

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.



PRELIMINARY OFFICIAL STATEMENT

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

Dated April 21, 2026

NEW ISSUE - Book-Entry-Only

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

\$38,420,000*
CITY OF HEATH, TEXAS
(Rockwall and Kaufman Counties)
COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026

Dated Date: May 1, 2026

Due: February 15, as shown on page 2

Interest accrues from the Delivery Date (defined herein)

PAYMENT TERMS . . . Interest on the \$38,420,000* City of Heath, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026 (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 May 21, 2026), and will be payable August 15 and February 15 of each year commencing August 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 The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution, the City's Home Rule Charter and the 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 Heath, 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 limited pledge (not to exceed \$1,000) 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) designing, planning, acquiring, constructing, installing and equipping additions, extensions and improvements to the City's waterworks system, including water supply facilities, water wells, ground and elevated storage tanks, water transmission and distribution lines, pressure management control facilities (including restrictor valves), associated appurtenances, and related infrastructure; and (ii) paying legal, fiscal, design and engineering fees in connection with these projects.

CUSIP PREFIX: 422454
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser of the Certificates (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 May 21, 2026.

BIDS DUE TUESDAY, APRIL 28, 2026 AT 10:00 AM, CENTRAL TIME

* Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP Prefix: 422454 ⁽¹⁾

| <u>Amount</u> | <u>August 15 Maturity</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP Suffix ⁽¹⁾</u> |
|---------------|-------------------------------|--------------------------|--------------|--|
| \$ 300,000 | 2026 | | | |

| <u>Amount</u> | <u>February 15 Maturity</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP Suffix ⁽¹⁾</u> |
|---------------|---------------------------------|--------------------------|--------------|--|
| \$ 325,000 | 2027 | | | |
| 440,000 | 2028 | | | |
| 460,000 | 2029 | | | |
| 485,000 | 2030 | | | |
| 510,000 | 2031 | | | |
| 535,000 | 2032 | | | |
| 565,000 | 2033 | | | |
| 1,275,000 | 2034 | | | |
| 1,350,000 | 2035 | | | |
| 1,420,000 | 2036 | | | |
| 1,500,000 | 2037 | | | |
| 2,665,000 | 2038 | | | |
| 2,800,000 | 2039 | | | |
| 2,950,000 | 2040 | | | |
| 3,100,000 | 2041 | | | |
| 3,260,000 | 2042 | | | |
| 3,405,000 | 2043 | | | |
| 3,545,000 | 2044 | | | |
| 3,690,000 | 2045 | | | |
| 3,840,000 | 2046 | | | |

(Interest to accrue from the Delivery Date.)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP data is not intended to create a database and does not serve in any way as a substitute for the CGS database. None of the City, the Initial Purchaser or their agents or counsel assume responsibility for the selection or accuracy of the CUSIP numbers set forth herein.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2037, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on February 15, 2036, 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").

EXTRAORDINARY OPTIONAL REDEMPTION . . . The City reserves the right and option to redeem the Certificates of this series before their scheduled maturities, in whole or in part, and, if in part, the particular Certificates, or portions thereof, to be redeemed shall be selected and designated by the Issuer (provided that a portion of a Certificate may be redeemed only in an integral multiple of \$5,000), on any day up to and including May 31, 2029, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, from unspent proceeds from the sale of the Certificates upon the filing of a City Certificate stating that all Projects have been completed and that all costs of the Projects have been paid, or that any costs of the Projects are not required to be paid from the Construction Fund. (see "THE CERTIFICATES – Extraordinary Optional Redemption of the Certificates").

