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PRELIMINARY OFFICIAL STATEMENT

Dated August 28, 2025

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

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date hereof, subject to the matters described under "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.

\$15,055,000*
CITY OF JOSEPHINE, TEXAS
(Collin and Hunt Counties)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

Dated Date: September 1, 2025

Due: February 15, as shown on page 2

Interest accrues from the Delivery Date (defined herein)

PAYMENT TERMS. . . Interest on the \$15,055,000* City of Josephine, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") will accrue from the date of initial delivery to the initial purchaser of the Certificates (the "Delivery Date", anticipated to be on or about September 24, 2025), and will be payable February 15 and August 15 of each year commencing February 15, 2026, 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 New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof 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 Wilmington Trust, NA, Dallas Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE. . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the City of Josephine, Texas, (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, upon all taxable property within the City, and (ii) a pledge of the surplus revenues of the City's Waterworks and Sewer System (the "System"), as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "THE CERTIFICATES – Authority for Issuance of the Certificates").

PURPOSE. . . Proceeds from the sale of the Certificates will be used for paying all or a portion of the City's contractual obligations incurred in connection with (i) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City's waterworks and sewer system, including water treatment plant and wastewater treatment plant, storage facilities, water and sewer lines, pumps, valves, fittings, manholes, lift stations, service connections, and related infrastructure improvements, including the acquisition of land and rights-of-way therefore; (ii) designing, constructing and installing of flood control, storm water and drainage improvements within the City and (iii) legal, fiscal and engineering fees in connection with such projects.

CUSIP PREFIX: 48102A
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

MUNICIPAL BOND INSURANCE. . . The City has made an application for qualification for the issuance of a municipal bond insurance policy in conjunction with the issuance of the Certificates. If a commitment for an insurance policy is obtained and the initial purchaser of the Certificates (the "Initial Purchaser") determines to purchase a policy in connection with its bid, the costs thereof will be the responsibility of the Initial Purchaser (see "BOND INSURANCE" herein).

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

DELIVERY. . . It is expected that the Certificates will be available for delivery through the facilities of DTC on or about September 24, 2025.

BIDS DUE MONDAY, SEPTEMBER 8, 2025 AT 9:30 AM, CENTRAL TIME

* Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP Prefix: 48102A ⁽¹⁾

Amount	Feb 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Amount	Feb 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 290,000	2027				\$ 625,000	2039			
310,000	2028				650,000	2040			
320,000	2029				685,000	2041			
340,000	2030				715,000	2042			
420,000	2031				745,000	2043			
440,000	2032				780,000	2044			
465,000	2033				820,000	2045			
490,000	2034				860,000	2046			
515,000	2035				900,000	2047			
540,000	2036				945,000	2048			
570,000	2037				990,000	2049			
600,000	2038				1,040,000	2050			

(Interest to accrue from the Delivery Date.)

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

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

No dealer, broker, salesman or other person has been authorized by the City or the Initial Purchaser to give any information, or to make any representations 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 or the Initial Purchaser. 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.

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

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

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.

NONE OF THE CITY, THE INITIAL PURCHASER, OR THE MUNICIPAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS PRELIMINARY OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY.

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.

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

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

THE CITY..... The City of Josephine, Texas (the "City") is a political subdivision and Type A general law municipal corporation of the State of Texas, located in Collin and Hunt Counties, Texas (see "INTRODUCTION - Description of the City").

THE CERTIFICATES The Certificates are issued as \$15,055,000* Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates"). The Certificates are issued as serial certificates maturing February 15 in each of the years 2027 through 2050, inclusive, unless the Initial Purchaser designates one or more consecutive serial maturities as Term Certificates (see "THE CERTIFICATES - Description of the Certificates"). If two or more consecutive serial maturities of the Certificates are grouped into a single maturity (the "Term Certificates") by the Underwriters, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the provisions of the Ordinance and will be described in the final Official Statement.

PAYMENT OF INTEREST

ON THE CERTIFICATES..... Interest on the Certificates accrues from the Delivery Date (anticipated to be on or about September 24, 2025), and is payable February 15 and August 15 of each year, commencing February 15, 2026, until maturity or prior redemption (see "THE CERTIFICATES - Description of the Certificates").

AUTHORITY FOR ISSUANCE

FOR THE CERTIFICATES The Certificates are issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") to be passed by the City Council (see "THE CERTIFICATES - Authority for Issuance of the Certificates").

SECURITY FOR THE

CERTIFICATES The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, upon all taxable property located within the City, and (ii) a pledge of the surplus revenues of the City's Waterworks and Sewer System (the "System"), as provided in the Ordinance (see "THE CERTIFICATES – Security and Source of Payment of the Certificates").

OPTIONAL REDEMPTION OF

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

TAX EXEMPTION..... In the opinion of Bond Counsel, under existing law, interest on the Certificates is (i) excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.

QUALIFIED TAX-EXEMPT

CERTIFICATES..... The City will NOT designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

USE OF PROCEEDS FOR THE

CERTIFICATES Proceeds from the sale of the Certificates will be used for paying all or a portion of the City's contractual obligations incurred in connection (i) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City's waterworks and sewer system, including water treatment plant and wastewater treatment plant, storage facilities, water and sewer lines, pumps, valves, fittings, manholes, lift stations, service connections, and related infrastructure improvements, including the acquisition of land and rights-of-way therefore; (ii) designing, constructing and installing of flood control, storm water and drainage improvements within the City and (iii) legal, fiscal and engineering fees in connection with such projects.

* Preliminary, subject to change.

RATINGS FOR THE

CERTIFICATES The Certificates have been rated "AA-" by S&P Global Ratings ("S&P"), a division of S&P Global Inc., without regard to credit enhancement (see "OTHER INFORMATION - Rating").

MUNICIPAL BOND

INSURANCE The City has made an application for qualification for the issuance of a municipal bond insurance policy in conjunction with the issuance of the Certificates. If a commitment for an insurance policy is obtained and the Purchaser determines to purchase a policy in connection with its bid, the associated premium will be the responsibility of the Purchaser (see "BOND INSURANCE" herein).

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 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").

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

PAYING AGENT/REGISTRAR The initial Paying Agent/Registrar for the Certificates is Wilmington Trust, NA, Dallas, Texas.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year ⁽³⁾	G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2022	2,288	\$ 160,254,077	\$ 70,041	\$ 3,136,000	1.96%	\$ 1,371
2023	2,516	212,247,252	84,359	7,854,000	3.70%	3,122
2024	3,312	260,451,101	78,639	7,353,000	2.82%	2,220
2025	3,312	310,302,346	93,690	10,560,000 ⁽⁴⁾	3.40% ⁽⁴⁾	3,188 ⁽⁴⁾
2026	3,312	356,278,186	107,572	9,935,000 ⁽⁴⁾	2.79% ⁽⁴⁾	3,000 ⁽⁴⁾

(1) Source: City Staff, City's Annual Financial Reports, and North Central Texas Council of Governments Population Estimates.

(2) As reported by the Collin and Hunt County Appraisal Districts on the City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Does not include self-supporting debt from the City's water and sewer system (the "System"). The City's policy to pay its self-supporting general obligation debt from other revenues is subject to change in the future at the City's discretion; although the City has no current plans to do so (see Tables 1 and 10 herein for more detailed information on the City's general obligation self-supporting debt). In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Includes a portion of the Certificates. Preliminary, subject to change.

For additional information regarding the City, please contact:

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Jason Turney Mayor	3 years	Nov. 2026	MTC Supervisor - City of Rowlett
Doug Ewing Councilmember, Place 1	11 years	Nov. 2025	Unemployed
Brad Ahlfinger Councilmember, Place 2	5 Years	Nov. 2025	H & R Block
Alex Esquivel Councilmember - Place 3	2 Years	Nov. 2025	Deputy Sheriff
Dr. Pam Sardo Councilmember - Place 4	2 Years	Nov. 2025	Pharmacist
Gary Chappell Councilmember - Place 5	2 Years	Nov. 2026	Senior Director of IT

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>	<u>Total Governmental Service</u>
Lisa Palomba	City Administrator	3.6 Years	14 Years
Melissa Stillwell	Finance Director	5 Years	5 Years
Patti Brooks	City Secretary	20 Years	20 Years

CONSULTANTS AND ADVISORS

Auditors	Fox, Byrd & Company, P.C. Dallas, Texas
Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Disclosure Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Municipal Advisor	Hilltop Securities Inc. Dallas, Texas

PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$15,055,000*
CITY OF JOSEPHINE, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025
INTRODUCTION

This Preliminary Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$15,055,000* City of Josephine, Texas Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") being offered herein. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance to be adopted on the date of sale of the Certificates (the "Ordinance") which will authorize the issuance of the Certificates. except as otherwise indicated herein.

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and type A general-law municipality of the State, duly organized and existing under the general laws of the State. The City operates under a Council/Administrator form of government with a City Council comprised of the Mayor and five Council members. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the other terms of the two Councilmembers expiring in even-numbered years. The City Administrator is the chief administrative officer for the City. Some of the services that the City provides are: public safety, public works, streets, public improvements, planning and zoning, and general administrative services. The estimated 2025 population is 3,312. The City covers approximately 3 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Certificates will be used for paying all or a portion of the City's contractual obligations incurred in connection with (i) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City's waterworks and sewer system, including water treatment plant and wastewater treatment plant, storage facilities, water and sewer lines, pumps, valves, fittings, manholes, lift stations, service connections, and related infrastructure improvements, including the acquisition of land and rights-of-way therefore; (ii) designing, constructing and installing of flood control, storm water and drainage improvements within the City and (iii) legal, fiscal and engineering fees in connection with such projects.

SOURCES AND USES OF CERTIFICATE PROCEEDS . . . The proceeds from the sale of the Certificates are expected to be expended as follows:

SOURCES OF FUNDS:

Par Amount of Certificates	\$ -
Premium	-
TOTAL SOURCES	\$ -

USES OF FUNDS:

Deposit to Project Fund	\$ -
Underwriter's Discount	-
Costs of Issuance	-
TOTAL USES	\$ -

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated September 1, 2025 (the "Dated Date"), and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the date of initial delivery (the "Delivery Date", anticipated to be on or about September 24, 2025), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year commencing February 15, 2026, until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("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").

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES . . . The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government, as amended, and the Ordinance to be passed by City Council.

SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES . . . The Certificates are payable from the proceeds of a continuing and direct annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property located within the City and from a pledge of the Surplus Revenues (as defined in the Ordinance) of the City's combined Waterworks and Sewer System (the "System") (as defined and identified in the Ordinance).

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 4, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$1.50 per \$100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate.

OPTIONAL REDEMPTION OF THE CERTIFICATES . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2036, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on February 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of such Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificate, 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 OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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, at the option of the City, state that said redemption is 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 or such prerequisites are not satisfied, 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 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. Redemptions 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 "THE CERTIFICATES – 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 the Certificates (the "Defeased 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 authorized escrow agent, in trust (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Issuer with the Paying Agent/Registrar for the payment of its services until all Defeased Certificates shall have become due and payable, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such Defeased Certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the defeasance is approved by the City Council of the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the defeasance is approved by the City Council of the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the 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 will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or that for any other Defeasance Security will be maintained at any particular rating category.

Upon defeasance, 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.

Upon making such deposit in the manner described, such defeased Certificates shall no longer be deemed outstanding obligations secured by the Ordinance, but will be payable only from the funds and Defeasance Securities deposited in escrow and will not be considered 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.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Preliminary 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 Preliminary Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates 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 of 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 Direct and Indirect Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates under the DTC system must be made by or through direct Participants, which will receive a credit for such purchases 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 or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership 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 described herein 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 nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The 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 security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date (hereinafter defined). 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).

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

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City. 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). In that event, security certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Certificates, the City will have no obligation or responsibility to the Direct Participants or Indirect Participants, or the persons for which they act as nominees, with respect to the payment to or providing of notice to such Direct Participants, Indirect Participants or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Preliminary Official Statement. In reading this Preliminary Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Preliminary 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 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.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar for the Certificates is Wilmington Trust, NA, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, 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. 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 such Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Certificates will be payable to the registered owner at maturity or prior redemption upon presentation and surrender at the principal office of the Paying Agent/Registrar. 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 (see "THE CERTIFICATES – Record Date for Interest Payment" herein), 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. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday or day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Certificates, payments of principal and interest on the Certificates will be made as described in "THE CERTIFICATES - Book-Entry-Only System" herein.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Certificate certificates will be delivered to the registered owners of the Certificates and thereafter the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates 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 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 principal 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 of the same series, in denominations of \$5,000 or integral multiples thereof for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - Book-Entry-Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT . . . The record date (the "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 month next preceding each interest payment date for the Certificates.

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

MUTILATED, DESTROYED, LOST AND STOLEN CERTIFICATES . . . If any Certificate is mutilated, destroyed, stolen or lost, a new Certificate in the same principal amount as the Certificate so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Certificate, such new Certificate will be delivered only upon surrender and cancellation of such mutilated Certificate. In the case of any Certificate issued in lieu of and substitution for any Certificate which has been destroyed, stolen or lost, such new Certificate will be delivered only (a) upon filing with the Paying Agent/Registrar evidence satisfactory to the Paying Agent/Registrar to the effect that such Certificate has been destroyed, stolen or lost and authenticity 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.

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus 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 June 30, 2006 Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous language." Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities under certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services to cities.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson I*"), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests LTD. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) ("*Wasson II*", and together with *Wasson I* "*Wasson*"), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

As noted above, the Ordinance provides that holders of the Certificates may exercise the remedy of mandamus to enforce the Certificates of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined

as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States 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 the 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 remedies 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, principles of governmental immunity, and general principles of equity that permit the exercise of judicial discretion.

AMENDMENTS . . . The City may amend the Ordinance without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, formal defect, or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding and affected thereby, amend, add to, or rescind any of the provisions of Ordinance; except that, without the consent of the registered owners of all of the Certificates then outstanding, no such amendment, addition, or rescission may (1) make any change in the maturity of any of the outstanding Certificates; (2) reduce the rate of interest borne by any of the outstanding Certificates; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (4) modify the terms of payment of principal of, or interest or redemption premium on, outstanding Certificates or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of any series of Certificates necessary for consent to such amendment.

BOND INSURANCE

The City has submitted applications to municipal bond insurance companies (an "Insurer") to have the payment of the principal of and interest on the Certificates insured by municipal bond insurance policies (a "Policy"). In the event the Certificates are qualified for municipal bond insurance, and the Initial Purchaser desires to purchase such insurance, the insurance premium will be paid by the Initial Purchaser. The final Official Statement shall disclose, to the extent necessary, any relevant information relating to any such municipal bond insurance policies.

BOND INSURANCE RISKS

If an insurance policy is purchased, the following are risk factors relating to bond insurance.

BOND INSURANCE RISK FACTORS. . . In the event of default of the scheduled payment of principal of or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Certificates will not be subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES – Certificateholders' Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Certificateholders.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from ad valorem taxes levied, within the limited prescribed by law, as further described in "THE CERTIFICATES – Security and Source of Payment of the Certificates". In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates.

If a Policy is acquired, the long-term ratings on the Certificates will be dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer's financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Certificates, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) of the Certificates (see "OTHER INFORMATION – Rating").

The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the City, the City's Municipal Advisor or the Initial

Purchaser has made independent investigation into the claims-paying ability of any potential insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential insurer is given.

CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . . Moody's Investor Services, Inc., S&P and Fitch Ratings (collectively, the "Rating Agencies") have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the Certificates.

TAX INFORMATION

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

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

During the 89th Regular Session, the Legislature considered a general appropriations act and legislation affecting ad valorem taxation procedures and exemptions, and investments, among other legislation affecting municipalities and their operations and financings. The City is still in the process of reviewing legislation passed during the 89th Regular Session. At this time, the City cannot make any representations as to the full impact of such legislation.

The Governor has called a special session which began on July 21, 2025, which concluded on August 15, 2025. The Governor called a second special session, which began on August 15, 2025 and may last no longer than 30 days. The agenda for the second special session includes the following items: (i) legislation to reduce the property tax burden on Texans and legislation to impose spending limits on entities authorized to impose property taxes, (ii) flood warning systems, (iii) flood emergency communications, (iv) relief funding for hill country floods, (v) natural disaster preparation and recovery, (vi) replacement of STAAR testing, (vii) protecting children from hemp-derived products, (viii) regulation of products derived from hemp, (ix) protecting unborn children, (x) banning taxpayer-funded lobbying, (xi) protecting victims of human trafficking, (xii) protecting police personnel records, (xiii) protecting women's privacy in sex-segregated spaces, (xiv) constitutional amendment allowing the Texas Attorney General to prosecute state election crimes, (xv) congressional redistricting, (xvi) title theft and deed fraud, (xvii) impact fees for builders who include water conservation and efficiency measures, and (xviii) the operation and administration of the judicial branch of state government. The City can make no representations or predictions regarding the ultimate scope of legislation that may be considered in any special session or the potential impact of such legislation at this time.

