jackson-Shaw developed a mixed-use community on 100 acres called Cascades at The Colony consisting of 280 residences built by KB Homes and approximately 500,000 square feet of commercial space constructed by Jackson-Shaw. There are two hotels, a Marriott Residence Inn and a Marriott Fairfield Inn, together totaling more than 200 rooms, and inside the Fairfield Inn is 6,500 square feet of meeting and event space. These hotels opened in May, 2009. The commercial portion of the development will have approximately 200,000 square feet of flex-industrial space (complete & partially occupied), 100,000 square feet of retail space, restaurant pad sites and up to 200,000 square feet of office space. In 2015, Jackson-Shaw started construction on three additional flex-industrial buildings.

Since the completion of SH121 in 2010, The Colony now has easy access to the North Dallas and George Bush Toll Ways providing easy access most of the DFW area. Traffic volume on SH 121, reaching nearly 100,000 vehicle trips per day, makes this corridor attractive for large retail establishments, offices and restaurants.

In 2011, the City negotiated an economic incentive package with LMG Ventures, LLC, a Texas limited liability company ("LMG"), and TXFM, Inc., a Texas corporation ("TXFM"), both wholly-owned subsidiaries of Nebraska Furniture Mart, Inc., a Nebraska corporation ("NFM"), a retailer of furniture, appliances, flooring, electronics and other merchandise for a retail project located in the 433 acres that is the City's Tax Increment Financing Zone ONE. The store was completed and opened in March of 2015. Numerous restaurants and two hotels have also located in the Zone. On the north side of SH121, in The Colony and across from Nebraska Furniture Mart, Rooms To Go and Mattress Firm opened their biggest stores in the area. Floor and Decor opened in 2016. Other new commercial development on the north side of SH121 in The Colony include Topgolf, five hotels, a medical office building, couple of shopping centers, and numerous restaurants and other businesses.

Construction values for commercial development for the FY25-26 budgeted year, the City has had a 3% increase in City property tax revenue, \$153 million new taxable value equating to approximately \$0.97 MM in increased revenue.

Residential construction for the FY25-26 budgeted year, the median home value has increased by slightly to \$495k, due largely to new construction home values.

**MAJOR BUSINESSES**

<u>Major Businesses</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Nebraska Furniture Mart	Retail	1500
Lewisville ISD	Education	558
Scheels	Retail	510
City of The Colony	Municipality	474
Wal-Mart	Discount Store	307
Top Golf	Entertainment	279
Home Depot	Hardware	231
Hawaiian Falls	Water Park	221
Quest Resource Mgmt	Retail	197
Andretti's	Entertainment	133

**FIRE AND POLICE PROTECTION . . .** The City of The Colony provides fire protection for residents with a combination of 99 paid employees. The fire department operates from five fire stations. The police department employs 87 sworn officers and 16 staff.

**OTHER COMMUNITY SERVICES AND FACILITIES . . .** The City of The Colony provides police, fire, ambulance, animal control, public works, recycling, parks & recreation, library, water and sewer service, planning, building inspections, engineering inspections, and residential and commercial garbage collection services for residents and businesses.

Other utilities serving the City include TXU Electric now known as ONCOR Electric and Atmos Gas Company, Co-Serv Electric and Gas Company, Time Warner Cable, AT&T, and Allied Waste Management for residential and commercial garbage collection.

Recreational opportunities in The Colony are afforded by adjacent 29,000 acre Lake Lewisville as well as more than 3,000 acres of available park land and natural space. City parks offer ball fields, an indoor/outdoor swimming pool facility, recreation center, community center, miles of scenic hike/bike trails, and a variety of seasonal outdoor sporting activities. Stewart Creek Park and Hidden Cove Park on Lake Lewisville offer numerous opportunities for camping, boating and fishing as well as group meeting facilities. The Colony Five Star Community Complex boasts some of the finest athletic fields in North Texas with seven baseball fields, six soccer fields, and two football fields. The complex also includes three star-shaped pavilions, three parking lots, hiking and biking trail, playgrounds, and a veteran’s memorial. The complex draws 40,000 people and generates \$2 to \$3 million in economic activities into the City annually. The Colony has also created very successful partnerships with private entities to provide additional amenities for local residents and regional visitors. Hidden Cove Park, Hawaiian Falls Water Park, the Tribute and Old American Golf Courses, Blue Sky Sports Center and Stewart Peninsula Golf Course are all privately operated facilities on public land. These facilities, while providing additional recreational services to residents also generate income for the City through lease fees without requiring City funds for maintenance.

The Colony also has a well-established public library with a collection of over 87,000 items, including popular materials in various formats, reference materials, periodicals, and research tools. Electronic resources offered include remote and in-house access to language courses, legal forms, car repair manuals, marketing and business information, award-winning educational resources, genealogy tools, a live on-line homework and job search help service, and over 50 authoritative electronic databases, as well as over 28,800 ebooks and over 1,600 downloadable audiobooks. The library also offers in-house internet access via Wi-Fi and a network of 29 workstations. Three early literacy workstations, (two English, one bilingual) were added this year via a Praxair Foundation grant.

**EMPLOYMENT STATISTICS . . .** Employment figures for Denton County, as reported by the Texas Employment Commission, are as follows:

	Average Annual <u>2025</u>	Average Annual <u>2024</u>	Average Annual <u>2023</u>	Average Annual <u>2022</u>	Average Annual <u>2021</u>
Civilian Labor Force	602,948	594,996	581,563	556,405	526,040
Total Employed	580,447	572,903	560,655	538,019	502,502
Unemployed	22,501	22,093	20,908	18,386	23,538
% Unemployed	3.7%	3.7%	3.6%	3.3%	4.5%

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**APPENDIX B**

EXCERPTS FROM THE  
CITY OF THE COLONY, TEXAS  
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2025

The information contained in this Appendix consists of excerpts from the City of The Colony, Texas Annual Financial Report for the Year Ended September 30, 2025, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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## Independent Auditor's Report

To the Mayor and  
Members of the City Council  
City of The Colony, Texas  
The Colony, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of The Colony, Texas (the City) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 City 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.

#### ***Emphasis of Matter***

As discussed in Notes 1 and 13 to the financial statements, the City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended September 30, 2025. Accordingly, a restatement has been made to the governmental activities, business-type activities, aggregate discretely presented component units, and water and sewer fund net position as of October 1, 2024 to restate beginning net position. Our opinions are not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule – General Fund, Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System, Schedule of Employer Contributions – Texas Municipal Retirement System, Schedule of Changes in Total OPEB Liability and Related Ratios – Supplemental Death Benefits Plan 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 City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our 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 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 9, 2026 on our consideration of the City'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 City'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 City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Abilene, Texas  
March 9, 2026

**CITY OF THE COLONY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

The City of The Colony (the City) is providing this narrative overview and analysis of its financial activities for the fiscal year ended September 30, 2025. This Management's Discussion and Analysis (MD&A) provides additional information that was not contained in the Letter of Transmittal. Readers are advised to read both to gain an understanding of the financial picture of the City. This discussion and analysis includes prior year data for comparison purposes.

**Financial Highlights**

- The City's total assets and deferred outflows of resources exceeded the City's total liabilities and deferred inflows of resources at the close of the fiscal year by \$391.16 million. Of this amount \$43.65 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$1.47 million which was due primarily to a decrease of governmental activity operations.
- At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$95.12 million, an increase of \$38.04 million. The general fund reported a decrease in fund balance of \$10.12 million due to a \$9.98 million disbursement relating to Tax Increment Reinvestment Zone (TIRZ) No. 2. The capital projects fund had an increase in fund balance of \$51.16 million due primarily to the receipt of debt proceeds.
- Of the fund balances in the governmental funds, \$26.27 million is available for spending at the government's discretion (unassigned fund balance). This amount represents 28% of total general fund expenditures.
- The City adopted GASB Statement No. 101, *Compensated Absences*, in the current fiscal year. As a result, beginning net position was restated. Therefore, the prior-period information is not consistent with current-period information as a result of this change in accounting principle. For additional information, see Note 13 of the Notes to the Financial Statements section of the Basic Financial Statements section of this report.

**Overview of the Financial Statements**

The MD&A serves as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

The report also contains other supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements**

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as incurred regardless of when cash is received or paid. Thus, revenues and expenses are reported on accrual basis even though cash flows occur in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

**CITY OF THE COLONY, TEXAS  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

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

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation, legally separate community development corporation, and a legally separate local development corporation, for which the City of The Colony is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

In the Statement of Net Position and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental activities – Most of the City’s basic services are reported as governmental activities, including the general government, public safety, public works, and culture and recreation. Taxes and intergovernmental revenues principally support these services.
- Business-type activities – Functions that are intended to recover all or a significant portion of their costs through user fees and charges are considered business-type activities. The business-type activities of the City include Water and Sewer Utility.
- Component units – The City includes three separate legal entities, The Colony Economic Development Corporation, The Colony Community Development Corporation, and The Colony Local Development Corporation in its report. Although they are legally separate, they are included as component units because the City is accountable for them. Financial information for these component units is reported separately from the financial information presented for the primary government.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of the City can be divided into two categories:

**Governmental Funds**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The City maintains 19 governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental

**CITY OF THE COLONY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund, the Capital Projects Fund, and the Pandemic Response Fund all of which are considered to be major funds. Non-major governmental funds are aggregated in total. The City adopts annual budgets for its General Fund, Debt Service Fund, Lake Parks Fund, Special Events Fund, Hotel/Motel Taxes Fund, Public Safety Fund, and Storm Water Utility Fund. The budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budgets.

**Proprietary Funds**

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operation. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water and sewer utility fund is considered to be a major fund of the City.

**Notes to the Financial Statements**

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

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City. This MD&A is part of the required supplementary information.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of the close of the current fiscal year, the City's net position totaled \$391.16 million.

The largest portion of the City's net position (83.6%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot generate revenues to liquidate these liabilities.

An additional portion of the City's net position (5.2%) represents resources that are subject to external restrictions on how they may be used (primarily for debt service and infrastructure improvements). The remaining balance of net position, \$43.65 million, or 11.2%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City has positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities.

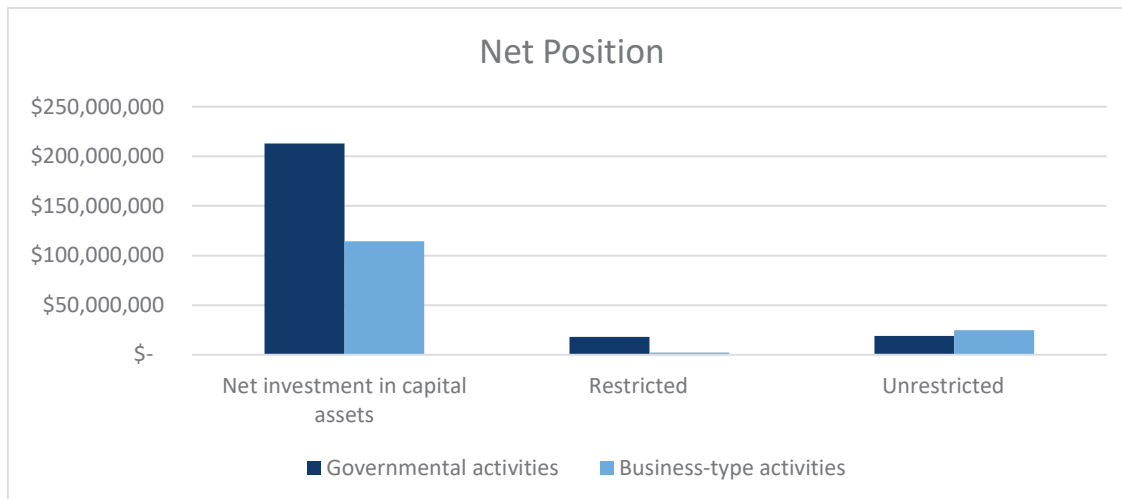
**CITY OF THE COLONY, TEXAS  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	Governmental activities		Business-type activities		Total	
	2025	2024	2025	2024	2025	2024
<b>Assets</b>						
Current and other assets	\$ 121,391,472	\$ 82,467,371	\$ 43,319,498	\$ 33,942,522	\$ 164,710,970	\$ 116,409,893
Capital assets	304,891,503	282,712,180	158,556,863	155,447,395	463,448,366	438,159,575
Total assets	426,282,975	365,179,551	201,876,361	189,389,917	628,159,336	554,569,468
<b>Deferred outflows of resources</b>						
Deferred charge on refunding	36,073	80,058	44,727	162,437	80,800	242,495
Deferred outflows - pension	5,319,734	6,847,677	863,204	1,099,750	6,182,938	7,947,427
Deferred outflows - OPEB	119,276	175,229	19,354	28,143	138,630	203,372
Total deferred outflows of resources	5,475,083	7,102,964	927,285	1,290,330	6,402,368	8,393,294
<b>Liabilities</b>						
Long-term liabilities	153,367,811	86,499,066	59,175,612	57,332,045	212,543,423	143,831,111
Other liabilities	21,473,049	19,755,844	2,151,634	2,705,141	23,624,683	22,460,985
Total liabilities	174,840,860	106,254,910	61,327,246	60,037,186	236,168,106	166,292,096
<b>Deferred inflows of resources</b>						
Deferred inflows - lease related	5,189,355	5,432,587	-	-	5,189,355	5,432,587
Deferred inflows - pension	1,445,487	236,607	234,551	37,999	1,680,038	274,606
Deferred inflows - OPEB	313,247	348,209	50,829	55,922	364,076	404,131
Total deferred inflows of resources	6,948,089	6,017,403	285,380	93,921	7,233,469	6,111,324
<b>Net position</b>						
Net investment in capital assets	212,965,547	211,834,115	114,245,912	108,929,168	327,211,459	320,763,283
Restricted	18,022,401	17,695,407	2,277,964	2,565,461	20,300,365	20,260,868
Unrestricted	18,981,161	30,480,680	24,667,144	19,054,511	43,648,305	49,535,191
Total net position	\$ 249,969,109	\$ 260,010,202	\$ 141,191,020	\$ 130,549,140	\$ 391,160,129	\$ 390,559,342

The City’s net position decreased by \$1.47 million. Total assets increased by \$73.59 million, which consists of a \$25.29 million increase to capital assets and a \$48.30 million increase to current and other assets.

**Governmental activities** - Governmental activities decreased the City’s net position by \$11.92 million compared to prior year due primarily to the reimbursement, in the current year, of prior years’ Tax Increment Reinvestment Zone (TIRZ) project costs incurred by developers.

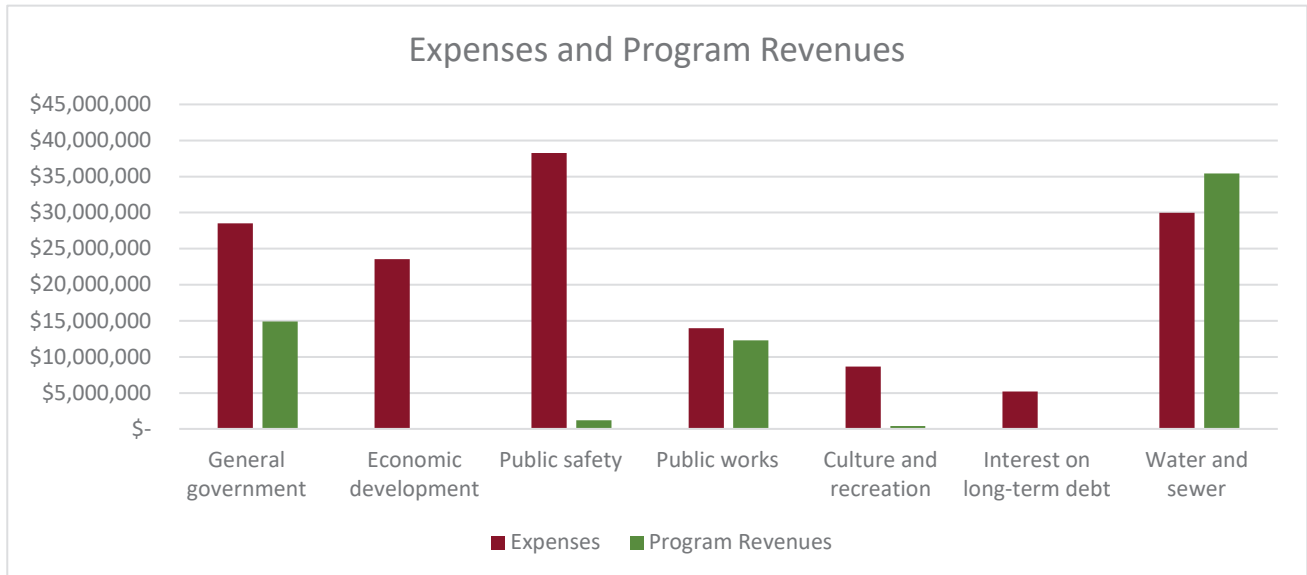
**Business-type activities** - Business-type activities increased the City’s net position by \$10.45 million, which is slightly less than the prior year’s increase to net position of \$11.85 million.



**CITY OF THE COLONY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	Governmental activities		Business-type activities		Total	
	2025	2024	2025	2024	2025	2024
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 12,260,327	\$ 8,219,593	\$ 29,855,805	\$ 29,399,479	\$ 42,116,132	\$ 37,619,072
Operating grants and contributions	5,309,476	745,364	-	-	5,309,476	745,364
Capital grants and contributions	11,269,848	11,841,212	5,562,677	6,954,214	16,832,525	18,795,426
General revenues						
Property taxes	45,551,241	34,615,211	-	-	45,551,241	34,615,211
Sales taxes	20,245,550	9,990,559	-	-	20,245,550	9,990,559
Franchise taxes	2,987,086	5,159,631	-	-	2,987,086	5,159,631
Hotel occupancy tax	2,332,854	2,538,159	-	-	2,332,854	2,538,159
Other taxes	926,739	925,917	-	-	926,739	925,917
Investment income	4,010,660	4,504,997	2,447,584	1,740,533	6,458,244	6,245,530
Other income	3,925,239	3,356,911	-	-	3,925,239	3,356,911
<b>Total revenues</b>	<b>108,819,020</b>	<b>81,897,554</b>	<b>37,866,066</b>	<b>38,094,226</b>	<b>146,685,086</b>	<b>119,991,780</b>
<b>Expenses:</b>						
General government	28,526,147	18,523,136	-	-	28,526,147	18,523,136
Economic development	23,534,525	-	-	-	23,534,525	-
Public safety	38,277,402	33,148,673	-	-	38,277,402	33,148,673
Public works	13,991,191	14,521,855	-	-	13,991,191	14,521,855
Culture and recreation	8,679,083	8,504,034	-	-	8,679,083	8,504,034
Interest on long-term debt	5,181,255	1,447,788	-	-	5,181,255	1,447,788
Water and sewer	-	-	29,961,104	29,933,931	29,961,104	29,933,931
<b>Total expenses</b>	<b>118,189,603</b>	<b>76,145,486</b>	<b>29,961,104</b>	<b>29,933,931</b>	<b>148,150,707</b>	<b>106,079,417</b>
Increase in net position before transfers	(9,370,583)	5,752,068	7,904,962	8,160,295	(1,465,621)	13,912,363
Net transfers	(2,547,395)	(4,400,000)	2,547,395	4,400,000	-	-
Change in net position	(11,917,978)	1,352,068	10,452,357	12,560,295	(1,465,621)	13,912,363
Net position, beginning, as previously report	260,010,202	258,658,134	130,549,140	117,988,845	390,559,342	376,646,979
Change in accounting principle	1,876,885	-	189,523	-	2,066,408	-
Net position, beginning, as restated	261,887,087	258,658,134	130,738,663	117,988,845	392,625,750	376,646,979
<b>Net position, ending</b>	<b>\$ 249,969,109</b>	<b>\$ 260,010,202</b>	<b>\$ 141,191,020</b>	<b>\$ 130,549,140</b>	<b>\$ 391,160,129</b>	<b>\$ 390,559,342</b>

The following chart compares expenses to program revenues, by Function, for the current fiscal year.



**CITY OF THE COLONY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$95.12 million, an increase of \$38.04 million in comparison with the prior year. Of this ending fund balance, \$26.27 million, or approximately 28.5%, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it has already been committed or restricted or is nonspendable.

Nonspendable fund balance consisted of \$0.43 million for inventories and prepaid items.

Restricted fund balance consisted of:

- \$552,240 for TIRZ,
- \$72 for Pandemic Response,
- \$5,544,847 for debt service,
- \$51,792,762 for capital projects,
- \$3,889,980 for hotel/motel taxes,
- \$1,648,371 for storm water utility,
- \$847,450 for public safety,
- \$11,128 for citizens donations, and
- \$1,083,086 for Public Improvement District No. 1.

Committed fund balance consisted of:

- \$2,862,636 for Lake Parks,
- \$176,672 for special events, and
- \$10,800 for Keep the Colony Beautiful.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$26.27 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 28.27% of total general fund expenditures (excluding transfers to other funds).

The fund balance of the City's General Fund decreased by \$10.12 million during the current fiscal year due to an excess of expenditures over revenue.

The Debt Service Fund has a total fund balance of \$5.54 million, all of which is restricted for the payment of debt service. The decrease in fund balance during the current year in the Debt Service Fund was \$1.58 million. The City has a dedicated property tax for general debt service. The property tax produced debt service fund revenues of \$10.42 million in the current fiscal year while debt service payments for principal and interest on debt were \$10.95 million.

The Capital Projects Fund has a total fund balance of \$51.97 million, with the fund balance restricted for future expenditures of currently approved capital items. The \$51.16 million increase in fund balance during the year was attributable to the receipt of debt proceeds.

**CITY OF THE COLONY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

The Pandemic Response Fund has a total fund balance of \$72, which is restricted grant funding. There was no change in the fund balance during the year.

**Proprietary Funds**

The City's proprietary funds provide the same type of information found in the governmental-wide financial statements, but in more detail. Operating revenues in the water and sewer fund totaled \$29.86 million, an increase from prior year's amount of \$29.40 million due to holding rates flat and consistent water usage compared to prior year. Operating expenses totaled \$25.60 million, a decrease from prior year's amount of \$28.07 million due to a decrease in supplies cost.

**General Fund Budgetary Highlights**

During the year, there was an increase in appropriations of \$1.34 million between the original and final budget. Overall, revenues had a \$10.76 million positive variance primarily due to unbudgeted residential sanitation revenue and unbudgeted intergovernmental transfers from the City's component unit. There was an unfavorable variance of \$3.74 million between final budget and actual expenditures which was primarily due capital outlay which included the initial recognition of an unbudgeted subscription-based information technology arrangement (SBITA) for Public Safety, as well as unbudgeted intergovernmental transfers to the City's component unit.

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2025, amounts to \$463,448,366 (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings, water and sewer system infrastructure, machinery and equipment, park facilities, roads and right to use assets. The City's total depreciation/amortization expense amounts to \$13,057,971 for its governmental activities and \$6,550,409 for its business-type activities.

The following schedule shows capital assets net of accumulated depreciation/amortization.

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land	\$ 8,400,625	\$ 7,999,486	\$ 3,273,473	\$ 3,273,473	\$ 11,674,098	\$ 11,272,959
Rights-of-way	25,571,036	25,571,036	-	-	25,571,036	25,571,036
Construction in progress	42,560,980	34,465,849	8,622,818	5,937,663	51,183,800	40,403,512
Buildings	29,040,236	30,420,494	11,918,413	12,119,669	40,958,649	42,540,163
Improvements other than buildings	11,179,388	10,243,341	-	-	11,179,388	10,243,341
Swimming pool	2,115,758	411,130	-	-	2,115,758	411,130
Water system	-	-	62,882,771	61,180,214	62,882,771	61,180,214
Sanitary system	-	-	64,050,328	64,912,344	64,050,328	64,912,344
Drainage system	-	-	23,947	25,696	23,947	25,696
Machinery and equipment	10,611,271	7,861,887	1,758,435	1,725,410	12,369,706	9,587,297
Infrastructure	173,311,145	164,620,580	6,026,678	6,272,926	179,337,823	170,893,506
Right to use leased assets	739,474	905,953	-	-	739,474	905,953
Right to use SBITA assets	1,361,588	212,424	-	-	1,361,588	212,424
	<u>\$ 304,891,501</u>	<u>\$ 282,712,180</u>	<u>\$ 158,556,863</u>	<u>\$ 155,447,395</u>	<u>\$ 463,448,366</u>	<u>\$ 438,159,575</u>

Additional information on the City's capital assets can be found in note 6 of the notes to the financial statements.

**Debt Administration**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$174,825,000. The entire amount represents debt backed by the full faith and credit of the City. The City also had leases payable of \$667,250, subscriptions payable of \$1,380,449, and financed purchase liabilities of \$4,901,599 at fiscal year-end.

**CITY OF THE COLONY, TEXAS  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Additional information on the City’s long-term debt can be found in note 6 of the notes to the financial statements.

The City’s general and revenue obligations maintain an AA+ rating, respectively from Standard & Poor’s and an Aa2 rating respectively from Moody’s Investors Service. The high rating speaks well of the City’s proactive approach to economic development and financial management.

The revenue supported debt in the Water and Sewer Fund is limited to the net revenues equal to at least 1.10 times the maximum annual principal and interest requirements and 1.25 times the average annual principal and interest requirements of all parity bonds to be outstanding.