VALUATION OF TAXABLE PROPERTY . . . The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (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 Collin Central Appraisal District and the Hunt County 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 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. The 88th Texas Legislature expanded the size of the governing body of an appraisal district in a county with a population of more than 75,000 by adding elected directors and authorizing the legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts.

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 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 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.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). See "Table 1 – Assessed Valuation and Exemption" for the reduction in taxable valuation attributable to the 10% Homestead Cap.

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "TAX INFORMATION – Issuer 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. See "Table 1 – Assessed Valuation and Exemption" for the reduction, if any, attributable to state mandated homestead exemptions.

LOCAL OPTION HOMESTEAD EXEMPTIONS . . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of 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. The exemption described in (2), above, may be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment 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. See "Table 1 – Assessed Valuation and Exemption" for the reduction, if any, attributable to local option homestead exemptions. Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

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

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

FREEPORT 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 outside the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or outside 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.

See "Table 1 – Assessed Valuation and Exemption" for the reduction, if any, attributable to Freeport Property and/or Goods-in-Transit exemptions.

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

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

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

For a discussion of how the various exemptions described above are applied by the City, See "TAX INFORMATION – City Application of Tax Code" herein.

PUBLIC HEARING AND MAINTENANCE AND OPERATION 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 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).

"preceding total value" means a taxing unit's current total value in the applicable preceding tax year.

"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 2022 foregone revenue amount, the 2023 foregone revenue amount, and 2024 foregone revenue amount 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.

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 city participates has posted notice prominently on the appraisal district's website (if the appraisal district maintains a website) and the assessor for the city has prominently posted on the city's website notice informing property owners of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase. The appraisal district is also required to post notice in a newspaper of general circulation by August 7 or as soon thereafter as practicable or if there is no newspaper of general circulation, the notice must be posted in the appraisal district's office.

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

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

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

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

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

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

Potential Future Changes in State Law Regarding Debt and Tax Rate Limitations

During Texas legislative sessions and interim business of the Texas legislature, various proposals and reports have been presented by committees of Texas Senate and Texas House of Representative which suggest or recommend changes to Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act), Chapter 1431, Texas Government Code, and the Texas Property Tax Code relating to the ability of political subdivisions to impose taxes for purposes of ongoing maintenance and operations and to incur long-term debt. The 89th Legislative Session of the State (the "89th Regular Session") convened on January 14, 2025, and concluded on June 2, 2025. The Governor called for a special session on June 23, 2025, which is set to begin on July 21, 2025, and may last no longer than 30 days, including in part to consider "legislation reducing the property tax burden on Texans and legislation imposing spending limits on entities authorized to impose property taxes." Additional special sessions may be called by the Governor. During this time, the State Legislature may enact laws that materially change current law as it relates to ad valorem taxation, including the security for the Certificates. The City can make no representations or predictions regarding the scope of legislation that may be considered in any special session or future session of the Legislature or the potential impact of such legislation at this time.

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount," as determined by the State Comptroller, and situated in a county with a population of 1.2 million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at \$61,349,201 for the 2025 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer

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

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

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

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

After July, penalty remains at 12%, and interest increases at the rate of one-percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to incur interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney’s collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City’s lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

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 \$10,000; the disabled are also granted an exemption of \$10,000. Also, there is a freeze on the taxable value of the residence homesteads of persons 65 years of age and older and disabled persons.

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

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

The City does not tax nonbusiness personal property; and the City taxes are collected by the Collin County Tax Assessor Collector.

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

The City has taken action to tax freeport property.

TABLE 1 - ASSESSED VALUATION AND EXEMPTION

2025/26 Market Valuation Established by the Appraisal Districts (excluding totally exempt property)		\$ 418,834,942
Less Exemptions/Reductions at 100% Market Value:		
Over Age 65 and Disabled	\$ 1,634,766	
Disabled Veterans	10,216,283	
Productivity Loss	7,912,240	
Homestead Cap	6,674,546	
Cap Loss	1,557,488	
Totally Exempt	33,465,352	
Others	<u>1,096,081</u>	<u>62,556,756</u>
2025/26 Taxable Assessed Valuation		<u>\$ 356,278,186</u>
Outstanding General Obligation Debt Payable from Ad Valorem Taxes (as of 8/1/2025) The Certificates ⁽¹⁾		<u>\$ 19,678,000</u> <u>15,055,000</u>
Total General Obligation Debt Payable from Ad Valorem Taxes ⁽¹⁾		\$ 34,733,000
Less: Self-Supporting General Obligation Debt (as of 8/1/2025) ⁽²⁾ The Certificates (Water & Sewer) ⁽¹⁾	\$ 12,375,000 <u>11,255,000</u>	<u>23,630,000</u>
Net General Obligation Debt Payable from Ad Valorem Taxes ⁽¹⁾		<u>\$ 11,103,000</u>
General Obligation Interest and Sinking Fund (as of 8/1/2025)		\$ 865,579
Ratio of Net General Obligation Tax Debt to Taxable Assessed Valuation		3.12%

2025 Estimated Population - 3,312

Per Capita Taxable Assessed Valuation - \$107,572

Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$3,352

(1) Preliminary, subject to change.

(2) It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future, although the City has no current plans to do so. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligation, the City will be required to levy an ad valorem tax to pay such debt service. See Table 10 herein for more detailed information on the City's general obligation self-supporting debt. Includes the Certificates. Preliminary; Subject to Change.

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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	\$ 312,602,561	74.64%	\$ 289,712,370	81.41%	\$ 255,650,789	80.32%
Real, Residential, Multi-Family	428,202	0.10%	136,463	0.04%	135,336	0.04%
Real, Vacant Lots/Tracts	7,312,329	1.75%	7,707,790	2.17%	6,528,250	2.05%
Real, Acreage (Land Only)	7,951,940	1.90%	8,584,361	2.41%	10,051,277	3.16%
Real, Farm and Ranch Improvements	11,728,143	2.80%	4,805,941	1.35%	9,009,520	2.83%
Real, Commercial and Industrial	4,812,285	1.15%	4,598,567	1.29%	4,343,947	1.36%
Real and Tangible Personal, Utilities	2,277,808	0.54%	1,727,904	0.49%	1,518,922	0.48%
Tangible Personal, Business	1,233,077	0.29%	1,124,110	0.32%	741,086	0.23%
Tangible Personal, Mobile Homes, Other	818,420	0.20%	1,204,210	0.34%	493,141	0.15%
Real Property, Inventory	34,596,164	8.26%	28,518,095	8.01%	22,697,897	7.13%
Totally Exempt	35,074,013	8.37%	7,751,074	2.18%	7,108,687	2.23%
Total Appraised Value Before Exemptions	\$ 418,834,942	100.00%	\$ 355,870,885	100.00%	\$ 318,278,852	100.00%
Adjustments	-		-		1,141,081	
Less: Total Exemptions/Reductions	62,556,756		45,568,539		56,686,670	
Taxable Assessed Value	<u>\$ 356,278,186</u>		<u>\$ 310,302,346</u>		<u>\$ 260,451,101</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 211,745,235	81.64%	\$ 148,075,857	84.16%
Real, Residential, Multi-Family	122,839	0.05%	106,572	0.06%
Real, Vacant Lots/Tracts	4,291,798	1.65%	3,582,293	2.04%
Real, Acreage (Land Only)	6,372,144	2.46%	4,688,380	2.66%
Real, Farm and Ranch Improvements	9,380,763	3.62%	5,215,472	2.96%
Real, Commercial and Industrial	4,049,543	1.56%	3,236,438	1.84%
Real and Tangible Personal, Utilities	2,058,867	0.79%	1,976,576	1.12%
Tangible Personal, Business	606,223	0.23%	447,049	0.25%
Tangible Personal, Mobile Homes, Other	433,806	0.17%	485,118	0.28%
Real Property, Inventory	16,396,306	6.32%	5,252,142	2.99%
Totally Exempt	3,896,197	1.50%	2,877,160	1.64%
Total Appraised Value Before Exemptions	\$ 259,353,721	100.00%	\$ 175,943,057	100.00%
Adjustments	1,526,976		2,533,464	
Less: Total Exemptions/Reductions	45,579,493		13,155,516	
Taxable Assessed Value	<u>\$ 212,247,252</u>		<u>\$ 160,254,077</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal Districts 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.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year ⁽³⁾	G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2022	2,288	\$ 160,254,077	\$ 70,041	\$ 3,136,000	1.96%	\$ 1,371
2023	2,516	212,247,252	84,359	7,854,000	3.70%	3,122
2024	3,312	260,451,101	78,639	7,353,000	2.82%	2,220
2025	3,312	310,302,346	93,690	10,560,000 ⁽⁴⁾	3.40% ⁽⁴⁾	3,188 ⁽⁴⁾
2026	3,312	356,278,186	107,572	9,935,000 ⁽⁴⁾	2.79% ⁽⁴⁾	3,000 ⁽⁴⁾

(1) Source: City Staff, City's Annual Financial Reports, and North Central Texas Council of Governments.

(2) As reported by the Collin and Hunt County Appraisal Districts on the City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Does not include self-supporting debt from the City's water and sewer system (the "System"). The City's policy to pay its self-supporting general obligation debt from other revenues is subject to change in the future at the City's discretion; although the City has no current plans to do so (see Tables 1 and 10 herein for more detailed information on the City's general obligation self-supporting debt). In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Preliminary, subject to change. Includes a portion of the Certificates.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9-30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2021	\$ 0.55908	\$ 0.49478	\$ 0.06430	\$ 732,158	99.31%	100.99%
2022	0.51670	0.46244	0.05426	801,854	99.80%	100.27%
2023	0.49156	0.38008	0.11148	1,018,775	99.52%	105.00%
2024	0.46810	0.35662	0.11148	1,192,813	99.41%	100.00%
2025	0.46810	0.35662	0.11147	1,275,149	99.00% ⁽¹⁾	99.00% ⁽¹⁾

(1) Collections as of July 31, 2025.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2025/26 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Shepherd Place Homes Inc.	Homebuilder	\$ 10,398,595	2.92%
Brightland Homes Ltd	Homebuilder	5,670,771	1.59%
Astoria Homes LLC	Homebuilder	4,519,029	1.27%
Starlight Homes LLC	Homebuilder	3,184,200	0.89%
GG Liberty Ranch Ltd Partnership	Residential Land	2,193,400	0.62%
Oncore Electric Delivery CO LLC	Utilities	1,636,800	0.46%
Papadopoulos Rachel Restated Rev Living Trust	Residential Land	1,545,360	0.43%
AB Petroleum Inc.	Utilities	1,531,182	0.43%
Tallant Rentals LLC	Residential Land	1,500,918	0.42%
Meritage Homes of Texas LLC	Homebuilder	1,440,001	0.40%
		<u>\$ 33,620,256</u>	<u>9.44%</u>

Source: Appraisal Districts.

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law (see "THE CERTIFICATES – Tax Rate Limitation").

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 Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

<u>Taxing Jurisdiction</u>	<u>2024/2025 Taxable Assessed Value ⁽¹⁾</u>	<u>2024/2025 Tax Rate ⁽¹⁾</u>	<u>Total Tax Supported Debt as of 8/1/2025 ⁽¹⁾</u>	<u>Estimated % Applicable ⁽¹⁾</u>	<u>City's Overlapping Tax Supported Debt as of 8/1/2025</u>
City of Josephine	\$ 310,302,346	\$ 0.4681	\$ 34,733,000 ⁽²⁾	100.00%	\$ 34,733,000
Collin County	251,108,780,615	0.1493	1,004,295,000	0.10%	1,004,295
Collin County CCD	226,124,750,589	0.0812	459,865,000	0.10%	459,865
Community ISD	2,989,624,624	1.2552	431,225,000	11.48%	49,504,630
Hunt County	14,571,976,822	0.3233	9,125,000	0.03%	2,738
Hunt Memorial Hospital District	14,557,056,812	0.2004	28,510,000	0.03%	8,553
Total Direct and Overlapping Tax Supported Debt					\$ 85,713,081
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					27.62%
Per Capita Direct and Overlapping Tax Supported Debt					\$ 50,747.83

(1) Source: Municipal Advisory Council of Texas.

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

TABLE 7 - TAX ADEQUACY ⁽¹⁾

Net Principal and Interest Requirements, 2025	\$ 914,038
\$0.2618 Tax Rate at 98% Collection Produces	\$ 914,047
Net Average Annual Principal and Interest Requirements, 2025-2052	\$ 601,716 ⁽²⁾
\$0.1723 Tax Rate at 98% Collection Produces	\$ 601,730
Net Maximum Principal and Interest Requirements, 2030	\$ 1,759,643 ⁽²⁾
\$0.5040 Tax Rate at 98% Collection Produces	\$ 1,759,659

(1) Excludes self-supporting debt (see Tables 1 and 10 herein for more detailed information on the City's general obligation self-supporting debt).

(2) Includes a portion of the Certificates. Preliminary, subject to change.

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DEBT INFORMATION

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service			The Certificates ⁽¹⁾			Less: Self Supported Debt Service ⁽²⁾	Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total			
2025	\$ 823,000	\$ 826,088	\$ 1,649,088	\$ -	\$ -	\$ -	\$ 735,050	\$ 914,038	
2026	870,000	786,812	1,656,812	-	637,932	637,932	1,214,415	1,080,329	
2027	918,000	745,183	1,663,183	290,000	708,188	998,188	1,517,425	1,143,946	
2028	963,000	701,374	1,664,374	310,000	693,188	1,003,188	1,520,025	1,147,537	
2029	1,074,000	655,298	1,729,298	320,000	677,438	997,438	1,521,050	1,205,686	15.90%
2030	1,675,000	604,180	2,279,180	340,000	660,938	1,000,938	1,520,475	1,759,643	
2031	390,000	526,950	916,950	420,000	641,938	1,061,938	1,518,350	460,538	
2032	415,000	505,550	920,550	440,000	620,438	1,060,438	1,520,425	460,563	
2033	435,000	485,050	920,050	465,000	597,813	1,062,813	1,517,550	465,313	
2034	455,000	465,775	920,775	490,000	573,938	1,063,938	1,519,900	464,813	31.68%
2035	470,000	446,750	916,750	515,000	548,813	1,063,813	1,521,625	458,938	
2036	490,000	427,000	917,000	540,000	522,438	1,062,438	1,516,875	462,563	
2037	510,000	406,350	916,350	570,000	494,688	1,064,688	1,520,475	460,563	
2038	530,000	384,800	914,800	600,000	465,438	1,065,438	1,517,300	462,938	
2039	555,000	363,875	918,875	625,000	437,156	1,062,156	1,520,200	460,831	47.12%
2040	575,000	343,650	918,650	650,000	409,656	1,059,656	1,519,000	459,306	
2041	595,000	322,700	917,700	685,000	380,025	1,065,025	1,520,688	462,038	
2042	620,000	300,925	920,925	715,000	348,525	1,063,525	1,520,438	464,013	
2043	640,000	278,325	918,325	745,000	315,675	1,060,675	1,518,550	460,450	
2044	665,000	254,900	919,900	780,000	280,875	1,060,875	1,519,553	461,222	66.17%
2045	685,000	230,650	915,650	820,000	243,875	1,063,875	1,518,316	461,209	
2046	710,000	205,600	915,600	860,000	204,488	1,064,488	1,519,694	460,394	
2047	735,000	179,625	914,625	900,000	162,688	1,062,688	1,518,544	458,769	
2048	765,000	151,100	916,100	945,000	118,869	1,063,869	1,518,619	461,350	
2049	800,000	119,800	919,800	990,000	72,913	1,062,913	1,519,675	463,038	89.62%
2050	830,000	87,200	917,200	1,040,000	24,700	1,064,700	1,518,069	463,831	
2051	865,000	53,300	918,300	-	-	-	737,700	180,600	
2052	900,000	18,000	918,000	-	-	-	734,400	183,600	100.00%
	<u>\$ 19,958,000</u>	<u>\$ 10,876,811</u>	<u>\$ 30,834,811</u>	<u>\$ 15,055,000</u>	<u>\$ 10,842,626</u>	<u>\$ 25,897,626</u>	<u>\$ 39,884,383</u>	<u>\$ 16,848,053</u>	

(1) Preliminary, subject to change.