**Economic Factors and Next Year’s Budget and Rates**

Total current Ad Valorem Taxes budgeted for fiscal year 2025-2026 are approximately \$42.1 million, which is a 10% increase from the current year.

Total sales tax is projected to remain strong due to continued economic growth from commercial construction.

**Requests for Information**

This financial report is designed to provide a general overview of the City’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, The City of The Colony, 6053 Main Street, The Colony, Texas 75056.

City of The Colony, Texas  
Statement of Net Position (Exhibit A-1)  
September 30, 2025

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 109,337,110	\$ 17,290,214	\$ 126,627,324	\$ 43,219,231
Receivables (net of allowance)	11,625,244	3,450,588	15,075,832	3,300,932
Due from other governments	-	-	-	1,575,409
Inventories	104,454	159,918	264,372	-
Prepaid items	324,666	-	324,666	2,424,046
Restricted:				
Cash and investments	-	22,418,778	22,418,778	28,043,665
Capital assets:				
Non-depreciable	76,532,641	11,896,291	88,428,932	28,677,089
Depreciable (net)	226,257,798	146,660,572	372,918,370	871,134
Right-to-use assets (net)	2,101,062	-	2,101,062	-
Total assets	<u>426,282,975</u>	<u>201,876,361</u>	<u>628,159,336</u>	<u>108,111,506</u>
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding	36,073	44,727	80,800	258,227
Deferred outflows - pension	5,319,734	863,204	6,182,938	59,076
Deferred outflows - OPEB	119,276	19,354	138,630	1,324
Total deferred outflows of resources	<u>5,475,083</u>	<u>927,285</u>	<u>6,402,368</u>	<u>318,627</u>
<b>Liabilities</b>				
Accounts payable	7,083,484	914,968	7,998,452	49,213
Accrued liabilities	1,317,258	-	1,317,258	424,331
Accrued interest payable	1,460,500	-	1,460,500	5,055,618
Retainage payable	1,070,491	-	1,070,491	-
Other liabilities	666,964	-	666,964	-
Due to other governments	1,575,409	-	1,575,409	-
Unearned revenues	8,298,943	-	8,298,943	-
Payable from restricted assets:				
Accounts payable and accrued liabilities	-	66,446	66,446	-
Accrued interest payable	-	338,793	338,793	-
Customer meter deposits	-	831,427	831,427	-
Noncurrent liabilities				
Due within one year	10,261,858	5,184,608	15,446,466	5,276,689
Due in more than one year	143,105,953	53,991,004	197,096,957	178,368,443
Total liabilities	<u>174,840,860</u>	<u>61,327,246</u>	<u>236,168,106</u>	<u>189,174,294</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - lease related	5,189,355	-	5,189,355	-
Deferred inflows - pension	1,445,487	234,551	1,680,038	16,053
Deferred inflows - OPEB	313,247	50,829	364,076	3,479
Total deferred inflows of resources	<u>6,948,089</u>	<u>285,380</u>	<u>7,233,469</u>	<u>19,532</u>
<b>Net Position</b>				
Net investment in capital assets	212,965,547	114,245,912	327,211,459	440,057
Restricted for capital projects	5,654,304	2,277,964	7,932,268	-
Restricted for specific programs	8,233,792	-	8,233,792	-
Restricted for debt service	4,134,305	-	4,134,305	-
Unrestricted	18,981,161	24,667,144	43,648,305	(81,203,750)
Total net position	<u>\$ 249,969,109</u>	<u>\$ 141,191,020</u>	<u>\$ 391,160,129</u>	<u>\$ (80,763,693)</u>

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

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City of The Colony, Texas  
Statement of Activities (Exhibit A-2)  
Year Ended September 30, 2025

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 30,077,791	\$ 7,626,473	\$ 5,309,476	\$ 1,984,255
Economic development	23,534,525	-	-	-
Public safety	39,113,883	1,226,523	-	-
Public works	11,603,066	3,014,517	-	9,285,593
Culture and recreation	8,679,083	392,814	-	-
Interest and fiscal charges on long-term debt	5,181,255	-	-	-
Total governmental activities	<u>118,189,603</u>	<u>12,260,327</u>	<u>5,309,476</u>	<u>11,269,848</u>
Business-type activities				
Water and sewer	29,961,104	29,855,805	-	5,562,677
Total business-type activities	<u>29,961,104</u>	<u>29,855,805</u>	<u>-</u>	<u>5,562,677</u>
Total primary government	<u>148,150,707</u>	<u>42,116,132</u>	<u>5,309,476</u>	<u>16,832,525</u>
Component units				
The Colony Economic Development Corporation	7,290,216	-	-	-
The Colony Community Development Corporation	8,748,587	-	-	-
The Colony Local Development Corporation	8,339,680	-	12,344,444	-
Total component units	<u>\$ 24,378,483</u>	<u>\$ -</u>	<u>\$ 12,344,444</u>	<u>\$ -</u>
General Revenues				
Taxes				
Property taxes				
Sales taxes				
Franchise taxes				
Hotel occupancy tax				
Other taxes				
Investment income (loss)				
Other income				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning, as previously reported				
Change in accounting principle (See Note 13)				
Net position, beginning, as restated				
Net position, ending				

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

City of The Colony, Texas  
Statement of Activities (Exhibit A-2) - continued  
Year Ended September 30, 2025

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (15,157,587)	\$ -	\$ (15,157,587)	
(23,534,525)	-	(23,534,525)	
(37,887,360)	-	(37,887,360)	
697,044	-	697,044	
(8,286,269)	-	(8,286,269)	
<u>(5,181,255)</u>	<u>-</u>	<u>(5,181,255)</u>	
<u>(89,349,952)</u>	<u>-</u>	<u>(89,349,952)</u>	
<u>-</u>	<u>5,457,378</u>	<u>5,457,378</u>	
<u>-</u>	<u>5,457,378</u>	<u>5,457,378</u>	
<u>(89,349,952)</u>	<u>5,457,378</u>	<u>(83,892,574)</u>	
			(7,290,216)
			(8,748,587)
			<u>4,004,764</u>
			<u>(12,034,039)</u>
45,551,241	-	45,551,241	-
20,245,550	-	20,245,550	19,719,150
2,987,086	-	2,987,086	-
2,332,854	-	2,332,854	-
926,739	-	926,739	-
4,010,660	2,447,584	6,458,244	2,455,004
3,925,239	-	3,925,239	1,565,739
<u>(2,547,395)</u>	<u>2,547,395</u>	<u>-</u>	<u>-</u>
<u>77,431,974</u>	<u>4,994,979</u>	<u>82,426,953</u>	<u>23,739,893</u>
(11,917,978)	10,452,357	(1,465,621)	11,705,854
260,010,202	130,549,140	390,559,342	(92,500,205)
1,876,885	189,523	2,066,408	30,658
<u>261,887,087</u>	<u>130,738,663</u>	<u>392,625,750</u>	<u>(92,469,547)</u>
<u>\$ 249,969,109</u>	<u>\$ 141,191,020</u>	<u>\$ 391,160,129</u>	<u>\$ (80,763,693)</u>

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

City of The Colony, Texas  
Balance Sheet – Governmental Funds (Exhibit A-3)  
September 30, 2025

	General	Pandemic Response	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments	\$ 27,453,178	\$ 8,495,312	\$ 5,545,341	\$ 57,612,289	\$ 10,230,990	\$ 109,337,110
Receivables (net of allowance)						
Property taxes	473,701	-	49,959	-	-	523,660
Sales taxes	3,300,932	-	-	-	-	3,300,932
Hotel/motel taxes	-	-	-	-	491,975	491,975
Franchise taxes	378,784	-	-	-	-	378,784
Service accounts	409,574	-	-	-	-	409,574
Leases	3,946,530	-	-	-	1,541,691	5,488,221
Miscellaneous	877,719	-	-	-	154,379	1,032,098
Inventories	104,454	-	-	-	-	104,454
Prepaid items	136,295	-	-	175,462	12,909	324,666
Total assets	<u>\$ 37,081,167</u>	<u>\$ 8,495,312</u>	<u>\$ 5,595,300</u>	<u>\$ 57,787,751</u>	<u>\$ 12,431,944</u>	<u>\$ 121,391,474</u>
<b>Liabilities</b>						
Accounts payable	\$ 1,920,368	\$ 196,297	\$ 495	\$ 4,778,117	\$ 188,207	\$ 7,083,484
Accrued liabilities	1,298,474	-	-	-	18,784	1,317,258
Retainage payable	-	-	-	1,040,690	29,801	1,070,491
Other liabilities	666,244	-	-	720	-	666,964
Due to other governments	1,575,409	-	-	-	-	1,575,409
Unearned revenue	-	8,298,943	-	-	-	8,298,943
Total liabilities	<u>5,460,495</u>	<u>8,495,240</u>	<u>495</u>	<u>5,819,527</u>	<u>236,792</u>	<u>20,012,549</u>
<b>Deferred Inflows of Resources</b>						
Leases	3,738,700	-	-	-	1,450,655	5,189,355
Unavailable property taxes	473,700	-	49,958	-	-	523,658
Unavailable revenue	342,231	-	-	-	201,465	543,696
Total deferred inflows of resources	<u>4,554,631</u>	<u>-</u>	<u>49,958</u>	<u>-</u>	<u>1,652,120</u>	<u>6,256,709</u>
<b>Fund Balances</b>						
Nonspendable	240,749	-	-	175,462	12,909	429,120
Restricted	552,240	72	5,544,847	51,792,762	7,480,015	65,369,936
Committed	-	-	-	-	3,050,108	3,050,108
Unassigned	26,273,052	-	-	-	-	26,273,052
Total fund balances	<u>27,066,041</u>	<u>72</u>	<u>5,544,847</u>	<u>51,968,224</u>	<u>10,543,032</u>	<u>95,122,216</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 37,081,167</u>	<u>\$ 8,495,312</u>	<u>\$ 5,595,300</u>	<u>\$ 57,787,751</u>	<u>\$ 12,431,944</u>	<u>\$ 121,391,474</u>

Total Fund Balances - Governmental Funds	\$ 95,122,216
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.	304,891,501
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. As a result, these liabilities decrease net position:	
Leases payable	(667,250)
SBITAs payable	(1,380,449)
Bonds payable	(122,073,869)
Financed purchases payable	(4,901,599)
Unamortized premium on issuance of debt	(9,077,318)
Accrued compensated absences	(2,870,370)
Deferred charge on bond refunding is not included in the governmental funds but is deferred and amortized in the government wide statements.	36,073
Payables for interest on long-term debt obligations which are not due in the current period are not reported in the fund financial statements but are included in the statement of net position. This results in a decrease in net position.	(1,460,500)
Included in liabilities is the recognition of the City's net pension liability in the amount of \$11,524,003, a deferred inflow of resources of \$1,445,487 and a deferred outflow of resources of \$5,319,734. This results in a decrease in net position.	(7,649,756)
Included in liabilities is the recognition of the City's total OPEB liability in the amount of \$872,953, a deferred inflow of resources of \$313,247, and a deferred outflow of resources of \$119,276. This results in a decrease in net position.	(1,066,924)
Other adjustments are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. Net property taxes receivable of \$523,658 and net fines, fees and court costs receivable of \$543,696 were unavailable to pay for the current period expenditures and are deferred inflows in the governmental funds but are recognized as revenue in the government wide statements. This results in an increase in net position.	1,067,354
Net Position of Governmental Activities	<u>\$ 249,969,109</u>

City of The Colony, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit A-5)  
Year Ended September 30, 2025