(2) It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future, although the City has no current plans to do so. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligation, the City will be required to levy an ad valorem tax to pay such debt service. See Table 10 herein for more detailed information on the City's general obligation self-supporting debt. Includes the Certificates. Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2025		\$ 914,038
Interest and Sinking Fund, Fiscal Year Ending 9/30/2024	\$ 865,579	
Budgeted Interest and Sinking Fund Tax Levy 2024/2025	<u>303,668</u>	<u>1,169,247</u>
Estimated Balance, Fiscal Year Ending 9/30/2025		<u><u>\$ 255,209</u></u>

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . The City has no authorized but unissued bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . . The City does not anticipate issuing any tax supported debt within the next twelve months.

EMPLOYEE BENEFITS

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

For a more in depth description, see the City's audit in Appendix B.

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT

As of Fiscal Year Ending September 30, 2025

Combination Tax & Revenue Certificates of Obligation, Series 2022 (Water & Sewer).	\$ 4,910,000
Combination Tax & Revenue Certificates of Obligation, Series 2022A (Water & Sewer).	7,695,000
The Certificates (Water & Sewer).	<u>11,255,000</u> ⁽¹⁾
Total Self-Supported Principal Amount	<u>\$ 16,165,000</u>
Net Revenues Available from Waterworks and Sewer System, Fiscal Year Ended September 30, 2024	\$ 4,091,701
Less: Revenue Bond Requirements, Fiscal Year Ending September 30, 2025	<u>-</u>
Balance Available for Other Purposes	\$ 4,091,701
System General Obligation Bond Requirements, Fiscal Year Ending September 30, 2025	<u>735,050</u>
Balance	<u>\$ 3,356,651</u>
Percentage of System General Obligation Bonds Self-Supporting	100.00%

(1) Includes a portion of the Certificates. Preliminary, subject to change.

TABLE 11 - OTHER OBLIGATIONS

The City is currently obligated under a 30-year water purchase contract with the North Texas Municipal Water District until December 31, 2025. Total water cost for the year ended September 30, 2024 was \$1,238,289.

The City has entered into a contract for garbage collection services with Republic Services. The contract period is from December 1, 2017 to November 30, 2024. The contract has up to five one-year renewals with a 180 day notice prior to the end of the initial term. During fiscal year 2024, the City spent \$513,989 on garbage collection services.

FINANCIAL INFORMATION

TABLE 12 - GENERAL FUND REVENUE AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
<u>Revenues:</u>					
Ad valorem taxes	\$ 910,181	\$ 801,462	\$ 735,378	\$ 665,682	\$ 602,361
Franchise taxes	68,504	65,194	64,563	52,592	50,678
Sales Tax	254,290	328,604	252,134	142,950	111,579
Garbage Fees	1,644,843	1,228,047	1,930,261	391,188	303,983
Permits	1,880,062	1,370,340	499,554	298,052	220,264
Fines	77,553	62,283	36,574	62,262	91,726
Intergovernmental	1,287,705	337,727	305,921	283,756	18,495
Grant income	18,964	52,201	51,442	1,644,214	413,455
Other income	430,699	294,771	38,559	444,508	282,764
Interest	564,665	224,672	9,715	1,491	2,314
Total Revenues	<u>\$ 7,137,466</u>	<u>\$ 4,765,301</u>	<u>\$ 3,924,101</u>	<u>\$ 3,986,695</u>	<u>\$ 2,097,619</u>
<u>Expenditures:</u>					
Administration	\$ 1,540,328	\$ 1,579,891	\$ 1,419,351	\$ 635,353	\$ 526,712
Sanitation services	526,572	462,208	365,836	261,529	150,962
Public works	49,705	44,517	44,626	25,585	37,100
Park	57,079	45,737	40,710	33,876	18,091
Street department	156,265	227,879	83,524	97,114	109,293
Police department/municipal court	1,448,359	1,288,923	824,740	809,071	622,376
Debt Service: Principal	505,863	57,486	75,419	54,359	134,586
Debt Service: Interest	290,267	1,012	56,797	4,139	11,571
Capital Outlay	3,751,033	1,739,121	833,385	710,651	140,816
Total Expenditures	<u>\$ 8,325,471</u>	<u>\$ 5,446,774</u>	<u>\$ 3,744,387</u>	<u>\$ 2,631,677</u>	<u>\$ 1,751,508</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,188,005)	\$ (681,473)	\$ 179,714	\$ 1,355,018	\$ 346,111
Other Financing Sources (Uses):					
Bond Proceeds	\$ 4,884,000	\$ -	\$ 2,970,000	\$ -	\$ -
Premiums on bonds issued	-	-	40,206	-	-
Transfers (Out) In	425,000	300,000	-	-	-
Total Other Financing Sources	<u>\$ 5,309,000</u>	<u>\$ 300,000</u>	<u>\$ 3,010,206</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (Deficiency) of Revenues and other Financing Sources Over Expenditures Extraordinary Gain (Loss)	\$ 4,120,995	\$ (381,473)	\$ 3,189,920	\$ 1,355,018	\$ 346,111
Beginning Fund Balance	4,619,998	5,001,471	1,811,551	456,533	110,422
Prior Period Adjustment	-	-	-	-	-
Ending Fund Balance	<u>\$ 8,740,993</u>	<u>\$ 4,619,998</u>	<u>\$ 5,001,471</u>	<u>\$ 1,811,551</u>	<u>\$ 456,533</u>

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., 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. The voters of the City approved the imposition of an additional sales and use tax of one-half percent (0.50%) for the benefit of the Josephine Community Development Corporation (the "Corporation"). Two ballot measures in the November 7, 2024 election approved the dissolution of the Corporation and the creation of the Josephine Municipal Development District (the "Josephine MDD"). The ballots also approved the abolishment of the Corporation's sales tax rate of one-half percent (0.50%) and replacing such sales tax rate with a new local sales and use tax rate of one and one-half percent (1.50%) for the City. The final sales tax collection for the Corporation was March 2025 and the Josephine MDD began to collect sales tax in April 2025. The current sales and use tax rates within the City total 1.5%, which is the maximum amount permitted by State law. 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. The Josephine MDD imposes a sales tax rate of one-half percent (0.50%) and the table below does not include the sales tax collections for the Josephine MDD. **Sales and use tax proceeds are not pledged to payment of the Certificates and are not available to pay debt service on the Certificates.**

Fiscal Year Ended 9/30	City 1.5% Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2021	\$ 214,425	29.29%	\$ 0.1580	\$ 96.8932
2022	252,134	31.44%	0.1573	110.20
2023	328,604	33.58%	0.1548	130.61
2024	381,429	31.98%	0.1464	115.17
2025	403,141 ⁽²⁾	31.62%	0.1299	121.72

(1) Source: Texas Comptroller of Public Accounts website.

(2) Collections through August 2025.

INVESTMENTS

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

LEGAL INVESTMENTS . . . 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 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 (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "PFIA"), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City's account, (iii) 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 (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) certificates of deposit where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds 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, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above or clause (12) below, 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)

certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with SEC Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the SEC that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party designated by the City, (v) 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 (vi) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bear 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 State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each 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.

The investment officer of a local government is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government's investment policy regarding the debt issuance or the agreement.

Under State 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, ending market value and the fully accrued interest of each pooled fund group for the reporting period, (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, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority) and (c) deliver a written statement 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 no-load 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 June 30, 2025 the City's investable funds were invested in the following categories:

Description	% of Portfolio	Market Value
LOGIC	67.35%	\$ 10,525,656
Checking Account	32.65%	5,102,104
Total	100.00%	\$ 15,627,760

THE SYSTEM

The City contracts with the North Texas Municipal Water District ("NTMWD") to meet the City's water supply needs. The City owns and operates a small wastewater treatment plant and collects and treats wastewater for its residents. The Certificates are being issued to construct a second wastewater treatment plant with a capacity to treat up to 500,000 gallons of wastewater per day, and also to make improvements to the City's existing sewer collection and treatment facilities. The City also owns various facilities including storage and pump facilities, water distribution and sewage collection lines, meters, valves, and other facilities necessary to provide water and sewer service to its customers. The City then charges its customers such rates that are sufficient for pay the City's obligations to NTMWD and to pay for the maintenance, operation, and improvement of the City's water and sewer facilities.

TABLE 15 - MONTHLY WATER RATES

Meter Size	Notes	Monthly Minimum Less than 3000 gallons	Water Usage between 3,001 - 10,000 gallons	Water Usage Over 10,000 gallons	Water Usage Over 20,000 gallons
5/8"	Inside City Limits	\$44.43	\$7.59/Per 1,000 gallon	\$ 9.11/Per 1,000 gallon	\$ 9.95/Per 1,000 gallon
5/8"	Outside City Limits	\$48.88	\$8.52/Per 1,000 gallon	\$10.22/Per 1,000 gallon	\$11.17/Per 1,000 gallon
1"	Inside City Limits	\$71.18	\$7.59/Per 1,000 gallon	\$ 9.11/Per 1,000 gallon	\$ 9.95/Per 1,000 gallon
1"	Outside City Limits/MUD	\$85.55	\$8.52/Per 1,000 gallon	\$ 10.22/Per 1,000 gallon	\$ 11.17/Per 1,000 gallon
1.5<"	Inside City Limits	\$97.57	\$7.59/Per 1,000 gallon	\$9.11/Per 1,000 gallon	\$9.95/Per 1,000 gallon
1.5<"	Outside City Limits/MUD	\$121.16	\$8.52/Per 1,000 gallon	\$10.22/Per 1,000 gallon	\$11.17/Per 1,000 gallon
	Multi Meter	\$85.55	\$8.52/Per 1,000 gallon	\$10.22/Per 1,000 gallon	\$11.17/Per 1,000 gallon

TABLE 16 - MONTHLY SEWER RATES

Notes	Service Gallons Between 0 - 1,000 gallons	Service Gallons Between 1,001 and 5,000 gallons	Service Gallons Between 5,001 and 9,899 gallons	Monthly Bill
Inside City Limits	\$27.80	\$2.94/Per 1,000 gallon	\$3.30/Per 1,000 gallon	\$55.72
Outside City Limits	\$32.11	\$3.39/Per 1,000 gallon	\$3.81/Per 1,000 gallon	\$64.33

TABLE 17 - WATER AND SEWER SYSTEM STATEMENT OF OPERATIONS

	Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
Operating Revenues					
Water Sales	\$ 3,742,866	\$ 2,844,295	\$ 2,550,429	\$ 1,584,840	\$ 1,409,840
Sewer Sales	1,582,727	1,210,116	991,984	689,687	462,826
Grant Income	-	-	-	1,390	-
Tap and Reconnect Fees	821,025	810,283	738,525	827,473	413,147
Total Operating Revenues	\$ 6,146,618	\$ 4,864,694	\$ 4,280,938	\$ 3,103,390	\$ 2,285,813
Operating Expenses					
Salaries, Taxes and Benefits	\$ 1,017,127	\$ 701,106	\$ 555,430	\$ 436,491	\$ 343,528
Contract Labor	91,564	129,492	9,376	137,094	71,551
Professional Fees	178,414	1,433,113	583,296	14,000	11,500
Water Purchases	1,238,289	836,752	471,431	381,144	240,966
Repairs and Facility Maintenance	24,070	10,432	30,995	26,547	20,526
Vehicle Expense	19,472	13,519	24,201	10,342	9,556
Utilities and Telephone	152,413	159,707	129,641	65,717	61,349
Water/Sewer Testing	1,876	1,977	5,434	1,082	1,175
Depreciation and Amortization	536,393	473,785	453,261	241,930	157,278
Grant Expenses	-	-	272,054	-	-
Other Expenses	383,028	307,139	-	276,089	161,311
Total Operating Expenses	\$ 3,642,646	\$ 4,067,022	\$ 2,535,119	\$ 1,590,436	\$ 1,078,740
Operating Income (Loss)	\$ 2,503,972	\$ 797,672	\$ 1,745,819	\$ 1,512,954	\$ 1,207,073
Non Operating Revenues					
Interest Income	\$ 1,051,336	\$ 817,244	\$ 81,258	\$ 3,646	\$ 5,627
Miscellaneous income	\$ 217,500	675,433	704,016	-	-
Interest and Fiscal Charges	(815,761)	(541,890)	(538,483)	6,083	(20)
Gain on Sale of Asset	-	-	-	-	3
Total Non Operating Revenues (Expenses)	\$ 453,075	\$ 950,787	\$ 246,791	\$ 9,729	\$ 5,610
Income Before Capital Grants and Transfers					
Capital contributions	\$ 1,094,346	\$ 615,779	\$ 8,181,122	\$ -	\$ 1,804,114
Transfers Out	(425,000)	(312,000)	(305,683)	(229,000)	(84,000)
Change in Net Position	\$ 3,626,393	\$ 2,052,238	\$ 9,868,049	\$ 1,293,683	\$ 2,932,797
Net Position, October 1	\$ 20,185,627	\$ 18,133,389	\$ 8,265,340	\$ 6,971,657	\$ 4,038,860
Prior Period Adjustment	869,497	-	-	-	-
Net Position, September 30	\$ 24,681,517	\$ 20,185,627	\$ 18,133,389	\$ 8,265,340	\$ 6,971,657
Net Revenue Available for Debt Service	\$ 4,091,701	\$ 2,088,701	\$ 2,280,338	\$ 1,758,530	\$ 1,369,978

TAX MATTERS

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

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

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

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

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

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

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

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

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

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

the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

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

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

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

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

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the Tables numbered 1 through 5 and 7 through 17. The City will update and provide this

information in the numbered tables within twelve (12) months after the end of each fiscal year ending in and after 2025 and audited financial statements within twelve (12) months after the end of each fiscal year ending in and after 2025. If the audit of such financial statements is not complete within such time frame after any such fiscal year end, then the City shall file unaudited financial statements within such time period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-referenced tables, and audited financial statements, must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data.

NOTICE OF CERTAIN EVENTS . . . The City will also provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5702-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) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, if material, (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. In addition, the City will provide to the MSRB, in a timely manner, notice of any failure by the City to provide the required annual financial information described above under "Annual Reports" and any notices of events in accordance with this section.

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the 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. For the purposes of the above describe event (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a financial obligation shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

AVAILABILITY OF INFORMATION . . . The City has agreed to provide the foregoing financial and operating information only as described above. Investors may access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement. The 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 the 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 the Initial Purchaser from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City so amends its continuing disclosure 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 believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATING

The Certificates are rated "AA-" by S&P Global Ratings ("S&P"), a division of S&P Global Inc., 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 such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price or marketability of the Certificates.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

CYBERSECURITY

The City's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the City continually assesses and monitors its cybersecurity risks, the City has been (and may be in the future) subject to cyber-attacks from time to time. In response to such assessments and monitoring, the City takes actions it deems appropriate in response to cybersecurity risks, including, but not limited to, implementing cybersecurity training programs, obtaining technology improvements to mitigate cybersecurity risks, and taking other similar measures. To date, the City has not been the victim of any cyber-attack that has had a material adverse effect on its operations or financial condition. However, no assurance can be given that the City will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the City's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. Any such occurrence could materially and adversely affect the City's operations and/or financial condition.

WEATHER EVENTS

The City is located in the north central region of Texas. Land located in this area is susceptible to high winds, tornadoes, fires and arid conditions. If a future weather event significantly damages all or part of the properties comprising the tax base within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenue and/or necessitate an increase in the City tax rate. Under certain conditions, Texas law allows a city to increase property tax rates without voter approval upon the occurrence of certain disasters such as a tornado, flooding or extreme drought and upon gubernatorial or presidential declaration of disaster. There can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or that property owners will carry flood or the appropriate, applicable other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds or that insurance proceeds will be used to rebuild or repay any damaged improvements within the City or be sufficient for such purposes. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the City could be adversely affected.

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 and 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. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, the PIFA, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency (see "OTHER INFORMATION - Rating" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. 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 OPINION

The delivery of the Certificates is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Certificates are valid and legally binding Certificates of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and, with respect to the Certificates, from a pledge of the Surplus Revenues of the System, and based upon examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City ("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 Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as APPENDIX C.

Though it may represent 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 the issuance of the Certificates. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Notice of Sale and Bidding Instructions, the Official Bid Form or the Preliminary 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 opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. The 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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from 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

HilltopSecurities 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. HilltopSecurities, in its capacity as Municipal Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Municipal Advisor to the City has provided the following sentence for inclusion in this Preliminary Official Statement. The Municipal Advisor has reviewed the information in this Preliminary 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 FOR THE CERTIFICATES

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 par plus a cash premium 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 yield at which the Certificates will be priced and reoffered will be established by and will be the sole responsibility of the Initial Purchaser.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Preliminary 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 Preliminary 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 Preliminary Official Statement will prove to be accurate.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by a proper officer, acting in such officer's official capacity, to the effect that to the best of his or her 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 such Official Statement, on the date of sale of said 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, such 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 the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such 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.

The Ordinance authorizing the issuance of the Certificates will also 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.

Mayor
City of Josephine, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

The City of Josephine is located in southeastern Collin County. It is located 35 miles northeast of Dallas. It is close in proximity to the Dallas metroplex making for an short commute to downtown Dallas, Garland, Richardson, Mesquite and Plano. The City is located eight miles north of Interstate 30 between Greenville and Rockwall.

COLLIN COUNTY CHARACTERISTICS

Collin County was created in 1846 from Fannin County. Many residents commute to jobs in Dallas, Garland, and Richardson. Popular recreational attractions include water sports on Lake Lavon, the McKinney Historical District, and the South Fork Ranch of the "Dallas" television series

LABOR FORCE

Collin County Employment figures, as reflected by the Texas Workforce Commission, are as follows:

	July	Average Annual				
	2025	2024	2023	2022	2021	2020
Civilian Labor Force	687,815	680,301	664,539	635,039	599,164	563,450
Total Employed	660,953	654,384	640,361	614,007	573,302	527,020
Total Unemployed	26,862	25,917	24,178	21,032	25,862	36,430
Unemployment Rate	3.9%	3.8%	3.6%	3.3%	4.3%	6.5%

APPENDIX B

EXCERPTS FROM THE
CITY OF JOSEPHINE, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2024

The information contained in this Appendix consists of excerpts from the City of Josephine, Texas, Annual Financial Report for the Year Ended September 30, 2024, 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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CITY OF JOSEPHINE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2024

**CITY OF JOSEPHINE, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2024**

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**City of Josephine, Texas
List of Principal Officials
September 30, 2024**

OFFICIALS

Mayor..... Jason Turney
Council Member Place 1 Doug Ewing (Mayor Pro-Tem)
Council Member Place 2 Brad Ahlfinger
Council Member Place 3 Alex Esquivel
Council Member Place 4 Dr. Pam Sardo
Council Member Place 5 Gary Chappell
City Secretary Patti Brooks
City Administrator..... Lisa Palomba

FINANCIAL SECTION

Independent Auditor's Report

To the City Council
City of Josephine, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining aggregate funds of the City of Josephine, Texas (the City), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2024, 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. 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.

Responsibilities of Management for the Financial Statements

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

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

In performing an audit in accordance with GAAS, we:

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule – General Fund and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios – Texas Municipal Retirement System and the Schedule of Funding Progress on pages 5–15 and 57–63 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information. The other information comprises the Historical Schedule of Assessed Property Valuation and the Historical Schedule of Property Tax Rates but does not include the financial statements and our auditor's report thereon. Our opinions on the 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 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.

Fox, Byrd & Company, P.C.

Fox, Byrd & Company, P.C.

Dallas, Texas

March 6, 2025

REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management for the City of Josephine, Texas, we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2024. This discussion should be read in conjunction with the financial statements and related notes.

FINANCIAL HIGHLIGHTS:

- Government-wide net position reported in the Statement of Activities are \$34,151,979. Of this amount \$19,219,945 is invested in capital assets or restricted for debt service, leaving \$14,932,034 of unrestricted net position.
- Government-wide net position increased by \$7,545,661 including \$869,497 prior period adjustment to construction in progress during 2024.
- Each of the City's fund financial statements reported changes in equity as follows:

General Fund – \$4,120,995 increase
Debt Service Fund - \$62,111 increase
Water Fund - \$2,359,571 increase
Sewer Fund - \$2,136,319 increase

USING THIS ANNUAL REPORT:

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests. Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

REPORTING THE CITY AS A WHOLE-GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Statement of Net Position and the Statement of Activities

Government-wide financial statements provide an analysis of the City's overall financial condition and operations. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Position includes all the City's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions and 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current year or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and the changes in them. The City's net position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activities:

Governmental Activities – Most of the City's services are reported here, including, administration, sanitation services, judicial, public works, police, infrastructure and the street repairs. Property taxes and state and federal grants finance most of these activities.

Business-type Activities – The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system operations are reported here.

Component Unit – The City of Josephine includes a discretely presented component unit, the City's Type A Sales Tax Corporation known as the Josephine Community Development Corporation. Although legally separate, the City of Josephine is financially accountable for this component unit. The City Council appoints the component unit's Board of Directors, sets the budget and approves any debt issuance.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. The City's administration establishes funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found directly following each of the governmental fund financial statements.

Proprietary Funds – The Proprietary/Enterprise funds are used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:

In the government-wide financial statements, net position serve as one useful indicator of a government's financial position. In the case of the City, combined net position exceed liabilities by \$34,151,979 and \$26,606,318 at the close of FY 2024 and 2023, respectively.

The combined net position of the City's activities increased from \$26,606,318 to \$34,151,979 or \$7,545,661 during 2024. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$14,932,034.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

As the City completed the year, its governmental funds, \$9,606,572 and proprietary funds \$24,681,517 reported combined fund balance and net assets of \$34,288,089, a \$8,678,996 increase from last year including \$869,497 prior period adjustment to construction in progress.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets – the City's investment in capital assets, net of related debt, reported in governmental activities and business-type activities was \$3,134,384 and \$14,482,707, respectively. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. The change in the City's net investment in capital assets for the current fiscal year was \$(947,306) and \$1,035,213 in each of the respective activities.

Long-term Debt – at year-end the City had \$19,754,885 in bonds outstanding which represents a increase of \$3,833,887 from the prior year.

BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:

The City of Josephine has an estimated 2024 population of 3,312 and serves an estimated population of 11,607. Josephine is currently growing at a rate of 22.76% annually and its population has increased by 287.23% since the most recent census, which recorded a population of 2,255 in 2020.

Existing retail establishments within the City of Josephine have increased the city's sales tax revenue by 14% over FY 2023 while also providing resident resources and job opportunities.

The City of Josephine's Comprehensive Plan was adopted July 10, 2023. The Comprehensive Plan was created as a guide to developers and community officials to ultimately provide safe and convenient places to live, work, worship and play in Josephine. The Future Land use focus is on creating spaces for new commercial, retail, and employment growth; providing opportunities for mixed uses of commercial, office, and a mix of various densities of residential development; and preserving an appropriate amount of land for low density residential and green space to maintain a quality of life associated with a small but vibrant town.

Residential home growth continues to thrive, and new residents are drawn to Josephine for a variety of housing types that include homes affordable to the first-time home buyer but also choices for more luxurious homes on estate size lots. Astoria Homes in Murray Manor pulled permits for 18 homes, Shepherd Place Homes pulled 16 permits in the High Meadows development, DeBerry Heritage pulled 30 permits, Starlight Homes in Liberty Ranch pulled 42 permits, DR Horton pulled 176 permits for Magnolia, 204 permits for Waverly Estates, and 202 permits for Riverfield. In total 694 building permits were issued in Fiscal Year 2024 and over 500 building permits are expected to be issued in Fiscal Year 2025.

Grant Income was received for Milton Street Improvements which has been completed and from Collin County for the Greenville Avenue Project. Construction is underway on the new Public Safety building and two new wastewater treatment plants to accommodate a growing police and fire department and utility needs; developer contributions for these projects have reduced the tax burden on existing residents. The City continues to effectively partner with developers arranging for developer financial contributions to accommodate growth.

The City of Josephine was able to increase the fund balance by strategically holding a portion of operating funds in a high-yield investment account. This decision allowed the City to generate additional interest revenue, which contributed to the growth of the overall fund balance. By maximizing the returns on idle funds through this investment strategy, the City effectively enhanced its financial position without compromising liquidity or risk. S&P Global Ratings Review was conducted and raised the City of Josephine's long-term credit rating from A+ to AA-.

Overall, Josephine is a welcoming, safe and thriving community committed to managing new growth while strengthening existing neighborhoods and encouraging locally responsive commercial development.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Finance Director at (469) 717-0055.

CITY OF JOSEPHINE, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
ASSETS						
Current and other assets	\$ 10,680,087	\$ 5,982,724	\$ 27,503,793	\$ 24,110,746	\$ 38,183,880	\$ 30,093,470
Capital assets, net	<u>7,464,817</u>	<u>4,081,690</u>	<u>14,482,707</u>	<u>13,447,494</u>	<u>21,947,524</u>	<u>17,529,184</u>
Total Assets	<u>18,144,904</u>	<u>10,064,414</u>	<u>41,986,500</u>	<u>37,558,240</u>	<u>60,131,404</u>	<u>47,622,654</u>
Deferred outflows of resources	180,311	166,790	90,184	86,105	270,495	252,895
LIABILITIES						
Other liabilities	2,448,538	736,896	3,947,883	4,087,876	6,396,421	4,824,772
Long-term debt	<u>6,340,703</u>	<u>3,026,796</u>	<u>13,414,182</u>	<u>13,344,202</u>	<u>19,754,885</u>	<u>16,370,998</u>
Total Liabilities	<u>8,789,241</u>	<u>3,763,692</u>	<u>17,362,065</u>	<u>17,432,078</u>	<u>26,151,306</u>	<u>21,195,770</u>
Deferred Inflows of Resources						
Deferred inflows from pensions	54,273	35,547	30,041	20,827	84,314	56,374
Deferred inflows OPEB	<u>11,239</u>	<u>11,273</u>	<u>3,061</u>	<u>5,813</u>	<u>14,300</u>	<u>17,086</u>
Total deferred inflows of resources	<u>65,512</u>	<u>46,820</u>	<u>33,103</u>	<u>26,640</u>	<u>98,614</u>	<u>73,460</u>
NET POSITION						
Net investment in capital assets	3,134,384	4,081,690	14,482,707	13,447,494	17,617,091	17,529,184
Restricted for debt service	865,579	803,468	737,275	21,224,369	1,602,854	22,027,837
Unrestricted	<u>5,470,499</u>	<u>1,535,533</u>	<u>9,461,535</u>	<u>(14,486,236)</u>	<u>14,932,034</u>	<u>(12,950,703)</u>
Total Net Position	<u>\$ 9,470,462</u>	<u>\$ 6,420,691</u>	<u>\$ 24,681,517</u>	<u>\$ 20,185,627</u>	<u>\$ 34,151,979</u>	<u>\$ 26,606,318</u>

CITY OF JOSEPHINE, TEXAS
COMPARATIVE STATEMENTS OF ACTIVITIES

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Program revenues:						
Charges for services	\$ 3,603,397	\$ 2,664,837	\$ 6,146,618	\$ 4,864,694	\$ 9,750,015	\$ 7,529,531
Operating grants/contributions	1,287,705	337,727	-	-	1,287,705	337,727
Capital grants/contributions	18,964	52,201	1,094,346	615,779	1,113,310	667,980
General revenues:						
Ad valorem taxes	1,194,152	1,044,115	-	-	1,194,152	1,044,115
Sales taxes	254,290	328,604	-	-	254,290	328,604
Franchise taxes	68,504	65,194	-	-	68,504	65,194
Other	995,364	519,443	453,075	950,787	1,448,439	1,470,230
Total revenues	7,422,376	5,012,121	7,694,039	6,431,260	15,116,415	11,443,381
Expenses:						
Administration	1,715,925	1,645,260	-	-	1,715,925	1,645,260
Sanitation services	802,436	564,713	-	-	802,436	564,713
Public works	49,705	44,517	-	-	49,705	44,517
Park	85,134	73,650	-	-	85,134	73,650
Police department/municipal court	1,985,142	1,504,781	-	-	1,985,142	1,504,781
Streets	159,263	246,674	-	-	159,263	246,674
Water and sewer services	-	-	3,642,646	4,067,022	3,642,646	4,067,022
Total Expenses	4,797,605	4,079,594	3,642,646	4,067,022	8,440,251	8,146,618
Excess before transfers	2,624,771	932,527	4,051,393	2,364,238	6,676,164	3,296,763
Transfers	425,000	312,000	(425,000)	(312,000)	-	-
Change in Net Position	3,049,771	1,244,527	3,626,393	2,052,238	6,676,164	3,296,763
Net position - October 1	6,420,691	5,176,165	20,185,627	18,133,389	26,606,318	23,309,554
Prior period adjustment	-	-	869,497	-	869,497	-
Net position - September 30	\$ 9,470,462	\$ 6,420,691	\$ 24,681,517	\$ 20,185,627	\$ 34,151,979	\$ 26,606,317

CITY OF JOSEPHINE, TEXAS
COMPARATIVE BALANCE SHEETS
GOVERNMENTAL FUNDS
September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 7,409,317	\$ 2,750,638
Ad valorem taxes	38,174	36,054
Sales and franchise taxes	6,600	5,151
Other	158,778	133,741
Due from Proprietary fund	3,010,206	3,010,206
Prepaid items	50,560	40,482
Total Assets	\$ <u>10,673,635</u>	\$ <u>5,976,272</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>1,028,889</u>	\$ <u>516,752</u>
Total Liabilities	<u>1,028,889</u>	<u>516,752</u>
 DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	<u>38,174</u>	<u>36,054</u>
Total deferred inflows of resources	<u>38,174</u>	<u>36,054</u>
 FUND BALANCES		
Non-spendable:		
Prepaid items	50,560	40,482
Restricted for debt service	865,579	803,468
Unassigned	<u>8,690,433</u>	<u>4,579,516</u>
Total Fund Balances	<u>9,606,572</u>	<u>5,423,466</u>
 Total Liabilities and Fund Balances	\$ <u>10,673,635</u>	\$ <u>5,976,272</u>

CITY OF JOSEPHINE, TEXAS
Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
REVENUES:		
Ad valorem taxes	\$ 1,192,032	\$ 1,035,205
Franchise taxes	68,504	65,194
Sales tax	254,290	328,604
Garbage fees	1,644,843	1,228,047
Permits	1,880,062	1,370,340
Fines	77,553	62,283
Intergovernmental	1,287,705	337,727
Grant revenue	18,964	52,201
Other income	430,699	294,771
Interest	564,665	224,672
Total Revenues	<u><u>7,419,317</u></u>	<u><u>4,999,044</u></u>
EXPENDITURES:		
Administration	1,540,328	1,579,891
Sanitation services	526,572	462,208
Public works	49,705	44,517
Park	57,079	45,737
Street department	156,265	227,879
Police department/municipal court	1,448,359	1,288,923
Debt Service:		
Principal	589,863	139,486
Interest	426,007	103,771
Capital Outlay	3,751,033	1,739,121
Total Expenditures	<u><u>8,545,211</u></u>	<u><u>5,631,532</u></u>
Excess (Deficiency) of Revenues Over Expenditures	<u><u>(1,125,894)</u></u>	<u><u>(632,488)</u></u>
Other Revenues and Financing Sources (uses)		
Bond proceeds	4,884,000	-
Transfers in	425,000	312,000
Total Other Revenues and Financing Sources (uses)	<u><u>5,309,000</u></u>	<u><u>312,000</u></u>
Net change in fund balances	4,183,106	(320,488)
Fund balance, October 1	<u><u>5,423,466</u></u>	<u><u>5,743,954</u></u>
Fund balance, September 30	\$ <u><u>9,606,572</u></u>	\$ <u><u>5,423,466</u></u>

CITY OF JOSEPHINE, TEXAS
COMPARATIVE STATEMENTS OF FUND NET POSITION
PROPRIETARY FUND
September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>
	<u>Water and Sewer</u>	<u>Water and Sewer</u>
	<u>Activities</u>	<u>Activities</u>
ASSETS		
Cash and cash equivalents	\$ 14,120,531	\$ 2,251,968
Accounts receivable, net	646,766	623,100
Prepays	10,998	11,176
Restricted assets:		
Cash and cash equivalents	12,725,498	21,224,502
Total current assets	<u>27,503,793</u>	<u>24,110,746</u>
Capital Assets:		
Land	908,742	908,742
Buildings & other improvements	4,358,901	4,356,226
Water and sewer infrastructure	10,058,101	9,548,816
Equipment	1,541,431	1,433,563
Less accumulated depreciation	<u>(3,336,245)</u>	<u>(2,799,853)</u>
Capital Assets, net	<u>14,482,707</u>	<u>13,447,494</u>
Total assets	<u>41,986,500</u>	<u>37,558,240</u>
Deferred Outflows of Resources		
Deferred outflows from pensions	86,838	79,897
Deferred outflows from OPEB	3,346	6,209
Total deferred outflows of resources	<u>90,184</u>	<u>86,106</u>
LIABILITIES		
Accounts payable	105,025	406,057
Compensated absences	36,036	13,030
Due to general fund	3,010,206	3,010,206
Meter deposits payable	364,615	303,665
Notes payable	255,152	245,152
Payable from restricted assets:		
Accrued interest payable	63,913	65,407
Total current liabilities	<u>3,834,947</u>	<u>4,043,517</u>
Pension liability	104,847	37,547
OPEB liability	8,089	6,812
Total non-current liabilities	<u>112,936</u>	<u>44,359</u>
Rebatable Arbitrage/Yield Restriction	481,143	156,010
Bonds payable - long-term	12,933,039	13,188,192
Total non-current liabilities	<u>13,414,182</u>	<u>13,344,202</u>
Total liabilities	<u>17,362,065</u>	<u>17,432,078</u>
Deferred Inflows of Resources		
Deferred inflows from pensions	30,041	20,827
Deferred inflows OPEB	3,061	5,813
Total deferred inflows of resources	<u>33,103</u>	<u>26,640</u>
NET POSITION		
Invested in capital assets, net of related debt	14,482,707	13,447,494
Restricted for debt service	737,275	21,224,369
Restricted for capital projects, \$11,988,223 (2024) \$133 (2023)		
Net of related debt, \$11,988,223 (2024) \$133 (2023)		
Unrestricted	9,461,535	(14,486,236)
Total Net Position	<u>\$ 24,681,517</u>	<u>\$ 20,185,627</u>