	General	Pandemic Response	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
<b>Taxes</b>						
Property	\$ 35,017,518	\$ -	\$ 10,423,272	\$ -	\$ -	\$ 45,440,790
Sales	20,245,550	-	-	-	-	20,245,550
Mixed beverage tax	926,739	-	-	-	-	926,739
Hotel occupancy tax	-	-	-	-	2,332,854	2,332,854
Franchise	2,987,086	-	-	-	-	2,987,086
Licenses and permits	1,634,545	-	-	836,276	392,814	2,863,635
Fines and forfeitures	1,148,862	-	-	-	140,409	1,289,271
Charges for services	5,165,305	-	-	-	2,442,294	7,607,599
Gifts and contributions	-	-	-	18,640	234	18,874
Intergovernmental	5,309,476	-	-	3,500,000	-	8,809,476
Grants	90,281	1,838,954	-	-	55,020	1,984,255
Investment income	3,356,437	-	546,432	-	107,791	4,010,660
Miscellaneous income	3,080,481	-	-	3,010	841,748	3,925,239
<b>Total revenues</b>	<b>78,962,280</b>	<b>1,838,954</b>	<b>10,969,704</b>	<b>4,357,926</b>	<b>6,313,164</b>	<b>102,442,028</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	24,016,429	-	-	-	942,086	24,958,515
Economic development	23,534,525	-	-	-	-	23,534,525
Culture and recreation	4,791,887	-	-	-	2,888,518	7,680,405
Public works	2,356,275	-	-	6,742,261	13,400	9,111,936
Public safety	34,179,120	-	-	-	85,823	34,264,943
Capital outlay	2,835,322	1,838,954	-	26,781,504	436,647	31,892,427
<b>Debt service</b>						
Principal	974,235	-	7,512,794	672,773	-	9,159,802
Interest and fiscal charges	257,103	-	3,436,822	55,744	-	3,749,669
<b>Total expenditures</b>	<b>92,944,896</b>	<b>1,838,954</b>	<b>10,949,616</b>	<b>34,252,282</b>	<b>4,366,474</b>	<b>144,352,222</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(13,982,616)	-	20,088	(29,894,356)	1,946,690	(41,910,194)
<b>Other Financing Sources (Uses)</b>						
Proceeds from par value of bonds issued	-	-	-	73,630,000	-	73,630,000
Bond premium proceeds	-	-	-	5,260,927	-	5,260,927
Bond issuance costs	-	-	-	(827,468)	-	(827,468)
Lease proceeds	41,742	-	-	-	-	41,742
Subscription IT proceeds	1,942,391	-	-	-	-	1,942,391
Transfers out	(41,384)	-	(1,600,000)	(206,068)	(4,811,679)	(6,659,131)
Transfers in	1,916,068	-	-	3,195,605	1,447,458	6,559,131
<b>Total other financing sources (uses)</b>	<b>3,858,817</b>	<b>-</b>	<b>(1,600,000)</b>	<b>81,052,996</b>	<b>(3,364,221)</b>	<b>79,947,592</b>
<b>Net Change in Fund Balance</b>	<b>(10,123,799)</b>	<b>-</b>	<b>(1,579,912)</b>	<b>51,158,640</b>	<b>(1,417,531)</b>	<b>38,037,398</b>
Fund balance, beginning	37,189,840	72	7,124,759	809,584	11,960,563	57,084,818
<b>Fund balance, ending</b>	<b>\$ 27,066,041</b>	<b>\$ 72</b>	<b>\$ 5,544,847</b>	<b>\$ 51,968,224</b>	<b>\$ 10,543,032</b>	<b>\$ 95,122,216</b>

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

City of The Colony, Texas

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities (Exhibit A-6)  
Year Ended September 30, 2025

Net Change in Fund Balances - Total Governmental Funds	\$	38,037,398
Amounts reported for governmental activities in the statement of activities are different because:		
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements.		31,948,819
Developer contributions increase capital assets in the government-wide financial statements.		5,785,593
Transfers of capital assets to business-type activities are shown as decreases in capital assets in assets in the government-wide financial statements, but are not included in the fund financial statements.		(2,447,395)
The net book value of capital assets disposed reduces net position.		(49,725)
Depreciation and amortization are not recognized as an expenditure in governmental funds since it does not require the use of current financial resources.		(13,057,971)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Issuance of leases	(41,742)	
Issuance of SBITAs	(1,942,391)	
Proceeds from bond issuance	(78,890,927)	
Bond principal repayments	7,512,791	
Lease principal repayment	202,728	
SBITA principal repayment	771,510	
Notes payable principal repayment	672,773	
Amortization of bond premium	618,534	
Amortization of deferred gain on bond refunding	(43,985)	
		(71,140,709)
Changes in long-term liabilities for compensated absences are not reported in the governmental funds but are included in the statement of activities.		(123,844)
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 current year change in the interest accrual is a decrease in net position.		(1,178,667)
Certain pension expenditures that are recorded in the fund financial statements must be recorded as deferred outflows of resources. Contributions made after the measurement date caused the change in net position to increase in the amount of \$438,425. The City's unrecognized deferred inflows and outflows for TMRS as of the measurement date must be amortized and the City's pension expense must be recognized. These cause the change in net position to decrease in the amount of \$699,543.		(261,118)
Certain OPEB expenditures that are recorded in the fund financial statements must be recorded as deferred outflows of resources. Contributions made after the measurement date caused the change in net position to decrease in the amount of \$504. The City's unrecognized deferred inflows and outflows for TMRS as of the measurement date must be amortized and the City's OPEB expense must be recognized. These cause the change in net position to decrease in the amount of \$21,254.		(21,758)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred inflows of resources as revenue, adjusting current year revenue to include the revenue earned from current year's tax levy, and eliminating interfund transactions. These adjustments result in an increase in net position.		591,399
Change in Net Position of Governmental Activities	\$	(11,917,978)

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

City of The Colony, Texas  
Statement of Net Position – Proprietary Funds (Exhibit A-7)  
September 30, 2025

	Business-Type Activities
	Water and Sewer Enterprise Fund
Assets	
Current assets	
Cash and investments	\$ 17,290,214
Receivables (net of allowance)	
Accounts	3,447,928
Miscellaneous	2,660
Inventories	159,918
Restricted cash and investments	22,418,778
Total current assets	43,319,498
Noncurrent assets	
Capital assets	
Land	3,273,473
Water system and sanitary sewer system	203,640,446
Drainage system	1,684,364
Buildings	13,279,490
Machinery and equipment	6,784,904
Infrastructure	8,423,992
Construction in progress	8,622,818
Less accumulated depreciation	(87,152,624)
Total capital assets, net	158,556,863
Total assets	201,876,361
Deferred Outflows of Resources	
Deferred charge on refunding	44,727
Deferred outflows - pension	863,204
Deferred outflows - OPEB liability	19,354
Total deferred outflows of resources	927,285

City of The Colony, Texas  
Statement of Net Position – Proprietary Funds (Exhibit A-7) - continued  
September 30, 2025

Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	914,968
Accrued compensated absences due within one year	324,728
Current portion of total OPEB liability	3,576
Payable from restricted assets:	
Accounts payable and accrued liabilities	66,446
Revenue bonds payable	4,856,304
Accrued interest payable	338,793
Customer meter deposits	831,427
Total current liabilities	<u>7,336,242</u>
Noncurrent liabilities	
Revenue bonds payable	51,979,714
Accrued compensated absences not due within one year	3,280
Net pension liability	1,869,937
Total OPEB liability	138,073
Total noncurrent liabilities	<u>53,991,004</u>
Total liabilities	<u>61,327,246</u>
Deferred Inflows of Resources	
Deferred inflows - pension	234,551
Deferred inflows - OPEB	50,829
Total deferred inflows of resources	<u>285,380</u>
Net Position	
Net investment in capital assets	114,245,912
Restricted for construction	2,277,964
Unrestricted	24,667,144
Total net position	<u>\$ 141,191,020</u>

City of The Colony, Texas

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds (Exhibit A-8)

Year Ended September 30, 2025

	Business-Type Activities <u>Water and Sewer Enterprise Fund</u>
Operating Revenues	
Charges for sales and services:	
Water service	\$ 17,856,641
Wastewater treatment service	9,731,892
Other fees and penalties	1,206,342
Service charges	1,019,183
Miscellaneous	41,747
Total Operating Revenues	<u>29,855,805</u>
Operating Expenses	
Personnel services	7,980,219
Contractual services	2,456,383
Supplies	4,810,309
Maintenance	1,723,047
Water purchases	30,382
Overhead	4,498,631
Depreciation	6,550,409
Total Operating Expenses	<u>28,049,380</u>
Operating Income	<u>1,806,425</u>
Nonoperating Revenues (Expenses)	
Investment income	2,447,584
Interest and fiscal charges	(1,911,724)
Total Nonoperating (Expenses) Revenues	<u>535,860</u>
Income Before Contributions and Transfers	<u>2,342,285</u>
Contributions and Transfers	
Capital contributions	4,794,101
Development fees	768,576
Transfers in	2,547,395
Total Contributions and Transfers	<u>8,110,072</u>
Change in net position	10,452,357
Net position, beginning, as previously reported	130,549,140
Change in accounting principle (See Note 13)	189,523
Net position, beginning, as restated	<u>130,738,663</u>
Net position, ending	<u>\$ 141,191,020</u>

City of The Colony, Texas  
Statement of Cash Flows – Proprietary Funds (Exhibit A-9)  
Year Ended September 30, 2025

	Business-Type Activities Water and Sewer Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 29,738,581
Payments to or on behalf of employees	(7,892,409)
Payments to suppliers	(14,198,068)
Net Cash Provided by Operating Activities	7,648,104
Cash Flows from Noncapital Financing Activities	
Transfers in	100,000
Net Cash Provided by Noncapital Financing Activities	100,000
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(2,418,381)
Issuance of bonds	7,546,089
Principal paid on bonds	(4,742,209)
Interest paid on bonds	(2,130,440)
Development fees	768,576
Net Cash Used by Capital and Related Financing Activities	(976,365)
Cash Flows from Investing Activities	
Interest received	2,458,525
Net Cash Provided by Investing Activities	2,458,525
Net Change in Cash and Cash Equivalents	9,230,264
Cash and Cash Equivalents, Beginning	30,478,728
Cash and Cash Equivalents, Ending	\$ 39,708,992

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

City of The Colony, Texas  
Statement of Cash Flows – Proprietary Funds (Exhibit A-9)  
Year Ended September 30, 2025

	Business-Type Activities
	Water and Sewer Enterprise Fund
Reconciliation of Operating Income to Net	
Cash Provided by Operating Activities	
Operating income	\$ 1,806,425
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	6,550,409
(Increase) decrease in accounts receivable	(75,987)
(Increase) decrease in inventories	(82,902)
(Increase) decrease in prepaid items	1,236
Increase (decrease) in accounts payable	(664,096)
Increase (decrease) in customer deposits	(41,237)
Increase (decrease) in accrued liabilities	154,256
	\$ 7,648,104
Net Cash Provided by Operating Activities	
Noncash Investing and Financing Activities	
Infrastructure contributed by developers	\$ 4,794,101
Capital assets contributed from governmental activities	2,447,395

City of The Colony, Texas  
Statement of Net Position – Discretely Presented Component Units (Exhibit A-10)  
September 30, 2025

	The Colony Economic Development Corporation	The Colony Community Development Corporation	The Colony Local Development Corporation	Total Discretely Presented Component Units
<b>Assets</b>				
Cash and investments	\$ 24,955,421	\$ 10,994,432	\$ 7,269,378	\$ 43,219,231
Receivables (net of allowance)				
Sales taxes	1,650,466	1,650,466	-	3,300,932
Prepaid items	-	-	2,424,046	2,424,046
Restricted cash and investments	8,411,296	8,411,079	11,221,290	28,043,665
Due from other governments	-	-	1,575,409	1,575,409
Capital assets				
Non-depreciable	6,355,178	-	22,321,911	28,677,089
Depreciable (net)	871,134	-	-	871,134
Total assets	<u>42,243,495</u>	<u>21,055,977</u>	<u>44,812,034</u>	<u>108,111,506</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows - pension	59,076	-	-	59,076
Deferred outflows - OPEB	1,324	-	-	1,324
Deferred charge on refunding	-	-	258,227	258,227
Total deferred outflows of resources	<u>60,400</u>	<u>-</u>	<u>258,227</u>	<u>318,627</u>
<b>Liabilities</b>				
Accounts payable	44,065	5,148	-	49,213
Accrued liabilities	219,187	205,144	-	424,331
Accrued interest payable	975,559	958,588	3,121,471	5,055,618
Non-current liabilities				
Due within one year	1,101,689	595,000	3,580,000	5,276,689
Due in more than one year	28,028,385	24,738,166	125,464,224	178,230,775
Net pension liability	127,974	-	-	127,974
Total OPEB liability	9,694	-	-	9,694
Total liabilities	<u>30,506,553</u>	<u>26,502,046</u>	<u>132,165,695</u>	<u>189,174,294</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - pension	16,053	-	-	16,053
Deferred inflows - OPEB	3,479	-	-	3,479
Total deferred inflows of resources	<u>19,532</u>	<u>-</u>	<u>-</u>	<u>19,532</u>
<b>Net Position</b>				
Net investment in capital assets	(21,881,854)	-	22,321,911	440,057
Unrestricted	33,659,664	(5,446,069)	(109,417,345)	(81,203,750)
Total net position	<u>\$ 11,777,810</u>	<u>\$ (5,446,069)</u>	<u>\$ (87,095,434)</u>	<u>\$ (80,763,693)</u>

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

City of The Colony, Texas  
Statement of Activities – Discretely Presented Component Units (Exhibit A-11)  
Year Ended September 30, 2025

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Units				
The Colony Economic Development Corporation	\$ 7,290,216	\$ -	\$ -	\$ -
The Colony Community Development Corporation	8,748,587	-	-	-
The Colony Local Development Corporation	8,339,680	-	12,344,444	-
Total Component Units	24,378,483	-	12,344,444	-
General Revenues				
Taxes				
Sales taxes				
Investment income				
Other income				
Total general revenues				
Change in net position				
Net position, beginning, as previously reported				
Change in accounting principle (Note 13)				
Net position, beginning, as restated				
Net position, ending				

City of The Colony, Texas  
Statement of Net Activities – Discretely Presented Component Units (Exhibit A-11) - continued  
Year Ended September 30, 2025

Net (Expense) Revenue and Changes in Net Position			
Component Units			
The Colony Economic Development Corporation	The Colony Community Development Corporation	The Colony Local Development Corporation	Total
\$ (7,290,216)	\$ -	\$ -	\$ (7,290,216)
-	(8,748,587)	-	(8,748,587)
-	-	4,004,764	4,004,764
<u>(7,290,216)</u>	<u>(8,748,587)</u>	<u>4,004,764</u>	<u>(12,034,039)</u>
9,859,575	9,859,575	-	19,719,150
1,258,646	887,304	309,054	2,455,004
<u>777,318</u>	<u>778,421</u>	<u>10,000</u>	<u>1,565,739</u>
<u>11,895,539</u>	<u>11,525,300</u>	<u>319,054</u>	<u>23,739,893</u>
4,605,323	2,776,713	4,323,818	11,705,854
7,141,829	(8,222,782)	(91,419,252)	(92,500,205)
<u>30,658</u>	<u>-</u>	<u>-</u>	<u>30,658</u>
<u>7,172,487</u>	<u>(8,222,782)</u>	<u>(91,419,252)</u>	<u>(92,469,547)</u>
<u>\$ 11,777,810</u>	<u>\$ (5,446,069)</u>	<u>\$ (87,095,434)</u>	<u>\$ (80,763,693)</u>

**Note 1 - Reporting Entity**

The City of The Colony (the City), originally incorporated in 1977, is a municipal corporation incorporated under Article XI of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety and convenience of the City and its inhabitants.