CITY OF JOSEPHINE, TEXAS
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>
	<u>Water and</u>	<u>Water and</u>
	<u>Sewer</u>	<u>Sewer</u>
OPERATING REVENUES:		
Water sales	\$ 3,742,866	\$ 2,844,295
Sewer sales	1,582,727	1,210,116
Tap and reconnect fees	821,025	810,283
Total Operating Revenues	<u>6,146,618</u>	<u>4,864,694</u>
OPERATING EXPENSES:		
Salaries, taxes, and benefits	1,017,127	701,106
Contract labor	91,564	129,492
Professional fees	178,414	1,433,113
Water purchases	1,238,289	836,752
Repairs and facility maintenance	24,070	10,432
Vehicle expense	19,472	13,519
Utilities and telephone	152,413	159,707
Water/Sewer testing	1,876	1,977
Depreciation and amortization	536,393	473,785
Other expense	-	307,139
Total Operating Expenses	<u>3,642,646</u>	<u>4,067,022</u>
Operating Income	<u>2,503,972</u>	<u>797,672</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	1,051,336	817,244
Interest and fiscal charges	(815,761)	(541,890)
Miscellaneous income	217,500	675,433
Total Non-operating Revenues (Expenses)	<u>453,075</u>	<u>950,787</u>
Income before capital grants and transfers	2,957,047	1,748,459
Developer contributions	1,094,346	615,779
Transfers out	<u>(425,000)</u>	<u>(312,000)</u>
Change in net position	3,626,393	2,052,238
Net position, October 1	20,185,627	18,133,389
Prior period adjustment	<u>869,497</u>	<u>-</u>
Net position, September 30	<u><u>\$ 24,681,517</u></u>	<u><u>\$ 20,185,627</u></u>

BASIC FINANCIAL STATEMENTS

CITY OF JOSEPHINE, TEXAS
STATEMENT OF NET POSITION
September 30, 2024

	Primary Government			
	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit
ASSETS				
Cash and cash equivalents	\$ 6,543,738	\$ 14,120,531	\$ 20,664,269	\$ 439,801
Receivables				
Taxes, net of allowance	44,774	-	44,774	-
Accounts, net of allowance	165,230	646,766	811,996	-
Prepays	50,560	10,998	61,558	-
Internal balances	3,010,206	(3,010,206)	-	-
Restricted assets:				
Cash and cash equivalents	865,579	12,725,498	13,591,077	-
Capital assets:				
Capital assets, not being depreciated	2,277,401	1,860,519	4,137,920	-
Capital assets, net of accumulated depreciation	5,187,416	12,622,188	17,809,604	-
Total Assets	18,144,904	38,976,294	57,121,198	439,801
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	168,555	86,838	255,393	-
Deferred outflows related to OPEB	11,756	3,346	15,102	-
Total deferred outflows of resources	180,311	90,184	270,495	-
LIABILITIES				
Accounts payable	728,371	105,025	833,396	-
Accrued interest payable	300,518	63,913	364,431	-
Meter deposits payable	-	364,615	364,615	-
Noncurrent Liabilities:				
Due within one year:				
Compensated absences	77,596	36,036	113,632	-
Notes payable	1,119,348	255,152	1,374,500	-
Due in more than one year:				
Pension liability (asset)	207,105	104,847	311,952	-
OPEB liability	15,600	8,089	23,689	-
Rebatable Arbitrage/Yield Restriction	69,541	481,143	550,684	-
Notes payable	6,271,162	12,933,039	19,204,201	-
Total Liabilities	8,789,241	14,351,859	23,141,100	-
Deferred Inflows of Resources				
Deferred inflows related to pensions	54,273	30,041	84,314	-
Deferred inflows related to OPEB	11,239	3,061	14,300	-
Total deferred inflows of resources	65,512	33,103	98,614	-
NET POSITION				
Net investment in capital assets	3,134,384	14,482,707	17,617,091	-
Restricted for debt service	865,579	737,275	1,602,854	-
Restricted for capital projects, \$11,988,223	-	-	-	-
Net of related debt, (\$11,988,223)	-	-	-	-
Unrestricted	5,470,499	9,461,535	14,932,034	439,801
Total Net position	\$ 9,470,462	\$ 24,681,517	\$ 34,151,979	\$ 439,801

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

CITY OF JOSEPHINE, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2024

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Governmental activities:							
Administration	\$ 1,715,925	\$ 1,880,062	\$ 18,964	\$ 1,470,806	\$ -	\$ 1,470,806	\$ -
Sanitation services	802,436	1,644,843	-	842,407	-	842,407	-
Public works	49,705	-	-	(49,705)	-	(49,705)	-
Park	85,134	-	-	(85,134)	-	(85,134)	-
Police department/municipal court	1,985,142	78,492	-	(1,906,650)	-	(1,906,650)	-
Street department	159,263	-	-	(159,263)	-	(159,263)	-
Total governmental activities	4,797,605	3,603,397	18,964	112,461	-	112,461	-
Business-type activities:							
Water services	2,313,222	4,192,591	-	-	2,973,715	2,973,715	-
Sewer services	2,145,185	1,954,027	-	-	(191,158)	(191,158)	-
Total business-type activities	4,458,407	6,146,618	1,094,346	-	2,782,557	2,782,557	-
Total primary government	\$ 9,256,012	\$ 9,750,015	\$ 1,113,310	112,461	2,782,557	2,895,018	-
Component Unit:							
Economic Development Corporation	\$ 31,624	\$ -	\$ -	-	-	-	(31,624)
Total component unit	\$ 31,624	\$ -	\$ -	-	-	-	(31,624)
General revenues:							
Ad valorem taxes				1,194,152	-	1,194,152	-
Sales taxes				254,290	-	254,290	127,139
Franchise taxes				68,504	-	68,504	-
Miscellaneous				430,699	217,500	648,199	-
Unrestricted investment earnings				564,665	1,051,336	1,616,001	-
Transfers				425,000	(425,000)	-	-
Total general revenues and transfers				2,937,310	843,836	3,781,146	127,139
Change in net position				3,049,771	3,626,393	6,676,164	95,515
Net position - beginning of year				6,420,691	20,185,627	26,606,318	344,286
Prior period adjustment - CIP				-	869,497	869,497	-
Net position - end of year				\$ 9,470,462	\$ 24,681,517	\$ 34,151,979	\$ 439,801

The accompanying notes are an integral part of these financial statements

CITY OF JOSEPHINE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2024

	General	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash, cash equivalents and investments	\$ 6,503,844	\$ 865,579	\$ 39,894	\$ 7,409,317
Receivables	38,174	-	-	38,174
Ad valorem taxes, net	6,600	-	-	6,600
Sales and franchise taxes	158,778	-	-	158,778
Other	3,010,206	-	-	3,010,206
Due from proprietary fund	50,560	-	-	50,560
Prepays	\$ 9,768,162	\$ 865,579	\$ 39,894	\$ 10,673,635
Total assets				
LIABILITIES				
Accounts payable	\$ 694,724	\$ -	\$ 33,647	\$ 728,371
Accrued expenses	294,271	-	6,247	300,518
Due to Other funds	-	-	-	-
Total liabilities	<u>988,995</u>	<u>-</u>	<u>39,894</u>	<u>1,028,889</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	38,174	-	-	38,174
Total deferred inflows of resources	<u>38,174</u>	<u>-</u>	<u>-</u>	<u>38,174</u>
FUND BALANCES				
Non spendable -Prepays	50,560	-	-	50,560
Restricted for debt service	-	865,579	-	865,579
Unassigned	8,690,433	-	-	8,690,433
Total fund balances	<u>8,740,993</u>	<u>865,579</u>	<u>-</u>	<u>9,606,572</u>
Total liabilities deferred inflows of resources and fund balances	<u>\$ 9,768,162</u>	<u>\$ 865,579</u>	<u>\$ 39,894</u>	<u>\$ 10,673,635</u>
Governmental fund balance as presented above:				\$ 9,606,572
Amounts presented for governmental activities in the statement of net assets are different because:				
Capital assets reported in the statement of net assets are not current financial resources and are not reported in the fund balance sheet.				7,464,817
Other long-term assets (receivables) are not available to pay current-period expenditures and, therefore, are deferred in the funds. These include deferred property taxes of \$38,174 and fines receivable of \$6,452.				44,626
Deferred inflow/outflow of resources for pensions are not reported in the fund financial statements				114,282
Deferred inflow/outflow of resources for OPEB are not reported in the fund financial statements				517
Net pension liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements				(207,105)
Net OPEB liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements				(15,600)
Long-term liabilities are reported in the statement of net position but they are not due and payable in the current period.				<u>(7,537,647)</u>
Net Assets of Governmental Activities				<u>\$ 9,470,462</u>

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

CITY OF JOSEPHINE, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2024

	General Fund	Debt Service	Total Governmental Funds
REVENUES:			
Ad valorem taxes	\$ 910,181	\$ 281,851	\$ 1,192,032
Franchise taxes	68,504	-	68,504
Sales tax	254,290	-	254,290
Charges for services	1,644,843	-	1,644,843
Licenses and Permits	1,880,062	-	1,880,062
Fines	77,553	-	77,553
Intergovernmental	1,287,705	-	1,287,705
Capital Grants and contributions revenue	18,964	-	18,964
Other income	430,699	-	430,699
Interest income	564,665	-	564,665
Total Revenues	7,137,466	281,851	7,419,317
EXPENDITURES:			
Current:			
Administration	1,540,328	-	1,540,328
Sanitation services	526,572	-	526,572
Public works	49,705	-	49,705
Park	57,079	-	57,079
Street department	156,265	-	156,265
Police department/municipal court	1,448,359	-	1,448,359
Debt Service:			
Principal	505,863	84,000	589,863
Interest and other costs	290,267	135,740	426,007
Capital outlay	3,751,033	-	3,751,033
Total Expenditures	8,325,471	219,740	8,545,211
Excess of Revenues Over Expenditures	(1,188,005)	62,111	(1,125,894)
Other Revenues and Financing Sources (uses)			
Bond proceeds	4,884,000	-	4,884,000
Transfers in	425,000	-	425,000
Total Other Revenues and Financing Sources (uses)	5,309,000	-	5,309,000
Net change in fund balances	4,120,995	62,111	4,183,106
Fund balance, October 1	4,619,998	803,468	5,423,466
Fund balance, September 30	\$ 8,740,993	\$ 865,579	\$ 9,606,572

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

CITY OF JOSEPHINE, TEXAS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2024

Net change in fund balance - Governmental funds **\$ 4,183,106**

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

Governmental funds report capital outlays as expenditures, while in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures of \$3,783,640 exceeded depreciation expense of \$400,513. 3,383,127

The issuance of long-term debt (e.g. bonds and capital leases) provides current financial resources to governmental funds, while repayment of long-term debt is reported as an expenditure for governmental funds but is reported as a reduction of debt in the statement of activities. This amount represents the net of long-term debt proceeds (\$ 4,884,000) and long-term debt repayments (\$586,348). (4,297,652)

Changes in the rebatable arbitrage/yield restriction are reported as an increase or decrease to expense in the government-wide financial statements but are not reported in governmental funds if the amounts are not expected to be paid from current resources. (50,255)

Changes in the liability for compensated absences are reported as an increase or decrease to expense in the government-wide financial statements but are not reported in governmental funds if the amounts are not expected to be paid from current resources. (32,385)

Expenditures are recognized in the governmental funds when paid. However, the statement of activities is presented on the accrual basis and expenses are reported when incurred. The following is the net difference in pension and OPEB costs. (139,229)

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. This includes the change in unavailable revenue of \$(2,120) and court fines of \$(939). 3,059

Change in net assets of governmental activities **\$ 3,049,771**

CITY OF JOSEPHINE, TEXAS
Statement of Fund Net Position
Proprietary Fund
September 30, 2024

	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Enterprise Funds</u>
			<u>Water and</u>
			<u>Sewer Funds</u>
ASSETS			
Cash and cash equivalents	\$ 7,391,129	\$ 6,729,402	\$ 14,120,531
Accounts receivable, net	524,158	122,608	646,766
Prepays	5,643	5,355	10,998
Restricted assets:			
Cash and cash equivalents	-	12,725,498	12,725,498
Total current assets	7,920,930	19,582,863	27,503,793
Capital Assets:			
Land	143,841	764,901	908,742
Construction in progress	-	951,777	951,777
Buildings & other improvements	1,775,524	2,583,377	4,358,901
Water and sewer infrastructure	4,561,577	5,496,524	10,058,101
Equipment	591,985	949,446	1,541,431
Less accumulated depreciation	(2,002,613)	(1,333,632)	(3,336,245)
Capital Assets, net	5,070,314	9,412,393	14,482,707
Total assets	12,991,244	28,995,256	41,986,500
Deferred Outflows of Resources			
Deferred outflows from pensions	45,966	40,872	86,838
Deferred outflows OPEB	3,202	144	3,346
Total deferred outflows of resources	49,168	41,016	90,184
LIABILITIES			
Accounts payable	58,749	46,276	105,025
Compensated absences	18,018	18,018	36,036
Due to general fund	-	3,010,206	3,010,206
Meter deposits payable	364,615	-	364,615
Pension liability (Asset)	57,040	47,807	104,847
OPEB Liability	4,249	3,840	8,089
Payable from restricted assets:			
Accrued interest payable	-	63,913	63,913
Bonds payable - current	-	255,152	255,152
Total current liabilities	502,671	3,445,212	3,947,883
Rebatable Arbitrage/Yield Restriction	-	481,143	481,143
Bonds payable - long-term	-	12,933,039	12,933,039
Total non-current liabilities	-	13,414,182	13,414,182
Total liabilities	502,671	16,859,394	17,362,065
Deferred Inflows of Resources			
Deferred inflows from pensions	13,990	16,051	30,041
Deferred inflows OPEB	3,061	-	3,061
Total deferred inflows of resources	17,051	16,051	33,103
NET POSITION			
Invested in capital assets, net of related debt	5,070,314	9,412,393	14,482,707
Restricted for debt service	-	737,275	737,275
Restricted for capital projects, \$11,988,223	-	-	-
Net of related debt, \$(11,988,223)	-	-	-
Unrestricted	7,450,376	2,011,159	9,461,535
Total Net Position	\$ 12,520,690	\$ 12,160,827	\$ 24,681,517

The accompanying notes are an integral part of these financial statements

CITY OF JOSEPHINE, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended September 30, 2024

	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>	<u>Total Enterprise Funds</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Water and Sewer Fund</u>
OPERATING REVENUES:			
Water sales	\$ 3,742,866	\$ -	\$ 3,742,866
Sewer sales	-	1,582,727	1,582,727
Tap and reconnect fees	449,725	371,300	821,025
Total Operating Revenues	<u>4,192,591</u>	<u>1,954,027</u>	<u>6,146,618</u>
OPERATING EXPENSES:			
Salaries, taxes, and benefits	460,896	556,231	1,017,127
Contract labor	9	91,555	91,564
Professional fees	83,225	95,189	178,414
Water purchases	1,238,289	-	1,238,289
Repairs and facility maintenance	9,778	14,292	24,070
Vehicle expense	9,830	9,642	19,472
Utilities and telephone	59,741	92,672	152,413
Water/Sewer testing	1,876	-	1,876
Depreciation and amortization	251,754	284,639	536,393
Other expense	197,824	185,204	383,028
Total Operating Expenses	<u>2,313,222</u>	<u>1,329,424</u>	<u>3,642,646</u>
Operating Income	<u>1,879,369</u>	<u>624,603</u>	<u>2,503,972</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	300,331	751,005	1,051,336
Miscellaneous income	164,525	52,975	217,500
Interest and fiscal charges	-	(815,761)	(815,761)
Total Nonoperating Revenues (Expenses)	<u>464,856</u>	<u>(11,781)</u>	<u>453,075</u>
Income before contributions and transfers	2,344,225	612,822	2,957,047
Capital contributions	440,346	654,000	1,094,346
Transfers Out	(425,000)	-	(425,000)
Change in net position	2,359,571	1,266,822	3,626,393
Net position, October 1	10,161,119	10,024,508	20,185,627
Prior period adjustment	<u>-</u>	<u>869,497</u>	<u>869,497</u>
Net position, September 30	<u>\$ 12,520,690</u>	<u>\$ 12,160,827</u>	<u>\$ 24,681,517</u>

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

CITY OF JOSEPHINE, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2024

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers and users	\$ 6,183,902
Cash paid to suppliers	(2,065,464)
Cash paid to employees	(923,160)
Net cash provided by operating activities	<u>3,195,278</u>
Cash flows from noncapital financing activities:	
Transfers	(425,000)
Net cash used by noncapital financing activities	<u>(425,000)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,026,626)
Principal paid on bonds	(245,153)
Capital contributions	1,094,346
Interest & fiscal charges	(492,122)
Net cash used by capital and related financing activities	<u>(669,555)</u>
Cash flows from investing activities:	
Proceeds from other income	217,500
Interest on deposits and investments	1,051,336
Net cash provided by investing activities	<u>1,268,836</u>
Net increase in cash and cash equivalents	3,369,559
Cash and cash equivalents, October 1	<u>23,476,470</u>
Cash and cash equivalents, September 30	<u>\$ 26,846,029</u>

Reconciliation of Net Income to Net Cash Provided (Used)
by Operating Activities

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Operating income	\$ 2,503,972
Adjustments to reconcile net income to net cash provided	
by operating activities:	
Depreciation	536,393
Change in accounts receivable (net)	(23,666)
Change in customer deposits	60,950
Change in prepaids	178
Change in accounts payable	23,484
Change in compensated absences	23,006
Change in pension liabilities	69,684
Change in OPEB liabilities	1,277
Total Adjustments	<u>691,306</u>
Net cash provided by operating activities	<u>\$ 3,195,278</u>

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

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies

The financial statements of the City of Josephine, Texas and its component unit, Josephine Community Development Corporation, collectively identified as the "City" have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ending September 30, 2024.