The City is governed by an elected mayor and a six-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters.

The financial statements of the City have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," as amended, include whether:

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

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in the financial statements which are misleading or incomplete. GASB Statement No. 39 requires inclusion of such an organization as a component unit when: 1) the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) the City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) such economic resources are significant to the City.

Based on the criteria above, the City has the following component units:

**Discretely Presented Component Units**

The Colony Economic Development Corporation (TCEDC) - Organized exclusively for the public purposes of the promotion and development of new and expanded business enterprises to provide and encourage employment in the furtherance of public welfare

The Colony Community Development Corporation (TCCDC) - Responsible for promoting economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City by developing, implementing, providing and financing projects under the Development Corporation Act of 1979. This includes the construction, renovation and operation of municipal buildings, the acquisition and improvement of parks as well as the promotion and expansion of manufacturing and industrial facilities, and other economic development purposes.

The Colony Local Development Corporation (TCLDC) – Established as the primary governing body for funding Tax Increment Reinvestment Zone (TIRZ) Number One public infrastructure. Surrounding these activities are performance agreements between the TCLDC and the developer, NMF Services, which commenced November 2011 and will terminate on the 75th anniversary of the date in which the City collects its first sales tax dollar from the respective facility.

A majority of the members of the TCEDC's, TCCDC's, and TCLDC's Boards of Directors are appointed by the City Council. The TCEDC, TCCDC, and TCLDC are each fiscally dependent upon the City as the City Council approves their budgets and must approve any debt issuance. However, the component units do not qualify for blending because the component units' services directly benefit the community rather than the City itself. The TCEDC and TCCDC do not issue separate financial statements and TCLDC does issue separate financial statements which are available through the City's Finance Department. TCEDC, TCCDC, and TCLDC are presented as governmental fund types within these financial statements.

**Note 2 - 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 all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements, except for interfund services provided and used. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

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

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

**Note 3 - 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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 City considers revenue to be available if 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, claims, and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, certain charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The **General Fund** is the general operating fund of the City. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.
- The **Pandemic Response Fund** is to account for revenues and expenditures related to the City of The Colony emergency response to COVID 19 from grant and contribution funding.
- The **Debt Service Fund** is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted to signify the amounts that are exclusively for debt service expenditures.
- The **Capital Projects Fund** is used to account for the acquisition and construction of capital assets financed primarily through the issuance of general obligation debt.

The City reports the following major proprietary fund types:

- The **Water and Sewer Enterprise Fund** is used to account for the acquisition, operation and maintenance of a municipal water and sewer utility, supported primarily by user charges to the public.

Additionally, the City reports the following fund types:

- Nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specialized purposes or committed for special projects.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

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 City's enterprise funds are charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation expense on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **Implementation of GASB Statement No. 101**

As of October 1, 2024, the City adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered compensated absences and provides guidance for a consistent recognition and measurement of the compensated absence liability. The effect of the implementation of this standard on beginning net position is disclosed in Note 13.

### **Implementation of GASB Statement No. 102**

As of October 1, 2024, the City adopted GASB Statement No. 102, *Certain Risk Disclosures*, which requires management to evaluate whether there are risks related to a government's vulnerabilities due to certain concentrations or constraints that require disclosure. There were no significant concentrations or constraints that warranted disclosure as a result of implementation of this standard.

### **Note 4 - Assets, Liabilities, and Net Position or Fund Balance**

#### **Cash and Cash Equivalents**

State statutes and policy as established by the City Council authorize the City to invest in certificates of deposit, direct obligations of the U.S. Treasury, investment pools consisting of such U.S. Treasury obligations, repurchase agreements, commercial paper and mutual funds. Substantially all operating cash and cash equivalents are maintained in pooled cash and time deposit accounts. Interest income relating to pooled deposits is allocated to the individual funds based on each fund's pro rata share of total pooled deposits.

Restricted cash and investments is classified separately in the balance sheet of governmental funds and statement of net position for proprietary funds and represents cash and cash equivalents restricted for specific infrastructure projects (governmental funds) or the payment of long-term debt and for the acquisition of capital assets (proprietary funds).

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents, as they are available for withdrawal on demand.

#### **Fair Value Measurements**

Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1 that are for similar assets or liabilities. U.S. government-backed securities are valued using Level 2 inputs that are valued using a matrix pricing model.
- Level 3 inputs are unobservable inputs for an asset or liability either directly or indirectly.

#### **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance totaled \$1,102,299 for General Fund, \$8,725 for Debt Service Fund, and \$368,127 for Water and Sewer Fund.

#### **Inventory**

Inventory is valued at cost using the first-in, first-out (FIFO) method. Inventories consist of expendable supplies held for consumption or the construction of plant and equipment. Inventories are recorded as expenditures when consumed rather than when purchased.

### **Pensions**

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

### **OPEB**

The fiduciary net position of the TMRS Supplemental Death Benefits Plan (SDBP) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities and additions to/deductions from SDBP's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category. The City has a deferred charge on bond refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The City has deferred outflows of resources related to pensions as described in Note 7. The City also has deferred outflows of resources related to its Supplemental Death Benefits Plan as described in Note 8.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has four items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, fines, ambulance services and other items. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is deferred inflows related to leases where the City is the lessor and is reported in the governmental funds balance sheet and statement of net position. The deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on the straight-line basis over the term of the lease. The City also has deferred inflows of resources related to pensions as described in Note 7 and related to its Supplemental Death Benefits Plan as described in Note 8.

### **Capital Assets**

Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements as well as the proprietary fund financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost.

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 costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction in progress are not depreciated. Other property, plant, equipment, and infrastructure of the City, as well as the component units, are depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Improvements other than buildings	10-30 years
Machinery and equipment	5-10 years
Infrastructure	40 years
Right-to-use assets	5-10 years

Right to use leased assets are recognized at the lease commencement date and represent the City’s right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years.

Right to use subscription IT assets are recognized at the subscription commencement date and represent City’s right to use the underlying IT asset for the subscription term. Right to use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right to use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years.

**Lease Receivables**

Lease receivables are recorded by the City as the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on the interest rate the City charges the lessee.

**Long-term Obligations**

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the City.

Subscription liabilities represent the City's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments are discounted based on a borrowing rate determined by the City.

#### **Transactions between Funds and Component Units**

Interfund services are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/ expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund reimbursed. All other interfund transactions, except interfund services and reimbursements, are recorded as transfers. Transactions between the component units and the primary government are accounted for as external transactions. During the year ended September 30, 2025, the TCCDC contributed \$3,500,000 to the capital projects fund and \$850,000 to the General Fund. Additionally, the TCEDC contributed \$397,213 to the General Fund.

#### **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave, comp time, and holidays for subsequent use or for payment upon termination, death or retirement. A liability is recorded when each of the following have occurred: the leave is attributable to services already rendered, the leave accumulates and carries forward from one reporting period to the next and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at September 30, 2025.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

#### **Property Taxes**

The City's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and certain personal property located within the City. Property taxes attach as an enforceable lien on property as of January 1 after they are levied. The assessed value upon which the fiscal year 2024 levy was based was \$8,315,920,572. Taxes are due on October 1 and are delinquent after the following January 31. Current tax collections for the year ended September 30, 2025 were 98.63% of the tax levy.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. The combined tax rate to finance general governmental services including the payment of principal and interest on long-term debt for the year ended September 30, 2025 was \$0.63500 per \$100 of assessed valuation.

The ordinance levying the ad valorem taxes specifies the percentage of the taxes applicable to the General Fund, and Debt Service Fund therefore, ad valorem tax revenues are recorded as revenues in the respective funds.

In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values.

The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property. However, if the revenues from the effective tax rate times the appraised values, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the property tax revenues from previous year by more than 3%, the City must have an election to approve effective interest rates.

**Fund Balance**

The City classifies governmental fund balance in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*:

- *Nonspendable* fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The City had \$104,454 and \$136,295 in nonspendable fund balance for inventory and prepaid items, respectively, in the General Fund, and \$175,462 and \$12,909 in nonspendable fund balance for prepaid items in the capital projects fund and other governmental funds at September 30, 2025, respectively.
- *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. General fund balance restricted for TIRZ 1 totaled \$552,240 as of September 30, 2025. Debt service fund balance restricted for the retirement of funded indebtedness totaled \$5,544,847 as of September 30, 2025. Capital projects fund balance restricted for future capital projects totaled \$51,792,762. The Pandemic Response fund included \$72 of fund balance restricted for grant activities. At September 30, 2025, fund balance restricted for special revenue fund activities included:

Fund	Restricted Balance
Hotel/motel taxes	\$ 3,889,980
Storm water utility fund	1,648,371
Public safety fund	847,450
Citizen donations fund	11,128
PID No. 1	1,083,086
	\$ 7,480,015

- *Committed* fund balance is established and modified by a resolution from City Council, the City’s highest level of decision-making authority, and can be used only for the specified purposes determined by the Council's resolution. At September 30, 2025, fund balance committed for special revenue fund activities included:

Fund	Committed Balance
Lake parks	\$ 2,862,636
Special events	176,672
Keep the Colony Beautiful	10,800
	\$ 3,050,108

- *Assigned* fund balance includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds, other than the General Fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund but does not meet the criteria to be classified as restricted or committed. The Council has authorized the City Manager to assign fund balance.
- *Unassigned* fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications, as well as negative unassigned fund balance in other governmental funds.

**Flow Assumptions**

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed. It is the City’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, then unassigned fund balance.

**Note 5 - Stewardship, Compliance and Accountability**

**Budgetary Information**

The City adopts annual appropriated budgets for its General Fund, Debt Service Fund, Lake Parks Fund, Special Events Fund, Hotel/Motel Taxes Fund, Storm Water Utility Fund, and Public Safety Fund. The budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budgets.

For the year ended September 30, 2025, expenditures exceeded appropriations in the general fund as follows:

- General government (\$2,131,742)
- Economic development (\$783,264)
- Capital outlay (\$2,793,352)
- Debt Service (\$1,231,338)

**Note 6 - Detailed Notes on All Funds**

**Cash and Investments**

*Custodial Credit Risk.* Cash deposits of the City, TCEDC, TCCDC, and TCLFD at September 30, 2025, were entirely secured by FDIC insurance and pledged collateral held by the City’s agent bank.

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) Texas local government investment pools; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or (b) secured by obligations that are described by (1) – (4); (6) and reverse repurchase agreements not to exceed 90 days to stated maturity.

Cash and investments as of September 30, 2025 consist of the following:

	2025
Cash on hand	\$ 5,134
Deposits with financial institutions	3,296,238
Investment pools and money market mutual funds	217,007,626
	\$ 220,308,998

Following are the City’s investments at September 30, 2025, including classification by level, within the fair value hierarchy:

<b>Primary Government</b>				
	Reported Value	Level	Percent of Total	Weighted Average Maturity
<u>Investment Pools</u>				
TexPool	\$ 115,585,829	N/A	79.31%	< 60 days
TexPool Prime	30,158,751	N/A	20.69%	< 60 days
<u>Other Investments</u>				
<u>Money Market</u>				
Mutual Funds	150	Level 1	0.00%	< 60 days
Total Investments	\$ 145,744,730		100.00%	

**TCEDC**

	Reported Value	Level	Percent of Total	Weighted Average Maturity
<u>Investment Pools</u>				
TexPool	\$ 19,903,157	N/A	59.65%	< 60 days
TexPool Prime	5,052,264	N/A	15.14%	< 60 days
<u>Other Investments</u>				
Money Market				
Mutual Funds	8,411,296	Level 1	25.21%	< 60 days
Total Investments	<u>\$ 33,366,717</u>		<u>100.00%</u>	

**TCCDC**

	Reported Value	Level	Percent of Total	Weighted Average Maturity
<u>Investment Pools</u>				
TexPool	\$ 8,768,592	N/A	45.19%	< 60 days
TexPool Prime	2,225,840	N/A	11.47%	< 60 days
<u>Other Investments</u>				
Money Market				
Mutual Funds	8,411,079	Level 1	43.34%	< 60 days
Total Investments	<u>\$ 19,405,511</u>		<u>100.00%</u>	

**TCLDC**

	Reported Value	Level	Percent of Total	Weighted Average Maturity
<u>Other Investments</u>				
Money Market				
Mutual Funds	\$ 18,490,668	Level 1	100.00%	< 60 days
Total Investments	<u>\$ 18,490,668</u>		<u>100.00%</u>	

The City is a voluntary participant in two investment pools: TexPool and TexPool Prime. Each of these pools operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. Each uses amortized costs rather than market value to report the net position to compute share prices. Accordingly, the value of the City's position in the pools is the same as the value of the shares in the pool.

The State Comptroller of Public Accounts exercises responsibility over TexPool and TexPool Prime. This oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool.

*Interest Rate Risk.* Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2025 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

*Credit Risk.* State law and City policy limit investments in local government investment pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2025, the City's investments in TexPool and TexPool Prime were both rated AAAM by Standard & Poor's.

*Concentration of Credit Risk.* Statutes and the City's investment policy limits the investment portfolio by the following:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government securities	5 Years	100%	None
State of Texas	5 Years	25%	None
States, Agencies, Counties, Cities and Other	5 Years	25%	None
Repurchase Agreements	90 Days	100%	None
Certificates of Deposit	5 Years	25%	None
Commercial Paper	270 Days	25%	None
No-Load Money Market Mutual Funds	90 Days	25%	None
Eligible Investment Pools	90 Days	100%	None

**Capital Assets**

A summary of changes in capital assets follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
<b>Governmental activities</b>					
Capital assets, not being depreciated					
Land	\$ 7,999,486	\$ 401,139	\$ -	\$ -	\$ 8,400,625
Rights-of-way	25,571,036	-	-	-	25,571,036
Construction in progress	34,465,849	26,481,293	(18,386,162)	-	42,560,980
Total assets not being depreciated	<u>68,036,371</u>	<u>26,882,432</u>	<u>(18,386,162)</u>	<u>-</u>	<u>76,532,641</u>
Capital assets, being depreciated:					
Buildings	47,142,921	106,550	19,357	-	47,268,828
Improvements other than buildings	22,272,215	95,221	1,770,543	-	24,137,979
Swimming pool	1,839,255	18,243	1,839,506	-	3,697,004
Machinery and equipment	24,508,429	2,840,240	1,939,285	-	29,287,954
Infrastructure	307,052,371	5,807,593	10,370,076	-	323,230,040
Total capital assets being depreciated	<u>402,815,191</u>	<u>8,867,847</u>	<u>15,938,767</u>	<u>-</u>	<u>427,621,805</u>
Less accumulated depreciation					
Buildings	16,722,427	1,506,165	-	-	18,228,592
Improvements other than buildings	12,028,874	929,717	-	-	12,958,591
Swimming pool	1,428,125	153,121	-	-	1,581,246
Machinery and equipment	16,646,542	2,030,141	-	-	18,676,683
Infrastructure	142,431,791	7,487,104	-	-	149,918,895
Total accumulated depreciation	<u>189,257,759</u>	<u>12,106,248</u>	<u>-</u>	<u>-</u>	<u>201,364,007</u>
Total capital assets being depreciated, net	<u>213,557,432</u>	<u>(3,238,401)</u>	<u>15,938,767</u>	<u>-</u>	<u>226,257,798</u>
Right to use leased assets, being amortized					
Machinery and equipment	1,321,151	41,742	-	-	1,362,893
Less accumulated amortization					
Machinery and equipment	415,198	208,221	-	-	623,419
Total right to use leased assets being amortized, net	<u>905,953</u>	<u>(166,479)</u>	<u>-</u>	<u>-</u>	<u>739,474</u>
Right to use SBITA assets, being amortized	413,970	1,942,391	-	159,598	2,196,763
Less accumulated amortization	201,546	743,502	-	109,873	835,175
Net right to use SBITA assets	<u>212,424</u>	<u>1,198,889</u>	<u>-</u>	<u>49,725</u>	<u>1,361,588</u>
Total leased and subscription IT assets, net	<u>1,118,377</u>	<u>1,032,410</u>	<u>-</u>	<u>49,725</u>	<u>2,101,062</u>
Governmental activities capital assets, net	<u>\$ 282,712,180</u>	<u>\$ 24,676,441</u>	<u>\$ (2,447,395)</u>	<u>\$ 49,725</u>	<u>\$ 304,891,501</u>

City of The Colony, Texas  
Notes to Financial Statements  
September 30, 2025

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
<b>Business-type activities</b>					
Capital assets, not being depreciated					
Land	\$ 3,273,473	\$ -	\$ -	\$ -	\$ 3,273,473
Construction in progress	5,937,663	1,783,024	1,012,413	110,282	8,622,818
Total assets not being depreciated	<u>9,211,136</u>	<u>1,783,024</u>	<u>1,012,413</u>	<u>110,282</u>	<u>11,896,291</u>
Capital assets, being depreciated:					
Buildings	13,221,303	46,000	12,187	-	13,279,490
Water system	97,810,884	2,801,695	1,397,301	-	102,009,880
Sanitary system	99,638,160	1,992,406	-	-	101,630,566
Drainage system	1,684,364	-	-	-	1,684,364
Machinery and equipment	6,059,771	699,639	25,494	-	6,784,904
Infrastructure	16,615,671	-	-	8,191,679	8,423,992
Total capital assets being depreciated	<u>235,030,153</u>	<u>5,539,740</u>	<u>1,434,982</u>	<u>8,191,679</u>	<u>233,813,196</u>
Less accumulated depreciation					
Buildings	1,101,634	259,443	-	-	1,361,077
Water system	36,630,670	2,496,439	-	-	39,127,109
Sanitary system	34,725,816	2,854,422	-	-	37,580,238
Drainage system	1,658,668	1,749	-	-	1,660,417
Machinery and equipment	4,334,361	692,108	-	-	5,026,469
Infrastructure	10,342,745	246,248	-	8,191,679	2,397,314
Total accumulated depreciation	<u>88,793,894</u>	<u>6,550,409</u>	<u>-</u>	<u>8,191,679</u>	<u>87,152,624</u>
Total capital assets being depreciated, net	<u>146,236,259</u>	<u>(1,010,669)</u>	<u>1,434,982</u>	<u>-</u>	<u>146,660,572</u>
Business activities capital assets, net	<u>\$ 155,447,395</u>	<u>\$ 772,355</u>	<u>\$ 2,447,395</u>	<u>\$ 110,282</u>	<u>\$ 158,556,863</u>
<b>TCEDC</b>					
Capital assets, not being depreciated					
Land	\$ 6,355,178	\$ -	\$ -	\$ -	\$ 6,355,178
Construction in progress	737,694	57,304	(794,998)	-	-
Total assets not being depreciated	<u>7,092,872</u>	<u>57,304</u>	<u>(794,998)</u>	<u>-</u>	<u>6,355,178</u>
Capital assets, being depreciated:					
Other improvements	-	-	473,676	-	473,676
Vehicles	186,414	-	321,322	-	507,736
Total capital assets being depreciated	<u>186,414</u>	<u>-</u>	<u>794,998</u>	<u>-</u>	<u>981,412</u>
Less accumulated depreciation					
Other improvements	-	22,839	-	-	22,839
Vehicles	37,490	49,949	-	-	87,439
Total accumulated depreciation	<u>37,490</u>	<u>72,788</u>	<u>-</u>	<u>-</u>	<u>110,278</u>
Total capital assets being depreciated, net	<u>148,924</u>	<u>(72,788)</u>	<u>794,998</u>	<u>-</u>	<u>871,134</u>
TCEDC capital assets, net	<u>\$ 7,241,796</u>	<u>\$ (15,484)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,226,312</u>
<b>TCLDC</b>					
Capital assets, not being depreciated					
Land	\$ 22,321,911	\$ -	\$ -	\$ -	\$ 22,321,911
Total assets not being depreciated	<u>22,321,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,321,911</u>
TCLDC capital assets, net	<u>\$ 22,321,911</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,321,911</u>

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

Governmental activities		
General government	\$	5,026,143
Public safety		2,487,238
Public works		4,575,709
Culture and recreation		968,881
Total depreciation/amortization expense - Governmental activities	\$	<u>13,057,971</u>
Business-type activities		
Water and sewer	\$	6,550,409
Total depreciation/amortization expense - Business-type activities	\$	<u>6,550,409</u>

**Lessee Activities**

The City entered into various lease agreements as lessee for the use of buildings, machinery and equipment, and infrastructure. As of September 30, 2025, the value of the lease liability was \$667,250. The City is required to make monthly or annual principal and interest payments through November 2028. The lease liability was valued using a discount rate ranging from 0.25% to 2.70% as determined by the City's management based on the City's estimated incremental borrowing rate.

**Lessor Activities**

The City has accrued a receivable for one land lease and two infrastructure leases. The remaining receivable for these leases was \$5,488,221 for the year ended September 30, 2025. Deferred inflows related to these leases were \$5,189,355 as of September 30, 2025. The interest rate on the leases ranged from 0.28% – 5.71%. Final receipt is expected in fiscal year 2067.

**Subscription IT Activities**

As of September 30, 2025, the value of the SBITA liability was \$1,380,449. The City is required to make annual principal and interest payments through November 2029. The SBITA liability was valued using a discount rate ranging from 2.426% to 7.9216% as determined by the City's management based on the City's estimated incremental borrowing rate.

**Interfund Transfers**

The composition of interfund transfers in/out as of September 30, 2025, is as follows:

Fund	Transfers In	Transfers Out	Purpose
General	\$ 1,916,068	\$ 41,384	Funding for capital projects, special events, and programs
Debt Service	-	1,600,000	Reimburse general fund for prior debt service
Capital Projects	3,195,605	206,068	Funding for capital projects
Other Governmental	1,447,458	4,811,679	Funding for capital projects, special events, and programs
Water and Sewer	100,000	-	Funding for capital projects
	<u>\$ 6,659,131</u>	<u>\$ 6,659,131</u>	
Governmental activities	\$ -	\$ 2,447,395	Transfer of capital assets
Business-Type activities	2,447,395	-	Transfer of capital assets
	<u>\$ 9,106,526</u>	<u>\$ 9,106,526</u>	

**Long-term Obligations**

Long-term obligations of the City's governmental activities consist of general obligation bonds, certificates of obligation, financed purchases, lease liabilities, and SBITA liabilities. Sources of retirement of general obligation bond and certificates of obligation are provided from ad valorem tax. Governmental activities long-term obligations are paid by the debt service fund, general fund, and capital projects fund.

Long-term obligations of the City's business-type activities consist of general obligation bonds and certificates of obligation. Business-type activities long-term obligations are serviced by revenue from the Water and Sewer and Storm Drainage systems.