(A) Reporting Entity and Related Organizations

The City is a municipal corporation governed by an elected mayor and a five member City Council. The City provides general administration, water and sewer, sanitation services, public works, police and judicial, and community development services to its residents.

The City Council has the authority to make decisions, appoint administrators and managers, significantly influence operations; and has the primary accountability for fiscal matters. The City is not included in any other governmental "reporting entity" as defined in Section 2100, codification of Governmental Accounting and Financial Reporting Standards.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GASB Statements No. 14 and 39. These statements define the reporting entity as the primary government and those component units for which the primary government is financially accountable. In addition, component units may be included in the reporting entity based on the nature and significance of the relationship with the primary government, or based on being closely related or financially integrated with the primary government. Based on these criteria, the City has the following component units at September 30, 2024:

Discretely Presented Component Units

Josephine Community Development Corporation (JCDC) - JCDC serves all citizens of the government and is governed by a board appointed by the City Council. The City Council may remove the JCDC board for cause. JCDC is a nonprofit corporation governed by Section 4B of the Texas Development Corporation Act of 1979 and organized for the public purpose of developing industries and cultivating communities within the City of Josephine, Texas. Financial statements for JCDC may be obtained by contacting the City offices. JCDC is reported as a discretely presented component unit in the government-wide financial statements.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies - continued

(B) Government-Wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole, excluding fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes, fines, and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenue includes: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and enterprise funds are reported in separate columns.

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies - continued

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

The government-wide statements report using the *economic resources measurement focus* and the *accrual basis of accounting* generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond and capital lease principal and interest which are reported as expenditures in the year due.

Major revenues sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, grant revenues, and investment income. In general, other revenues are recognized when cash is received.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies - continued

(D) Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund - reports as the primary operating fund of the City. This fund is used to account for all financial resources not reported in other funds.

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

Proprietary Funds

The City reports the following major proprietary funds:

Water Fund - accounts for the operating activities of the City's water utilities services.

Sewer Fund - accounts for the operating activities of the City's sewer utilities services.

(E) Assets, Liabilities and Net Assets or Equity

Cash and Investments

The City maintains non-pooled cash which is separately held and reflected in the respective individual funds. This non-pooled cash is displayed on its respective balance sheet as "cash and cash equivalents."

Restricted cash and cash equivalents are restricted for debt service requirements (\$1,602,854) or for capital projects (\$11,988,223) at year-end.

Investments are reported at fair value determined as follows. Short-term, highly liquid investments are reported at cost, which approximates fair value. Cash deposits are reported at the carrying amount which reasonably estimates fair value. The City did not own any nationally traded securities or long-term investments during the current fiscal year, but the City's policy for reporting assets such as these would be at fair value on the balance sheet date.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies - continued

(E) Assets, Liabilities and Net Assets or Equity – continued

Inventories and Prepaids

Inventories consisting of expendable supplies held for consumption in governmental funds are reported using the expenditure method. Under this method, amounts paid for these items are reported as expenditures when purchased. Inventories, when material, are recorded at cost stated on a first-in, first-out basis in the government-wide financial statements and proprietary fund statements.

Prepaids record payments to vendors that benefit future reporting periods and are reported on the consumption basis at cost. Prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, or if historical cost is not available, they are stated at estimated historical cost. These assets are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$1,000 or more as purchase and construction outlays occur and \$5,000 for road upgrades. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and Improvements	10-40
Road infrastructure	15
Water and sewer infrastructure and rights	20- 40
Vehicles	5
Furniture, machinery, and equipment	5

The City has not capitalized any interest costs in the carrying value of capital assets.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies - continued

(E) Assets, Liabilities and Net Assets or Equity – continued

Deferred Outflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has four items of deferred outflows or resources related to the implementation of the GASB statements on pension accounting. They are for pension contributions after the measurement date, differences in expected and actual pension experience, changes in actuarial assumptions and pension investment experience (difference in projected and actual earnings on pension assets). The amount deferred for pension contributions is recognized in the following fiscal year. The other deferred outflows will be recognized over the estimated average remaining lives of all members determined as of the measurement date. The difference in projected and actual earnings will be amortized over a closed five-year period. These items appear on the Statement of Net Position in the government wide financial statements.

The City has one item of deferred outflows of resources related to the implementation of GASB statement on OPEB. It is for a change in actuarial assumptions used to determine the OPEB liability. The amount deferred for change in assumptions will be amortized over a closed five-year period.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items appearing on the Statement of Position in the government wide financial statements reflecting the implementation of GASB statements on pension accounting. These amounts include differences in projected and actual earnings on pension assets, changes in actuarial assumptions used to determine pension liabilities and differences in expected and actual pension experience. Differences in expected and actual pension experience will be recognized over the estimated average remaining lives of all members determined as of the measurement date. The difference in projected and actual earnings will be amortized over a closed five-year period. The City has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the governmental funds balance sheet.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies - continued

(E) Assets, Liabilities and Net Assets or Equity – continued

Long-term Debt, Bond Discounts/Premiums, and Issuance Costs

Bond issuance costs incurred are recorded as current expenditures as opposed to being capitalized and amortized over the maturity period of the debt.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Other Post-Employment Benefits (OPEB)

In June 2015, GASB made major changes to its OPEB accounting standards with the issuance of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage, and is effective for fiscal years beginning after June 2017. The new requirements called for these major changes:

A “Total OPEB Liability” is calculated by TMRS’ actuary and is put on the face of the City’s Statement of Net Position in the government-wide financial statements.

OPEB expense is calculated by the actuary, and is no longer tied to the amount of contributions submitted to TMRS each year; rather, it is tied to the change in total OPEB liability from year to year. OPEB expense is put in the City’s Statement of Activities in the government-wide financial statements.

Some of each year’s OPEB costs may be deferred (deferred inflows and deferred outflows of resources, recorded in the Statement of Net Position) and amortized over a number of years.

The City’s participation in the TMRS Supplemental Death Benefits Plan – with retiree coverage – is making disclosures as a participant in a defined benefit OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 of GASB 75.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies - continued

(E) Assets, Liabilities and Net Assets or Equity – continued

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City'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. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Compensated Absences

Full-time employees earn vacation leave for each month of work performed. Progressive accrual of vacation leave is based on the number of years the individual is employed by the City. After completion of a probationary period of employment, accrued vacation leave is paid upon termination of employment.

The policy to accrue sick leave has been modified to a "PTO" policy. Full-time employees that had accrued "sick leave" retain the accrued time, but, unused sick leave is not paid upon termination of employment.

Compensated absences are reported as accrued in the government-wide and proprietary fund financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and these are included in wages and benefits payable.

Fund Equity

The City implemented GASB Statement 54 standards for the classification of fund balances in the governmental funds. The fund balances of governmental funds are defined as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form, such as inventory or prepaid items or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies - continued

(E) Assets, Liabilities and Net Assets or Equity – continued

Fund Equity - continued

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

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes that have been established by the City Council.

Unassigned – all other spendable amounts in the general fund.

The City Council delegates the responsibility to assign funds to the Mayor or other designee as determined by the Council. When expenditures are incurred for which both restricted and unrestricted fund balance is available the City considers restricted funds to have been spent first. Similarly, committed funds are considered to have been spent first when there is a choice for the use of less restricted funds, then assigned and then unassigned funds.

(F) 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. The City is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The agreement provides that the trust established by TML will be self-sustaining through member premiums. The City pays annual premiums to TML for worker's compensation, general and auto liability, property damage, employee dishonesty, public officials liability, and law enforcement professional liability coverages. The City does not anticipate any material additional insurance cost assessments as a result of participation in this risk management pool. There were no reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage during any of the past three fiscal years.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

1. Introduction and Summary of Significant Accounting Policies - continued

(G) Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(H) Subsequent Events

Subsequent events have been evaluated through March 6, 2025, which is the date the financial statements were available to be issued.

2. Stewardship, Compliance, and Accountability

Budgetary Information

The Mayor and the City Secretary submit an annual budget to the City Council in accordance with the laws of the State of Texas. The budget is presented to the City Council for review, budget workshops are held with the various City department officials, and public hearings are held to address priorities and the allocation of resources. Generally, in August, the City Council adopts the annual fiscal year budgets for all City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's approved budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services and related fringe benefits, supplies, other services and charges, capital outlay, transfers, and debt service. Expenditures may not exceed appropriations at the department level. Within this control level, management may transfer appropriations between line items. Budget revisions and line item transfers are subject to final review by the City Council.

The budgets for the operating funds are prepared on the cash and expenditure basis. Revenues are budgeted in the year receipt is expected; and expenditures, which do not include encumbrances, are budgeted in the year that the liability is to be incurred. Unexpended appropriations for annually budgeted funds lapse at fiscal year-end.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

3. Deposits and Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be fully secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation (FDIC) insurance. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health. Collateral agreements must be approved prior to deposit of funds. The City Council approves authorized depository institutions based on the recommendations of City management.

Deposits of City of Josephine, Texas are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

Investments

The City did not own any investments at year-end.

Investment Policies

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the Mayor, City Secretary and two members of City Council. Investing is performed in accordance with investment policies adopted by the City Council complying with state statutes. City investment policy and state statute generally permit the City to invest in certificates of deposit, fully collateralized repurchase agreements, public funds investment pools, obligations of the United States of America or its agencies, direct obligations of the State of Texas or its agencies, other obligations which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, and obligations of states, agencies, counties, cities and other political subdivisions having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent. During the year ended September 30, 2024, the City did not own any types of securities other than those permitted by statute.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City did not own any investments during the fiscal year. City policy generally requires investment maturities to correspond to anticipated cash flow needs. City policy on credit risk also prohibits the purchase of investments maturing in more than five years.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

3. Deposits and Investments - continued

Investment Policies - continued

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. City policy requires that the risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations:

<u>Investment Type</u>	<u>% of Portfolio</u>
U. S. Treasury Notes/ Bonds/Bills	100%
U. S. Agencies	60%
Local Government Investment Pools	50%
Repurchase Agreements	30%
Certificates of Deposit	30%
Money Market Mutual Funds	15%

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City's policy on principal protection and safekeeping is, "All bank and savings and loan associations deposits and investments of City funds shall be secured by pledged collateral with a market value equal to no less than 102 percent of the principal plus accrued interest less an amount insured by FDIC."

4. Receivables, Uncollectible Accounts, and Deferred Revenue

Enterprise Receivables and Uncollectible Accounts

Significant receivables include amounts due from customers primarily for utility services and grants. These receivables are due within one year. The Enterprise Fund report accounts receivable net of an allowance for uncollectible accounts and revenues net of uncollectible amounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days. Following is the detail of the Enterprise Fund receivables and the related allowance for uncollectible accounts:

Accounts receivable, gross	\$ 654,420
Less: allowance for uncollectible accounts	<u>(7,654)</u>
Net accounts receivable	<u>\$ 646,766</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

4. Receivables, Uncollectible Accounts, and Deferred Revenue - continued

Property Taxes Receivable and Property Tax Calendar

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1st for all real property located within the City. Appraised values are established by the Collin County Central Appraisal District at 100% of market value. As of January 1, 2023, all real property was assessed at a net taxable value of \$260,451,101.

The property tax rate for the year ended September 30, 2024 was .468097 per \$100 of the assessed valuation on taxable property. The following is a summary of the overall tax rate as levied by fund type:

Maintenance and Operations - General Fund	.356623
Interest and Sinking – Debt Service Fund	.111474

The property tax levy for the year ending September 30, 2024 was \$1,192,813. Collections of the current year property tax levy were \$1,185,813 or 99.41% of the current year tax levied.

In the governmental fund financial statements, property taxes are recorded as receivables in each of the respective funds on the tax levy date with appropriate allowances for estimated uncollectible amounts. At fiscal year-end, property tax receivables represent delinquent taxes. If delinquent taxes are not collected within 60 days of year-end, they are recorded as deferred revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City with appropriate allowances for estimated uncollectible amounts regardless of when cash is received. Over time substantially all property taxes are collected.

The City's full year property tax calendar is as follows:

October 1	Full year tax levy assessed for the current fiscal year taxes are due and payable.
January 1	Tax lien is attached to property to secure the payment of taxes, and penalty and interest as applicable.
February 1	Penalty and interest charges begin to accrue on unpaid past due taxes.
July 1	Taxes become delinquent and are subject to attorney fees incurred for collection.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

4. Receivables, Uncollectible Accounts, and Deferred Revenue - continued

Allowance for Uncollectible Taxes

The City records an allowance for uncollectible property taxes in order to estimate the amount of taxes that will ultimately prove to be uncollectible. Management has determined that an allowance in the amount of up to ten percent (10%) of the property taxes receivable in each of the applicable fund types should be adequate to provide for uncollectible property taxes. No provisions are made for uncollectible sales tax receivables, or grants receivable as management estimates that these amounts will be fully collectible.

The following is a summary of property taxes receivable and the related allowance for uncollectible accounts:

Accounts receivable, gross	\$ 38,174
Less: allowance for uncollectible accounts	<u>-</u>
Net accounts receivable	<u>\$ 38,174</u>

Fines and Court Costs Receivable and Related Allowances

In the governmental fund financial statements, fines and court costs are recognized as revenue on the cash basis.