Compensated absences, net pension liability and total OPEB liability are paid from the fund out of which an employee is regularly paid, primarily the General Fund, Water and Sewer Fund, Storm Drainage Fund and TCEDC. The following is a summary of changes in long-term obligations for the year ended September 30, 2025:

	Beginning Balance (Restated)	Transfers/ Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Certificates of obligation	\$ 49,392,450	\$ 73,630,000	\$ (6,027,400)	\$ 116,995,050	\$ 4,598,500
General obligation bonds	6,564,210	-	(1,485,391)	5,078,819	1,540,196
Financed purchases	5,574,372	-	(672,773)	4,901,599	679,500
Bond premiums/discounts (net)	4,434,925	5,260,927	(618,534)	9,077,318	-
Lease obligation	828,236	41,742	(202,728)	667,250	203,522
SBITA obligation	209,568	1,942,391	(771,510)	1,380,449	376,438
Net pension liability	13,999,708	-	(2,475,705)	11,524,003	-
Total OPEB liability	872,186	767	-	872,953	22,036
Compensated absences	2,746,526	-	123,844	2,870,370	2,841,666
Total governmental activities	<u>\$ 84,622,181</u>	<u>\$ 80,875,827</u>	<u>\$ (12,130,197)</u>	<u>\$ 153,367,811</u>	<u>\$ 10,261,858</u>
<b>Business-type activities</b>					
Certificates of obligation	\$ 45,697,550	\$ 7,030,000	\$ (3,012,600)	\$ 49,714,950	\$ 3,071,500
General obligation bonds	4,765,790	-	(1,729,609)	3,036,181	1,784,804
Bond premiums/discounts (net)	3,990,604	516,089	(421,806)	4,084,887	-
Net pension liability	2,248,378	-	(378,441)	1,869,937	-
Total OPEB liability	140,075	1,574	-	141,649	3,576
Compensated absences	300,125	-	27,883	328,008	324,728
Total business type activities	<u>57,142,522</u>	<u>7,547,663</u>	<u>(5,514,573)</u>	<u>59,175,612</u>	<u>5,184,608</u>
Primary government	<u>\$ 141,764,703</u>	<u>\$ 88,423,490</u>	<u>\$ (17,644,770)</u>	<u>\$ 212,543,423</u>	<u>\$ 15,446,466</u>
<b>Component Units</b>					
Revenue bonds	\$ 190,820,000	\$ -	\$ (4,900,000)	\$ 185,920,000	\$ 5,255,000
Bond premiums/discounts (net)	(2,570,536)	-	136,092	(2,434,444)	-
Net pension liability	221,341	(93,367)	-	127,974	-
Total OPEB liability	13,789	(4,095)	-	9,694	-
Compensated absences	21,552	-	356	21,908	51,612
	<u>\$ 188,506,146</u>	<u>\$ (97,462)</u>	<u>\$ (4,763,552)</u>	<u>\$ 183,645,132</u>	<u>\$ 5,306,612</u>

The following is a schedule of the City's outstanding bonds:

	Governmental Activities Outstanding	Business Type Activities Outstanding	Component Units Outstanding
<b>Certificates of Obligation</b>			
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2013, 2.00% to 4.375%, maturing in annual installments of \$155,000 to \$675,000 through 2033.	\$ 1,020,000	\$ -	\$ -
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2014, 3.00% to 6.00%, maturing in annual installments of \$510,000 to \$1,550,000 through 2035.	1,854,300	11,390,700	-
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2015, 3.00% to 4.00%, maturing in annual installments of \$470,000 to \$690,000 through 2035.	-	5,955,000	-
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2016, 3.00% to 4.00%, maturing in annual installments of \$685,000 to \$1,025,000 through 2037.	7,105,000	3,045,000	-
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2018, 3.00% to 4.00%, maturing in annual installments of \$555,000 to \$850,000 through 2038.	7,866,000	874,000	-
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2019, 3.00% to 5.00%, maturing in annual installments of \$845,000 to \$1,095,000 through 2039.	8,230,500	5,044,500	-
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2020, 3.00% to 5.00%, maturing in annual installments of \$252,850 to \$761,813 through 2040.	2,778,750	8,336,250	-
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2021, 2.00% to 5.00%, maturing in annual installments of \$290,000 to \$540,000 through 2040.	6,502,500	722,500	-
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2022, 4.00% to 5.00%, maturing in annual installments of \$475,000 to \$1,335,000 through 2039.	11,133,000	7,422,000	-
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2024, 4.00% to 5.00%, maturing in annual installments of \$1,025,000 to \$3,230,000 through 2044.	28,660,000	2,860,000	-
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2025, 4.00% to 5.00%, maturing in annual installments of \$685,000 to \$3,435,000 through 2045.	41,845,000	4,065,000	-
	<u>116,995,050</u>	<u>49,714,950</u>	<u>-</u>
<b>General Obligation Bonds</b>			
General Obligation Refunding Bonds, Series 2014, 2.00% to 5.00%, maturing in annual installments of \$55,000 to \$1,535,000 through 2026.	260,950	1,274,050	
General Obligation Refunding Bonds, Series 2015, 3.00% to 4.00%, maturing in annual installments of \$840,000 to \$1,715,000 through 2027.	1,312,400	617,600	
General Obligation Refunding Bonds, Series 2020, 3.00% to 4.00%, maturing in annual installments of \$806,446 to \$263,304 through 2030.	3,505,469	1,144,531	
	<u>5,078,819</u>	<u>3,036,181</u>	<u>-</u>

	Governmental Activities Outstanding	Business Type Activities Outstanding	Component Units Outstanding
<b>Revenue Bonds</b>			
Sales Tax Revenue Bonds, Series 2013 (Infrastructure Bonds), 4.50% to 7.25%, maturing in annual installments of \$195,000 to \$2,770,000 through 2042.	\$ -	\$ -	\$ 26,540,000
Sales Tax Revenue Bonds, Series 2013 (Infrastructure Bonds), 4.50% to 7.25%, maturing in annual installments of \$195,000 to \$2,770,000 through 2042.	-	-	26,540,000
Sales Tax Increment Contract Revenue Bonds, Series 2013 (Infrastructure Bonds), 5.00% to 7.625%, maturing in annual installments through 2042.	-	-	14,420,000
Sales Tax Increment Contract Revenue Bonds, Series 2013 (Infrastructure Bonds), 2.594% to 4.881%, maturing in annual installments through 2047.	-	-	98,960,000
Sales Tax Revenue Bonds, Series 2017 (Infrastructure Bonds), 3.520%, maturing in annual installments through 2032	-	-	3,775,000
Tax Increment Contract Revenue Refunding Bonds, Series 2021, 3.580%, maturing in annual installments through 2034.	-	-	15,685,000
	<u>-</u>	<u>-</u>	<u>185,920,000</u>
	<u>\$ 122,073,869</u>	<u>\$ 52,751,131</u>	<u>\$ 185,920,000</u>

**Nebraska Furniture Mart**

During March 2012, the TCEDC, TCCDC and TCLDC individually entered into a pledge agreement where the consideration of future sales tax revenue from the tax increment reinvestment zone would be used to repay debt issued by the component units to provide funding for the Nebraska Furniture Mart Texas project. This pledge was effectively an incentive agreement to secure the development of Nebraska Furniture Mart, through NFM Services, within the City of The Colony.

TCEDC and TCCDC have each pledged a portion of their future sales tax revenues to repay \$29,580,000 of sales tax revenue bond series 2013 that each corporation issued in February 2013 to finance the acquisition of land and cost of construction and infrastructure associated with the Nebraska Furniture Mart Texas project. Total principal and interest remaining on each issuance is approximately \$51.8 million as of September 30, 2025. Interest and principal paid were \$3,143,923 and \$2,532,771, respectively, for TCEDC and TCCDC during the year ended September 30, 2025. Incremental sales tax revenues recognized were \$4,573,540 for both TCCDC and TCEDC with regards to each corporation's 2013 bond series during the year ended September 30, 2025.

TCLDC has pledged a portion of its future sales tax revenues to repay \$142,080,000 of sales tax incremental contract revenue bonds that the Corporation issued in February 2013 to finance the acquisition of land and cost of construction and infrastructure associated with the Nebraska Furniture Mart Texas project. Total principal and interest remaining on these bonds is approximately \$185.8 million as of September 30, 2025. Interest and principal paid and incremental sales tax revenues recognized were \$9,686,899 and \$12,344,444, respectively, during the year ended September 30, 2025.

**Annual Requirements to Retire Bond Obligations**

The annual requirements to retire general long-term debt, including interest, as of September 30, 2025 are as follows:

Certificates of Obligation						
Fiscal Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2026	\$ 4,598,500	\$ 5,695,162	\$ 10,293,662	\$ 3,071,500	\$ 2,014,394	\$ 5,085,894
2027	5,507,350	4,773,683	10,281,033	3,257,650	1,814,429	5,072,079
2028	5,501,000	4,531,101	10,032,101	3,284,000	1,688,805	4,972,805
2029	5,532,600	4,273,533	9,806,133	3,392,400	1,557,655	4,950,055
2030	5,613,500	4,016,183	9,629,683	3,416,500	1,423,614	4,840,114
2031-2035	31,819,400	16,029,379	47,848,779	19,260,600	4,919,284	24,179,884
2036-2040	33,306,700	8,834,549	42,141,249	10,553,300	1,850,432	12,403,732
2041-2045	25,116,000	2,556,063	27,672,063	3,479,000	295,675	3,774,675
Total	<u>\$ 116,995,050</u>	<u>\$ 50,709,653</u>	<u>\$ 167,704,703</u>	<u>\$ 49,714,950</u>	<u>\$ 15,564,288</u>	<u>\$ 65,279,238</u>

General Obligation Bonds						
Fiscal Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2026	\$ 1,540,196	\$ 222,474	\$ 1,762,670	\$ 1,784,804	\$ 113,976	\$ 1,898,780
2027	1,333,570	163,603	1,497,173	531,430	56,297	587,727
2028	701,094	110,253	811,347	228,906	35,997	264,903
2029	731,248	75,198	806,446	238,752	24,552	263,304
2030	772,711	38,636	811,347	252,289	12,614	264,903
Total	<u>\$ 5,078,819</u>	<u>\$ 610,164</u>	<u>\$ 5,688,983</u>	<u>\$ 3,036,181</u>	<u>\$ 243,436</u>	<u>\$ 3,279,617</u>

Revenue Bonds			
Fiscal Year Ending September 30	Component Units		
	Principal	Interest	Total
2026	\$ 5,255,000	\$ 10,091,049	\$ 15,346,049
2027	5,620,000	9,842,166	15,462,166
2028	6,005,000	9,571,383	15,576,383
2029	6,425,000	9,276,897	15,701,897
2030	6,865,000	8,949,155	15,814,155
2031-2035	40,290,000	38,818,567	79,108,567
2036-2040	44,785,000	26,876,739	71,661,739
2041-2045	48,605,000	11,332,246	59,937,246
2046-2047	22,070,000	1,657,832	23,727,832
Total	<u>\$ 185,920,000</u>	<u>\$ 126,416,034</u>	<u>\$ 312,336,034</u>

**Financed Purchases**

During 2015, the City entered into a financed purchase agreement of \$1,641,970 with principal and interest from 2.63% to 3.29% being paid through fiscal year 2024.

During 2023, the City entered into a financed purchase agreement of \$6,969,000 with principal and interest of 1.0% being paid through fiscal year 2032. The agreement requires annual payments of \$728,517. The City entered into the agreement to acquire land and building. The Capital Projects fund has typically been used to liquidate the liability.

The annual requirements to retire the financed purchase, including interest, as of September 30, 2025 are as follows:

Financed Purchase			
Fiscal Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2026	\$ 679,500	\$ 49,016	\$ 728,516
2027	686,295	42,221	728,516
2028	693,158	35,358	728,516
2029	700,090	28,426	728,516
2030	707,091	21,426	728,517
2031-2032	1,435,465	21,568	1,457,033
Total	\$ 4,901,599	\$ 198,015	\$ 5,099,614

**Lease Liability**

The annual requirements to retire lease obligations, including interest, as of September 30, 2025 are as follows:

Lease Liability			
Fiscal Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2026	\$ 203,522	\$ 14,947	\$ 218,469
2027	206,362	10,253	216,615
2028	211,180	5,436	216,616
2029	40,094	496	40,590
2030	6,092	87	6,179
Total	\$ 667,250	\$ 31,219	\$ 698,469

**SBITA Liability**

The annual requirements to retire SBITA obligations, including interest, as of September 30, 2025 are as follows:

SBITA Liability			
Fiscal Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2026	\$ 376,438	\$ 73,517	\$ 449,955
2027	324,253	54,954	379,207
2028	330,799	37,458	368,257
2029	348,959	19,297	368,256
Total	\$ 1,380,449	\$ 185,226	\$ 1,565,675

**Note 7 - Defined Benefit Pension Plan**

**Plan Description**

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

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

**Benefits Provided**

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

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of 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.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. The City has elected that members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

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	267
Inactive employees entitled to but not yet receiving benefits	269
Active employees	437
Total	973

**Contributions**

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.45% and 13.75% in calendar years 2024 and 2025, respectively. The City’s contributions to TMRS for the year ended September 30, 2025, were \$5,533,309, and were equal to the required contributions.

**Net Pension Liability**

The City’s Net Pension Liability (NPL) was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the NPL 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%
Overall payroll growth	3.60% to 11.85% including inflation
Investment rate of return	6.75%

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees 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 a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of 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 was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, 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 real rates of return for each major asset class in fiscal year 2025 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.00%	7.10%
Core Fixed Income	6.00%	5.00%
Non-Core Fixed Income	6.00%	6.80%
Private Debt	13.00%	8.20%
Real Estate	12.00%	6.70%
Hedge Funds	5.00%	6.40%
Infrastructure	6.00%	6.00%
Other Private Markets	4.00%	7.30%
Private Equity	13.00%	8.50%
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 the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a) - (b)
<b>Entity-Wide</b>			
Balance at 12/31/2023	\$ 140,423,549	\$ 123,954,122	\$ 16,469,427
Changes for the year:			
Service cost	6,443,243	-	6,443,243
Interest	9,481,413	-	9,481,413
Change in benefit terms	-	-	-
Difference between expected and actual experience	1,441,699	-	1,441,699
Change in assumptions	-	-	-
Contributions - employer	-	4,943,110	(4,943,110)
Contributions - employee	-	2,561,198	(2,561,198)
Net investment income	-	12,894,094	(12,894,094)
Benefit payments, including refunds of contributions	(6,359,577)	(6,359,577)	-
Administrative expense	-	(82,600)	82,600
Other changes	-	(1,934)	1,934
Net changes	<u>11,006,778</u>	<u>13,954,291</u>	<u>(2,947,513)</u>
Balance at 12/31/2024	<u>\$ 151,430,327</u>	<u>\$ 137,908,413</u>	<u>\$ 13,521,914</u>

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a) - (b)
<b>Primary Government</b>			
Balance at 12/31/2023	\$ 138,527,831	\$ 122,279,745	\$ 16,248,086
Changes for the year:			
Service cost	6,382,032	-	6,382,032
Interest	9,456,705	-	9,456,705
Change in benefit terms	-	-	-
Difference between expected and actual experience	1,428,003	-	1,428,003
Change in assumptions	-	-	-
Contributions - employer	-	4,896,150	(4,896,150)
Contributions - employee	-	2,536,867	(2,536,867)
Net investment income	-	12,771,600	(12,771,600)
Benefit payments, including refunds of contributions	(6,299,161)	(6,299,161)	-
Administrative expense	-	(81,815)	81,815
Other changes	-	(1,916)	1,916
Net changes	<u>10,967,579</u>	<u>13,821,725</u>	<u>(2,854,146)</u>
Balance at 12/31/2024	<u>\$ 149,495,410</u>	<u>\$ 136,101,470</u>	<u>\$ 13,393,940</u>

Component Units	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a) - (b)
Balance at 12/31/2023	\$ 1,895,718	\$ 1,674,377	\$ 221,341
Changes for the year:			
Service cost	61,211	-	61,211
Interest	24,708	-	24,708
Change in benefit terms	-	-	-
Difference between expected and actual experience	13,696	-	13,696
Change in assumptions	-	-	-
Contributions - employer	-	46,960	(46,960)
Contributions - employee	-	24,331	(24,331)
Net investment income	-	122,494	(122,494)
Benefit payments, including refunds of contributions	(60,416)	(60,416)	-
Administrative expense	-	(785)	785
Other changes	-	(18)	18
Net changes	39,199	132,566	(93,367)
Balance at 12/31/2024	<u>\$ 1,934,917</u>	<u>\$ 1,806,943</u>	<u>\$ 127,974</u>

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability (asset)	\$ 35,039,876	\$ 13,521,914	\$ (4,170,505)
Reported by Governmental Activities	29,862,609	11,524,003	(3,554,298)
Reported by Business-Type Activities	4,845,642	1,869,937	(576,737)
Reported by Component Units	331,624	127,974	(39,470)
	<u>\$ 35,039,876</u>	<u>\$ 13,521,914</u>	<u>\$ (4,170,505)</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 on the Internet at [www.tmrs.com](http://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 City recognized pension expense of \$5,729,401.

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

	Entity-Wide		Primary Government		Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,987,878	\$ -	\$ 1,969,216	\$ -	\$ 18,662	\$ -
Changes in actuarial assumptions	-	202,295	-	200,373	-	1,922
Difference between projected and actual investment earnings	-	1,493,796	-	1,479,665	-	14,131
Contributions subsequent to the measurement date	4,254,136	-	4,213,722	-	40,414	-
<b>Total</b>	<b>\$ 6,242,014</b>	<b>\$ 1,696,091</b>	<b>\$ 6,182,938</b>	<b>\$ 1,680,038</b>	<b>\$ 59,076</b>	<b>\$ 16,053</b>

\$4,254,136 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year 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:

Year Ended September 30:	Entity-Wide	Primary Govt	Component Units
2026	\$ 668,767	\$ 662,787	\$ 5,980
2027	1,880,847	1,864,029	16,818
2028	(1,523,870)	(1,510,244)	(13,626)
2029	(733,957)	(727,394)	(6,563)
	<u>\$ 291,787</u>	<u>\$ 289,178</u>	<u>\$ 2,609</u>

**Note 8 - Other Post Employment Benefits**

**Plan Description**

The City also participates in a single employer, defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage (Supplemental Death Benefits) for their active members, including or not including retirees.

**Benefits Provided**

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree employees, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan. Texas Local Government Code Section 177.001 assigns the authority to establish and amend benefit provisions to the City Council. 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	178
Inactive employees entitled to but not yet receiving benefits	50
Active employees	437
Total	665

**Contributions**

The City contributes to the SDBF program at a contractually required rate. An annual actuarial valuation is performed, and the contractual rate is equal to the cost of providing one-year term life insurance. The premium rate is expressed as a percentage of the covered payroll of members employed by the participating employer. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

The SDBF program is voluntary and employers can cease participation by adopting an ordinance before November 1 of any year to be effective the following January 1. Therefore, the funding policy of the program is to ensure that adequate resources are available to meet all insurance benefit payments for the upcoming year. It is not the intent of the funding policy to pre-fund retiree term life insurance during employees’ entire careers. The City’s contribution, which equaled the required contribution, was as follows for the year ended September 30:

	2025
Employer rate	0.20%
Employer contributions	\$ 25,612

**Actuarial Assumptions**

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

Inflation	2.5%
Salary increases	3.60% to 11.85%, including inflation
Discount rate	4.08%

Mortality rates for service retirees were based on the 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

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

Actuarial assumptions used in the December 31, 2024 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period ending December 31, 2022.

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. A discount rate of 4.08% was based on the Fidelity Index's 20-Year Municipal GO AA Index as of December 31, 2024.

**OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At September 30, 2025, the City reported a total OPEB liability of \$1,024,296 measured at December 31, 2024. For the year ended September 30, 2025, the City recognized OPEB expense of \$47,316.

As of December 31, 2024, the discount rate used in the development of the total OPEB liability was 4.08% compared to 3.77% as of December 31, 2023.

Changes in the total OPEB liability for the measurement year ended December 31, 2024 are as follows:

Changes in Total OPEB Liability	Total OPEB Liability		
	Entity-Wide	Primary Government	Component Units
Balance at December 31, 2023	\$ 1,026,050	\$ 1,012,261	\$ 13,789
Changes for the year:			
Service cost	47,565	51,192	(3,627)
Interest on total OPEB liability	39,096	38,725	371
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(7,194)	(7,126)	(68)
Effect of assumption changes or inputs	(55,609)	(55,081)	(528)
Benefit payments*	(25,612)	(25,369)	(243)
Balance as of December 31, 2024	<u>\$ 1,024,296</u>	<u>\$ 1,014,602</u>	<u>\$ 9,694</u>

\*Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

**Discount Rate Sensitivity Analysis**

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

	1% Decrease in Discount Rate (3.08%)	Discount Rate (4.08%)	1% Increase in Discount Rate (5.08%)
City's total OPEB liability	\$ 1,220,660	\$ 1,024,296	\$ 869,345
Reported by Governmental Activities	1,040,304	872,953	740,896
Reported by Business-Type Activities	168,804	141,649	120,221
Reported by Component Units	11,552	9,694	8,228
	<u>\$ 1,220,660</u>	<u>\$ 1,024,296</u>	<u>\$ 869,345</u>

At December 31, 2024, the City reported its deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Entity-Wide		Primary Government		Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,257	\$ 55,436	\$ 4,217	\$ 54,909	\$ 40	\$ 527
Changes in actuarial assumptions	116,235	312,119	115,125	309,167	1,110	2,952
Contributions subsequent to the measurement date	19,462	-	19,288	-	174	-
<b>Total</b>	<b>\$ 139,954</b>	<b>\$ 367,555</b>	<b>\$ 138,630</b>	<b>\$ 364,076</b>	<b>\$ 1,324</b>	<b>\$ 3,479</b>

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ended September 30, 2026 in the amount of \$19,462. The other net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB, excluding contributions made subsequent to the measurement date, will be recognized in OPEB expense as follows:

Year Ended September 30:	Entity-Wide	Primary Government	Component Units
2026	\$ (38,125)	\$ (37,900)	\$ (225)
2027	(59,683)	(59,430)	(253)
2028	(77,397)	(77,110)	(287)
2029	(62,475)	(62,118)	(357)
2030	(2,408)	(2,008)	(400)
Thereafter	(6,975)	(6,755)	(220)
	<b>\$ (247,063)</b>	<b>\$ (245,321)</b>	<b>\$ (1,742)</b>

**Note 9 - Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2025, the City purchased commercial insurance to cover these liabilities. Additionally, the City purchases commercial insurance to cover employee health benefits. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three years.

**Note 10 - Commitments and Contingencies**

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Estimated costs to complete significant construction projects in progress at year-end totaled approximately \$16,065,000.

**Note 11 - Deferred Compensation Plan**

The City participates in a deferred compensation plan, which falls under Internal Revenue Code Section 457. Virtually all employees are eligible to participate in the plan. The deferred compensation plan allows the deferral of individual federal income taxes until funds are withdrawn. Funds may be withdrawn at termination, retirement, death or unforeseeable emergency. Employees may contribute a maximum of 100% of compensation included in gross income or \$15,500 whichever is less. As a result of legislative changes, all amounts of compensation deferred, all property and rights purchased, and all income, property or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries, whereas, prior to these legislative changes, these amounts were solely the property and rights of the City subject only to the claims of the City's general creditors. As a result, at September 30, 2025, the deferred compensation plan is not reported in the City's financial statements.

**Note 12 - Tax Abatements**

The City enters into economic development agreements authorized under Chapter 380 of the Texas Local Government Code. These agreements are planning tools designed to stimulate economic activity, redevelopment, community improvement, and provide a return on investment for the community. These programs abate or rebate property and/or sales taxes and may include other incentive payments such as fee reductions or construction costs reimbursements. Economic development agreements are considered on a case by case basis by the City Council and generally contain recapture provisions, which may require repayment or termination if recipients do not meet the required provisions of the economic incentives.

Chapter 380 of the Texas Local Government Code allows the City to provide grants for the purpose of promoting local economic development. These grants are based on a percentage of property and/or sales tax received by the City. The City had the following agreements for the fiscal year ending September 30, 2025:

- Per the Grandscape, William Sonoma, and Top Golf TIF agreement for commercial development of 433 undeveloped acres, 100% of the property tax collections from the TIRZ projects and 90% of sales tax collections from TIRZ businesses were to be abated.
- There was an agreement for Tribute properties to develop a 1,200-acre residential and golf community within the City under which 50% of property taxes was agreed to be abated.

During the year ended September 30, 2025, the City and component units abated \$5,366,274 in property taxes and \$7,404,047 in sales taxes.

**Note 13 - Restatement**

As of September 30, 2025, the City adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. Therefore, compensated absences current portion and compensated absences noncurrent portion were decreased by \$2,286,589 and \$2,263,723, respectively, as of October 1, 2024. The effect of this change in accounting principle is described in the table below.

	October 1, 2024, As Previously Reported	Change in Accounting Principle	October 1, 2024, As Restated
<b>Proprietary Funds</b>			
Water and Sewer Enterprise Fund	\$ 130,549,140	\$ 189,523	\$ 130,738,663
<b>Government-Wide</b>			
Governmental Activities	260,010,202	1,876,885	261,887,087
Business-Type Activities	130,549,140	189,523	130,738,663
Total Primary Government	<u>390,559,342</u>	<u>2,066,408</u>	<u>392,625,750</u>
<b>Component Units</b>			
The Colony Economic Development Corporation	7,141,829	30,658	7,172,487
Total Component Units	(92,500,205)	30,658	(92,469,547)

**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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[closing date]

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IN REGARD to the authorization and issuance of the “City of The Colony, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026,” dated April 15, 2026, in the principal amount of \$\_\_\_\_\_ (the “Certificates”), we have examined into their issuance by the City of The Colony, Texas (the “City”), solely to express legal opinions as to the validity of the Certificates and the exclusion of the interest on the Certificates from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Certificates, or the sufficiency of the security for or the value or marketability of the Certificates.

THE CERTIFICATES are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Certificates mature on August 15 in each of the years specified in an ordinance adopted by the City Council of the City authorizing the issuance of the Certificates (the “Ordinance”), unless redeemed prior to maturity in accordance with the terms stated on the Certificates. The Certificates accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Certificates, including the Ordinance and an examination of the initial Certificate executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Certificates and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Certificates, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Certificates have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and are additionally payable from and secured by a limited pledge of the Surplus Revenues (as defined in the Ordinance) of the City’s waterworks and sewer system in the manner and to the extent provided in the Ordinance, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or

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Re: "City of The Colony, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026"

other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Certificates for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.



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