In the government-wide financial statements, the City records fines and court costs receivable net of amounts estimated to be uncollectible and net of any amounts that would be due to other governmental entities as a result of collection. Management has determined the estimate of uncollectible fines and court costs through an analysis of actual amounts collected subsequent to year end. Amounts due to other governmental entities have been determined based on distribution requirements of the State of Texas.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

5. Capital Assets

The following table provides a summary of changes in capital assets, including assets recorded under capital leases:

	Balance October 1, 2023	Increases	Decreases	Balance September 30, 2024
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 912,423	\$ 252,638	\$ -	\$ 1,165,061
Construction in progress	-	1,112,340	-	1,112,340
Total capital assets not being depreciated	<u>912,423</u>	<u>1,364,978</u>	<u>-</u>	<u>2,277,401</u>
Other capital assets being depreciated:				
Buildings and other improvements	1,469,697	366,317	-	1,836,014
Road infrastructure	1,763,544	394,173	-	2,157,717
Furniture and equipment	1,292,751	1,658,172	-	2,950,923
Total capital assets being depreciated	<u>4,525,992</u>	<u>2,418,662</u>	<u>-</u>	<u>6,944,654</u>
Total Capital Assets	<u>5,438,415</u>	<u>3,783,640</u>	<u>-</u>	<u>9,222,055</u>
Less accumulated depreciation:				
Buildings and other improvements	237,844	93,011	-	330,855
Road infrastructure	458,929	161,683	-	620,612
Furniture and equipment	659,952	145,819	-	805,771
Total accumulated depreciation	<u>1,356,725</u>	<u>400,513</u>	<u>-</u>	<u>1,757,238</u>
Governmental Activities Capital Assets, net	<u>\$ 4,081,690</u>	<u>\$ 3,383,127</u>	<u>\$ -</u>	<u>\$ 7,464,817</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 908,742	\$ -	\$ -	\$ 908,742
Construction in progress	869,497	82,280	-	951,777
Total capital assets not being depreciated	<u>1,778,239</u>	<u>82,280</u>	<u>-</u>	<u>1,860,519</u>
Other capital assets being depreciated:				
Buildings and other improvements	2,687,113	18,860	1,652,928	4,358,901
Water and sewer infrastructure	11,214,776	509,285	(1,665,962)	10,058,101
Furniture and equipment	1,436,715	91,682	13,034	1,541,431
Total capital assets being depreciated	<u>15,338,604</u>	<u>619,827</u>	<u>-</u>	<u>15,958,433</u>
Total Capital Assets	<u>17,116,843</u>	<u>702,107</u>	<u>-</u>	<u>17,818,952</u>
Less accumulated depreciation	<u>2,799,853</u>	<u>536,393</u>	<u>-</u>	<u>3,336,246</u>
Business-type Activities Capital Assets, net	<u>\$ 14,316,990</u>	<u>\$ 165,714</u>	<u>\$ -</u>	<u>\$ 14,482,704</u>
Primary Government Capital Assets, net	<u>\$ 18,398,680</u>	<u>\$ 3,548,841</u>	<u>\$ -</u>	<u>\$ 21,947,521</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

5. Capital Assets - continued

Depreciation expense for governmental activities was charged to functions of the City as follows:

Administration	\$ 83,464
Parks	28,055
Police Department	134,069
Fire Department	11,750
Court	9,547
Street Department	<u>133,628</u>
Total	<u>\$ 400,513</u>

Depreciation expense recorded in business-type activities and the Proprietary Fund was \$536,393.

The gross amount of assets included in the equipment category above, which were recorded under capital lease obligations is \$119,363. Accumulated amortization of these assets is \$119,363. Amortization expense is included in depreciation expense.

6. Long-Term Debt

General Fund – Capital Lease Agreements

On October 31, 2018 the City issued Tax Note Series 2018 for the construction and equipping of a new City Hall. The Tax Notes will mature on September 1, 2024. They carry an interest rate of 2.25% based on a 360-day year. Annual principal and interest payments will be due beginning September 1, 2018 and will continue to maturity. The amounts due graduate over the term of the notes, with the initial principal payment of \$75,000 and the final payment in 2024 of \$84,000. At September 30, 2024 the principal balance was \$ - 0 -. Interest expense was \$1,733 for the year.

General Fund – Certificates of Obligation

On July 11, 2023 the City issued Combination Tax and Revenue Certificates of Obligation Series 2022A (CO's) in the total amount of \$10,845,000 for the construction and equipping of a new Public Safety Building and a New Wastewater Treatment Facility. The share of the CO's payable by the General Fund totals \$2,970,000. The CO's will mature on February 15, 2052. They carry an interest rate ranging from 4.00% to 6.00% based on a 360-day year. Annual interest payments will be due beginning February 15, 2024 and will continue to maturity. The amounts due graduate over the term of the notes, with the initial

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

6. Long-Term Debt - continued

principal payment of \$50,000 due February 15, 2025 and the final payment in 2052 of \$180,000. At September 30, 2024 the principal balance was \$2,970,000. The City reserved the right , at its option to redeem Certificates having stated maturities on or after February 15, 2033 at par plus accrued interest to the date of redemption. Accrued interest expense was \$133,850 for the year while the next interest payment is due February 15, 2025.

On October 10, 2023 the City issued City of Josephine, Texas, Tax Note, Series 2023 for approximately \$4,884,000. The Tax Note has a stated coupon of 4.305% with principal and interest payments beginning September 30, 2024 through September 30, 2030. The amounts due graduate over the term of the notes, with the initial principal payment of \$510,000 due September 15, 2024 and the final payment in 2030 of \$1,305,000. At September 30, 2024 the principal balance was \$4,383,000. Accrued interest expense was \$203,517 for the year while the next interest is due March, 15, 2025.

Proprietary Fund – Certificates of Obligation

On February 15, 2023 the City issued Combination Tax and Revenue Certificates of Obligation Series 2022 (CO's) in the total amount of \$5,065,000 for the acquisition, construction, installing and equipping additions, improvements, extensions and equipment for the City's waterworks and sewer system. They carry an interest rate of ranging from 3.00% to 5.00% based on a 360-day year. Annual principal and interest payments will be due beginning February 15, 2024 and will continue to maturity. The amounts due graduate over the term of the notes, with the initial principal payment of \$30,000 due February 15, 2024 and the final payment in 2047 of \$295,000. At September 30, 2024 the principal balance was \$4,910,000. The City reserved the right , at its option to redeem Certificates having stated maturities on or after February 15, 2033 at par plus accrued interest to the date of redemption. Accrued interest expense was \$175,044 for the year while the next interest payment is due February 15, 2025 .

On July 11, 2023 the City issued Combination Tax and Revenue Certificates of Obligation Series 2022A (CO's) in the total amount of \$10,845,000 for the acquisition, construction, installing and equipping additions, improvements, extensions and equipment for the City's waterworks and sewer system. The share of the CO's payable by the Sewer Fund totals \$7,875,000 The CO's will mature on February 15, 2052. They carry an interest rate ranging from 4.00% to 6.00% based on a 360-day year. Annual principal and interest payments will be due beginning February 15, 2024 and will continue to maturity. The amounts due graduate over the term of the notes, with the initial principal payment of \$85,000 due February 15, 2024 and the final payment in 2052 of \$720,000. At September 30, 2024 the principal balance was \$7,695,000. The City reserved the right , at its option to redeem Certificates having stated maturities on or after February 15, 2033 at par plus accrued interest to the date of redemption. Interest expense was \$340,737 for the year while the next interest payment is due February 15, 2025.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

6. Long-Term Debt - continued

The following is a summary of changes in long-term debt for the year ended September 30, 2024:

	Balance October 1, 2023	Issued	Retired	Balance September 30, 2024	Due Within One Year
Description and purpose:					
GOVERNMENTAL ACTIVITIES					
Tax Note Series 2017	\$ 84,000	\$ -	\$ 84,000	\$ -	\$ -
Tax Note Series 2023	-	4,884,000	501,000	4,383,000	543,000
Combination Tax & Revenue CO - Series 2022 A	2,970,000	-	-	2,970,000	575,000
Premiums	38,858	-	1,348	37,510	1,348
Total Notes Payable	3,092,858	4,884,000	586,348	7,390,510	1,119,348
Net Pension Liability (Asset)	76,464	130,641	-	207,105	-
OPEB Liability	13,121	2,479	-	15,600	-
Compensated Absences	45,211	32,385	-	77,596	77,596
Rebatable Arbitrage/Yield Restriction	19,286	50,255	-	69,541	-
Total Governmental Activities	3,246,940	5,099,760	586,348	7,760,352	1,196,944
BUSINESS-TYPE ACTIVITIES					
Combination Tax & Revenue CO - Series 2022	5,035,000	-	125,000	4,910,000	130,000
Combination Tax & Revenue CO - Series 2022 A	7,790,000	-	95,000	7,695,000	100,000
Premiums	608,345	-	25,152	583,193	25,152
Net Pension Liability (Asset)	37,547	67,300	-	104,847	-
OPEB Liability	6,812	1,277	-	8,089	-
Compensated Absences	13,030	23,006	-	36,036	36,036
Rebatable Arbitrage/Yield Restriction	156,010	325,133	-	481,143	-
Total Business-type Activities	8,611,744	416,716	25,152	13,818,308	291,188
Total Primary Government					
Long-Term Debt	\$ 11,858,684	\$ 5,516,476	\$ 611,500	\$ 21,578,660	\$ 1,488,132

Compensated absences are paid from the fund responsible for the employee's compensation.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

6. Long-Term Debt - continued

Debt Service Requirements to Maturity

The annual debt service requirement to maturity for interlocal debt is as follows at year-end:

Fiscal Year Ending September 30,	Tax Note Series 2024		Combination Tax & Revenue CO Series 2022A		Total Required
	Principal	Interest	Principal	Interest	
2025	\$ 543,000	\$ 188,688	\$ 50,000	\$ 132,350	914,038
2026	575,000	165,312	50,000	129,350	919,662
2027	603,000	140,558	55,000	126,200	924,758
2028	633,000	114,599	60,000	122,750	930,349
2029	724,000	87,348	60,000	119,150	990,498
2030 - 2034	1,305,000	56,180	375,000	535,125	2,271,305
2035 - 2039	-	-	475,000	426,150	901,150
2040 - 2044	-	-	600,000	311,000	911,000
2045 - 2049	-	-	730,000	178,400	908,400
2050 - 2052	-	-	515,000	31,500	546,500
Totals	\$ 4,383,000	\$ 752,685	2,970,000	2,111,975	\$ 10,217,660

Fiscal Year Ending September 30,	<u>Business-Type Activities</u>		Series 2022 A		Total Required
	Series 2022		Bonds Payable		
	Bonds Payable		Bonds Payable		
	Principal	Interest	Principal	Interest	
2025	\$ 130,000	\$ 169,450	\$ 100,000	\$ 335,600	\$ 735,050
2026	140,000	162,700	105,000	329,450	737,150
2027	145,000	155,575	115,000	322,850	738,425
2028	155,000	148,075	115,000	315,950	734,025
2029	160,000	140,200	130,000	308,600	738,800
2030 - 2034	930,000	578,050	760,000	1,418,150	3,686,200
2035 - 2039	1,105,000	406,425	975,000	1,196,200	3,682,625
2040 - 2044	1,280,000	228,000	1,215,000	961,500	3,684,500
2045 - 2049	865,000	39,375	2,100,000	669,000	3,673,375
2050 - 2052			2,080,000	127,000	2,207,000
Totals	\$ 4,910,000	\$ 2,027,850	\$ 7,695,000	\$ 5,984,300	\$ 20,617,150

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

7. Commitments/Contingencies

Certain state reports and remittances are required by the City's municipal court. These reports and remittances are subject to audit by the Comptroller of Public Accounts. Any adjustments which may occur based upon such an audit could require the City to remit additional funds. The City expects that costs disallowed, if any, would be minimal.

The City has entered into a contract for garbage collection services with Republic Services. The contract period is from 12/1/17 to 11/30/24. The contract has up to five one-year renewals with a 180 day notice prior to the end of the initial term. During fiscal year 2024, the City spent \$513,989 on garbage collection services.

8. Balances and Transfers/Payments Within the Reporting Entity

Receivables and Payables

Generally, outstanding balances between funds reported as "due to/from other funds" in the governmental fund financial statements include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Outstanding balances between the City's General Fund and its Proprietary Fund include funds for operating expenditures that will be transferred after the end of the year. At September 30, 2024 the outstanding balance between the General Fund and the Proprietary Fund is \$3,010,206.

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs. During the year ending September 30, 2024, there were transfers of \$425,000 between funds.

9. Economic Dependence

City operations are funded by taxes and revenues provided by the residents of the City of Josephine, Texas. Accordingly, the City is economically dependent on the property values and local economy of City of Josephine, Texas and the surrounding area.

The City is currently obligated under a 30-year water purchase contract with the North Texas Municipal Water District until December 31, 2025. Total water cost for the year ended September 30, 2024 was \$1,238,289.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

10. TMRS Pension Plan

Plan Description

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

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

Benefits Provided:

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

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

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits, also known as the matching ratio, are 200% of the employee's accumulated contributions and are only payable in the form of an annuity.

Beginning in 1993, the City granted an annually repeating (automatic) basis for a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index. (CPI).

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

10. TMRS Pension Plan - continued

Plan Description - continued

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Year required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating
Annuity Increase to retirees	0% of CPI Repeating

Employees covered by benefit terms –

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	13
Active employees	<u>26</u>
	<u>42</u>

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Josephine were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Josephine were 9.72% and 8.63% in calendar years 2023 and 2024, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2024 was \$207,540 and was equal to the required contributions.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

10. TMRS Pension Plan - continued

Net Pension Liability:

The City's Net Pension Liability (NPL) was measured as of December 31, 2023, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The Total Pension Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.00% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation.

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2023 valuation were based on the results of actuarial experience studies. This experience study was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

10. TMRS Pension Plan - continued

Actuarial assumptions – continued

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 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.70%
Core Fixed Income	6.0%	4.90%
Non-Core Fixed Income	20.0%	8.70%
Other Public & Private Markets	12.0%	8.10%
Real Estate	12.0%	5.80%
Hedge Funds	5.0%	6.90%
Private Equity	10.0%	11.80%
Total	<u>100.0%</u>	

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.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

10. TMRS Pension Plan - continued

Changes in the Net Pension Liability –

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 12/31/2022	\$ 1,137,409	\$ 1,023,398	\$ 114,011
Changes for the year:			
Service cost	286,322	-	286,322
Interest	95,957	-	95,957
Change in benefit terms	149,345	-	-
Difference between expected and actual experience	30,462	-	30,462
Changes in assumptions	(10,652)	-	(10,652)
Contribution - employer	-	137,487	(137,487)
Contribution - employee	-	97,278	(97,278)
Net investment income	-	119,487	(119,487)
Benefit payments, including refunds of employee contributions	(16,659)	(16,659)	-
Administrative expense	-	(754)	754
Other changes	-	(4)	4
Net changes	<u>534,775</u>	<u>336,835</u>	<u>197,940</u>
Balance at 12/31/2023	<u>\$ 1,672,184</u>	<u>\$ 1,360,233</u>	<u>\$ 311,952</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%	Current Single Rate Assumption 6.75%	1% Increase in Discount Rate 7.75%
City's net pension (Asset) liability	\$ 563,186	\$ 311,952	\$ 105,691

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

10. TMRS Pension Plan - continued

Pension Plan Fiduciary Net Position –

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

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

For the year ended September 30, 2024, the City recognized pension expense of \$371,674. This amount is included as part of Personal Services expenses within the functional program activities.

At September 30, 2024, the City reported deferred outflow and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 125,864	\$ -
Difference in expected and actual experience	79,359	59,325
Differences in projected and actual earnings	50,170	15,708
Change in assumptions	-	9,282
Total	<u>\$ 255,393</u>	<u>\$ 84,315</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

10. TMRS Pension Plan - continued

Pension Plan Fiduciary Net Position – continued

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$125,864 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2024 (i.e. recognized in the City's financial statements as of September 30, 2024). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31,	Amount
2024	\$ 10,443
2025	11,478
2026	21,437
2027	(2,581)
2028	3,237
Thereafter	1,200
Total	\$ 45,214

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

11. TMRS Supplemental Death Benefits Fund

Post-Employment Benefits Other Than Pensions

Benefit Plan Description

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan with benefit payments treated as being equal to the employer's yearly contribution for retirees.

Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's actual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit" or OPEB.

Employees Covered by Benefit Terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Membership *

Number of

- Inactive employees or beneficiaries currently receiving benefits	3
- Inactive employees entitled to but not yet receiving benefits	4
- Active employees	<u>26</u>
- Total	<u><u>33</u></u>

* Membership counts for inactive employees currently receiving or entitled to but not yet receiving benefits will differ from GASB 68 as they include only those eligible for a SDBF benefit (i.e. excludes beneficiaries, non-vested terminations due a refund, etc.).

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

11. TMRS Supplemental Death Benefits Fund - continued

Total OPEB Liability

The City's total OPEB liability of \$23,689 was measured as of December 31, 2023, and was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The total OPEB liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 11.5% including inflation
Discount rate	1.84%
Retirees' share of benefit related costs	\$ 0

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2023.

Mortality rates – service retirees

RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Mortality rates – disabled retirees

RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

11. TMRS Supplemental Death Benefits Fund - continued

Changes in the Total OPEB Liability

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total OPEB Liability - beginning of year	\$ 6,900	\$ 5,994	\$ 7,995	\$ 13,227	\$ 24,966	\$ 19,933
Changes for the year						
Service Cost	875	1,025	1,721	2,616	3,902	3,567
Interest on Total OPEB Liability	243	241	244	291	495	876
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(1,482)	(1,024)	923	7,543	8,156	(2,833)
Changes in assumptions or other inputs	(542)	1,760	2,344	1,289	(17,586)	2,308
Benefit payments **	-	-	-	-	-	(162)
Net Changes	<u>(906)</u>	<u>2,002</u>	<u>5,232</u>	<u>11,739</u>	<u>(5,033)</u>	<u>3,756</u>
Total OPEB Liability - end of year	<u>\$ 5,994</u>	<u>\$ 7,995</u>	<u>\$ 13,227</u>	<u>\$ 24,966</u>	<u>\$ 19,933</u>	<u>\$ 23,689</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.**

Sensitivity of the total OPEB liability to changes in the discount rate –

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

	1% Decrease	Current	1% Increase
	2.77%	Discount Rate 3.77%	4.77%
Total OPEB Liability	\$ 30,998	\$ 23,689	\$ 18,422

Deferred Outflows of Resources and Deferred Inflows of Resources, by year, to be recognized in Future OPEB Expense (excluding City-provided contributions made subsequent to the measurement date).

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2024

11. TMRS Supplemental Death Benefits Fund - continued

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2024 (i.e. recognized in the City's financial statements for the year ending September 30, 2024). Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year	Net deferred outflows (inflows) of resources
2024	\$ (160)
2025	(160)
2026	(160)
2027	(184)
2028	(165)
Thereafter	<u>1,476</u>
Total	<u>\$ 647</u>

12. Litigation

The City is involved in litigation arising in the ordinary course of business. It is management's belief that any liability resulting from such litigation would not be material in relation to the City's financial position.

13. Risks and Uncertainties

The COVID-19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. The City has taken a number of measures to monitor and mitigate the effects of COVID-19, including safety and health measures such as social distancing, and securing the supply of materials that are essential to the production process.

14. Subsequent Events

Two ballot measures in the November 7th election approved the dissolution of Josephine Community Development Corporation (JCDC) and the creation of a Municipal Development District (MDD). The MDD is currently being established with the State of Texas Comptroller. Bylaws and the appointment of a Board is in progress. The final sales tax collection for the JCDC will be in March, 2025. The MDD will begin to collect sales tax in April, 2025. The funds in the JCDC will either be distributed to the City or the MDD to be determined by Council.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF JOSEPHINE, TEXAS
BUDGET TO ACTUAL COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Ad valorem taxes	\$ 753,390	\$ 883,390	\$ 910,181	\$ 26,791
Franchise taxes	65,000	65,000	68,504	3,504
Sales tax	275,000	375,000	254,290	(120,710)
Charges for services	1,822,750	1,822,750	1,644,843	(177,907)
Licenses and Permits	1,014,763	1,478,088	1,880,062	401,974
Fines	52,000	52,000	77,553	25,553
Intergovernmental	274,550	1,274,550	1,287,705	13,155
Capital Grants and contributions revenue	-	-	18,964	18,964
Other income	854,750	854,750	430,699	(424,051)
Interest income	80,000	505,000	564,665	59,665
Total Revenues	5,192,203	7,310,528	7,137,466	(173,062)
EXPENDITURES:				
Current:				
Administration	1,317,463	1,317,463	1,540,328	(222,865)
Sanitation services	451,325	451,325	526,572	(75,247)
Public works	40,050	40,050	49,705	(9,655)
Park	60,175	60,175	57,079	3,096
Street department	220,875	220,875	156,265	64,610
Police department/municipal court	1,583,614	1,583,614	1,448,359	135,255
Capital outlay	599,475	599,475	3,751,033	(3,151,558)
Debt Service:				
Principal	58,000	58,000	505,863	(447,863)
Interest and other costs	1,200	1,200	290,267	(289,067)
Total Expenditures	4,332,177	4,332,177	8,325,471	(3,993,294)
Excess (deficiency) of revenues over expenditures	860,026	2,978,351	(1,188,005)	(4,166,356)
OTHER FINANCING SOURCES (USES):				
Proceeds from debt	-	-	4,884,000	4,884,000
Premium on bonds issued	-	-	-	-
Transfers	425,000	425,000	425,000	-
Total Other Financing Sources (Uses)	425,000	425,000	5,309,000	4,884,000
Net Change in Fund Balances	1,285,026	3,403,351	4,120,995	717,644
Fund balance, October 1	4,619,998	4,619,998	4,619,998	-
Fund balance, September 30	\$ 5,905,024	\$ 8,023,349	\$ 8,740,993	\$ 717,644

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

CITY OF JOSEPHINE, TEXAS
BUDGET TO ACTUAL COMPARISON SCHEDULE - DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Ad valorem taxes	\$ 233,310	\$ 233,310	\$ 281,851	\$ 48,541
				-
Total Revenues	233,310	233,310	281,851	48,541
EXPENDITURES:				
Current:				
Debt Service:				
Principal	84,000	84,000	84,000	-
Interest and other costs	136,000	130,000	135,740	(5,740)
Total Expenditures	220,000	214,000	219,740	(5,740)
Excess (deficiency) of revenues over expenditures	13,310	19,310	62,111	42,801
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	13,310	19,310	62,111	42,801
Fund balance, October 1	803,468	803,468	803,468	-
Fund balance, September 30	\$ 816,778	\$ 822,778	\$ 865,579	\$ 42,801

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

CITY OF JOSEPHINE, TEXAS
BUDGET TO ACTUAL COMPARISON SCHEDULE - WATER FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Water sales	\$ 2,600,000	\$ 2,600,000	\$ 3,742,866	\$ 1,142,866
Grant income				-
Tap and reconnect fees	467,000	467,000	449,725	(17,275)
Other income	95,000	104,750	164,525	59,775
Interest income	40,000	299,348	300,331	983
Total Revenues	3,202,000	3,471,098	4,657,447	1,186,349
EXPENDITURES:				
Current:				
Salaries, taxes, and benefits	430,121	430,821	460,896	(30,075)
Contract labor	120,000	120,000	9	119,991
Professional fees	192,500	197,400	83,225	114,175
Water purchases	1,016,749	1,016,749	1,238,289	(221,540)
Repairs and facility maintenance	20,000	20,000	9,778	10,222
Vehicle expense	10,000	10,000	9,830	170
Utilities and telephone	62,280	62,280	59,741	2,539
Water/Sewer testing	5,000	5,000	1,876	3,124
Depreciation and amortization	-	-	251,754	(251,754)
Other expense	172,500	176,945	197,824	(20,879)
Total Expenditures	2,029,150	2,039,195	2,313,222	(274,027)
Excess (deficiency) of revenues over expenditures	1,172,850	1,431,903	2,344,225	912,322
OTHER FINANCING SOURCES (USES):				
Transfers out	(425,000)	(425,000)	(425,000)	-
Capital Contributions	-	-	440,346	440,346
Total Other Financing Sources (Uses)	(425,000)	(425,000)	15,346	440,346
Net Change in Fund Balances	747,850	1,006,903	2,359,571	1,352,668
Net Position, October 1	10,161,119	10,161,119	10,161,119	-
Net Position, September 30	\$ 10,908,969	\$ 11,168,022	\$ 12,520,690	\$ 1,352,668

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

CITY OF JOSEPHINE, TEXAS
BUDGET TO ACTUAL COMPARISON SCHEDULE - SEWER FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Sewer sales	\$ 1,125,000	\$ 1,125,000	\$ 1,582,727	\$ 457,727
Tap and reconnect fees	414,600	414,600	371,300	(43,300)
Engineer/Consultant Fees	50,000	50,000	12,394	(37,606)
Other income	6,000	14,100	40,581	26,481
Interest income	200,000	712,356	751,005	38,649
Total Revenues	1,795,600	2,316,056	2,758,007	441,951
EXPENDITURES:				
Current:				
Salaries, taxes, and benefits	519,911	520,411	556,231	(35,820)
Contract labor	22,000	23,000	91,555	(68,555)
Professional fees	212,000	216,900	95,189	121,711
Repairs and facility maintenance	17,000	17,000	14,292	2,708
Vehicle expense	10,000	10,000	9,642	358
Utilities and telephone	106,780	106,780	92,672	14,108
Depreciation and amortization	-	-	284,639	(284,639)
Other expense	950,620	965,490	1,000,965	(35,475)
Total Expenditures	1,838,311	1,859,581	2,145,185	(285,604)
Excess (deficiency) of revenues over expenditures	(42,711)	456,475	612,822	156,347
OTHER FINANCING SOURCES (USES):				
Capital Contributions	368,000	653,000	654,000	1,000
Total Other Financing Sources (Uses)	368,000	653,000	654,000	1,000
Net Change in Fund Balances	325,289	1,109,475	1,266,822	157,347
Net Position, October 1	10,024,508	10,024,508	10,024,508	-
Prior period adjustment	-	-	869,497	869,497
Net Position, September 30	\$ 10,349,797	\$ 11,133,983	\$ 12,160,827	\$ 1,026,844

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

CITY OF JOSEPHINE, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
LAST TEN FISCAL YEARS

Plan Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
A. Total Pension Liability										
Service cost	\$ 19,345	\$ 24,663	\$ 30,557	\$ 36,466	\$ 51,786	\$ 64,318	\$ 108,282	\$ 125,222	\$ 180,498	\$ 286,322
Interest (on the Total Pension Liability)	12,337	15,417	18,490	21,217	24,988	29,288	42,465	52,406	64,905	95,957
Changes of benefit terms	-	-	-	-	-	-	87,806	-	-	149,345
Difference between expected and actual experience	9,840	801	(11,601)	(4,285)	(11,920)	(5,315)	(8,635)	(1,750)	35,733	30,462
Change of assumptions	-	9,853	-	-	-	(639)	-	-	-	(10,652)
Benefits payments, including refunds of employee contributions	(366)	-	-	-	(10,379)	(4,459)	-	(6,605)	(30,078)	(16,659)
Net Change in Total Pension Liability	41,156	50,734	37,446	53,398	54,475	83,193	229,918	169,273	251,058	534,775
Total Pension Liability - Beginning	166,758	207,914	258,648	296,094	349,492	403,967	487,160	717,078	886,351	1,137,409
Total Pension Liability - Ending (a)	\$ 207,914	\$ 258,648	\$ 296,094	\$ 349,492	\$ 403,967	\$ 487,160	\$ 717,078	\$ 886,351	\$ 1,137,409	\$ 1,672,184
B. Plan Fiduciary Net Position										
Contributions - employer	\$ 10,136	\$ 11,073	\$ 16,155	\$ 22,675	\$ 29,149	\$ 34,264	\$ 127,213	\$ 84,246	\$ 108,263	\$ 137,487
Contributions - employee	11,585	12,801	15,317	18,510	26,221	32,375	44,899	52,321	75,522	97,278
Net investment income	9,710	295	15,116	37,462	(10,459)	59,374	38,405	93,636	(68,918)	119,487
Benefit payments, including refunds of employee contributions	(366)	-	-	-	(10,379)	(4,459)	-	(6,605)	(30,078)	(16,659)
Administrative expense	(101)	(180)	(171)	(195)	(202)	(335)	(248)	(431)	(593)	(754)
Other	(8)	(9)	(9)	(9)	(11)	(10)	(10)	2	707	(5)
Net Change in Plan Fiduciary Net Position	30,956	23,980	46,408	78,443	34,319	121,209	210,259	223,169	84,903	336,834
Plan Fiduciary Net Position - Beginning	169,752	200,708	224,688	271,096	349,539	383,858	505,067	715,326	938,495	1,023,398
Plan Fiduciary Net Position - Ending (b)	\$ 200,708	\$ 224,688	\$ 271,096	\$ 349,539	\$ 383,858	\$ 505,067	\$ 715,326	\$ 938,495	\$ 1,023,398	\$ 1,360,232
C. Net Pension Liability - Ending (a) - (b)	\$ 7,206	\$ 33,960	\$ 24,998	\$ (47)	\$ 20,110	\$ (17,906)	\$ 1,752	\$ (52,144)	\$ 114,011	\$ 311,952
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.53%	86.87%	91.56%	100.01%	95.02%	103.68%	99.76%	105.88%	89.98%	81.34%
E. Covered Employee Payroll	\$ 193,077	\$ 213,351	\$ 255,281	\$ 308,508	\$ 437,014	\$ 539,584	\$ 748,323	\$ 872,017	\$ 1,258,705	\$ 1,621,301
F. Net Pension Liability as a Percentage of Covered Payroll	3.73%	15.92%	9.79%	-0.02%	4.60%	-3.32%	0.23%	-5.98%	9.06%	19.24%

The accompanying notes are an integral part of these financial statements

CITY OF JOSEPHINE, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
LAST TEN FISCAL YEARS

Plan Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actuarially Determined Contribution	\$ 10,136	\$ 11,073	\$ 16,155	\$ 22,675	\$ 29,149	\$ 34,264	\$ 127,213	\$ 84,246	\$ 108,263	\$ 137,487
Contributions in relation to the actuarially determined contribution	10,136	11,328	16,155	22,675	29,149	34,264	127,213	84,246	108,263	137,487
Contribution deficiency (excess)	\$ -	\$ (255)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 193,077	\$ 213,351	\$ 255,281	\$ 308,508	\$ 437,014	\$ 539,584	\$ 748,323	\$ 872,017	\$ 1,258,705	\$ 1,621,301
Contributions as a percentage of covered employee payroll	5.25%	5.31%	6.33%	7.35%	6.67%	6.35%	17.00%	9.66%	8.60%	8.48%

Notes to Schedule of Contributions

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2015.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with males rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

Notes There were no benefit changes during the year.

CITY OF JOSEPHINE, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (ASSET) AND RELATED RATIOS
LAST SEVEN FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)

Measurement Year	2017	2018	2019	2020	2021	2022	2023
Changes in the Total OPEB Liability							
Total OPEB Liability - beginning of year	\$ 5,405	\$ 6,900	\$ 5,994	\$ 7,996	\$ 13,228	\$ 24,966	\$ 19,933
Changes for the year							
Service Cost	524	875	1,025	1,721	2,616	3,902	3,567
Interest on Total OPEB Liability	214	243	241	244	291	495	876
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	-	(1,482)	(1,024)	923	7,543	8,156	(2,833)
Changes in assumptions or other inputs	757	(542)	1,760	2,344	1,289	(17,586)	2,308
Benefit payments **	-	-	-	-	-	-	(162)
Net Changes	1,495	(906)	2,002	5,232	11,739	(5,033)	3,756
Total OPEB Liability - end of year	\$ 6,900	\$ 5,994	\$ 7,996	\$ 13,228	\$ 24,966	\$ 19,933	\$ 23,689

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan.

Changes in assumptions reflect a change in the discount rate from 2.00% as of December 31, 2020 to 1.84% as of December 31, 2021.

** 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.

SUPPLEMENTARY SCHEDULES

CITY OF JOSEPHINE, TEXAS
HISTORICAL SCHEDULE OF ASSESSED PROPERTY VALUATION
YEAR ENDED SEPTEMBER 30, 2024 (Unaudited)

<u>Tax Roll Year</u>	<u>Fiscal Year Ended September 30</u>	<u>Net Taxable Valuation</u>
2023	2024	\$ 260,451,101
2022	2023	212,247,252
2021	2022	160,254,077
2020	2021	135,720,903
2019	2020	123,624,553
2018	2019	106,125,444
2017	2018	91,095,631
2016	2017	63,577,112
2015	2016	51,517,105
2014	2015	44,397,598

CITY OF JOSEPHINE, TEXAS
HISTORICAL SCHEDULE OF PROPERTY TAX RATES
YEAR ENDED SEPTEMBER 30, 2024 (Unaudited)

<u>Tax Roll Year</u>	<u>Fiscal Year Ended September 30</u>	<u>Tax Rates</u>
2023	2024	0.468097
2022	2023	0.491561
2021	2022	0.516697
2020	2021	0.559079
2019	2020	0.575000
2018	2019	0.580000
2017	2018	0.540000
2016	2017	0.580000
2015	2016	0.600000
2014	2015	0.615000

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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

CITY OF JOSEPHINE, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2025, DATED SEPTEMBER 1, 2025,
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____

AS BOND COUNSEL FOR THE ISUER (the "Issuer") of the Certificates described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Certificates and in the ordinance of the Issuer authorizing the issuance and sale of the Certificates (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance and sale of the Certificates, including executed Certificate Number T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized, issued, and delivered in accordance with law; and that, except as may be limited by laws applicable to the Issuer relating to sovereign immunity of political subdivisions, bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by and payable from surplus revenues of the Issuer'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 Issuer's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the Issuer's waterworks and sewer system, as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your



attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is



likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

Respectfully,

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