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, salesperson 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 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 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 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 OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK ("DTC") AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

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

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

TABLE OF CONTENTS

| | | | |
|---|-----------|--|-----------|
| OFFICIAL STATEMENT SUMMARY..... | 4 | TAX MATTERS..... | 30 |
| CITY OFFICIALS, STAFF AND CONSULTANTS..... | 6 | CONTINUING DISCLOSURE OF INFORMATION..... | 32 |
| ELECTED OFFICIALS | 6 | OTHER INFORMATION | 34 |
| SELECTED ADMINISTRATIVE STAFF | 6 | RATING | 34 |
| CONSULTANTS AND ADVISORS | 6 | LITIGATION | 34 |
| INTRODUCTION..... | 7 | REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR | |
| PLAN OF FINANCING | 7 | SALE | 34 |
| THE CERTIFICATES..... | 8 | LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC | |
| TAX INFORMATION..... | 13 | FUNDS IN TEXAS | 34 |
| TABLE 1 – ASSESSED VALUATION AND EXEMPTION..... | 18 | LEGAL OPINION..... | 34 |
| TABLE 2 – TAXABLE ASSESSED VALUATIONS BY CATEGORY ... | 19 | AUTHENTICITY OF FINANCIAL DATA AND OTHER | |
| TABLE 3 – VALUATION AND GENERAL OBLIGATION | | INFORMATION | 35 |
| DEBT HISTORY | 20 | MUNICIPAL ADVISOR | 35 |
| TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY..... | 20 | INITIAL PURCHASER FOR THE CERTIFICATES | 35 |
| TABLE 5 - TEN LARGEST TAXPAYERS | 20 | FORWARD-LOOKING STATEMENTS DISCLAIMER..... | 35 |
| TABLE 6 – ESTIMATED OVERLAPPING DEBT | 21 | CERTIFICATION OF THE OFFICIAL STATEMENT..... | 36 |
| TABLE 7 – TAX ADEQUACY | 21 | APPENDICES | |
| DEBT INFORMATION | 22 | GENERAL INFORMATION REGARDING THE CITY | A |
| TABLE 8 – PRO-FORMA GENERAL OBLIGATION DEBT | | EXCERPTS FROM THE ANNUAL FINANCIAL REPORT | B |
| SERVICE REQUIREMENTS..... | 22 | FORM OF BOND COUNSEL'S OPINION..... | C |
| TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION | 23 | | |
| TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT | 25 | | |
| FINANCIAL INFORMATION..... | 26 | | |
| TABLE 11 – CHANGES IN NET ASSETS..... | 26 | | |
| TABLE 11A – GENERAL FUND REVENUE AND | | | |
| EXPENDITURE HISTORY..... | 27 | | |
| TABLE 12 - MUNICIPAL SALES TAX HISTORY | 28 | | |
| INVESTMENTS..... | 28 | | |
| TABLE 13- CURRENT INVESTMENTS..... | 30 | | |

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

OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Heath, Texas (the "City") is a political subdivision and home rule municipality of the State of Texas, located in Rockwall and Kaufman Counties, Texas. The City operates under the City Council form of government where the Mayor and City Council members are elected for staggered two-year terms. The City covers approximately 10.7 square miles (see "Introduction - Description of the City").
- THE CERTIFICATES** The \$38,420,000* Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026 (the "Certificates") are issued as serial certificates maturing on August 15, 2026 and thereafter on February 15 in each of the years 2027 through 2046, unless the Initial Purchaser designates one or more consecutive serial maturities as Term Certificates (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, the City's Home Rule Charter, 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 limited pledge (not to exceed \$1,000) 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, 2037, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on February 15, 2036, 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").
- EXTRAORDINARY OPTIONAL**
REDEMPTION OF THE
CERTIFICATES..... The City reserves the right and option to redeem the Certificates of this series before their scheduled maturities, in whole or in part, and, if in part, the particular Certificates, or portions thereof, to be redeemed shall be selected and designated by the Issuer (provided that a portion of a Certificate may be redeemed only in an integral multiple of \$5,000), on any day up to and including May 31, 2029, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, from unspent proceeds from the sale of the Certificates upon the filing of a City Certificate stating that all Projects have been completed and that all costs of the Projects have been paid, or that any costs of the Projects are not required to be paid from the Construction Fund. (see "THE CERTIFICATES – Extraordinary Optional Redemption of the Certificates").
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS".
- 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 with (i) designing, planning, acquiring, constructing, installing and equipping additions, extensions and improvements to the City's waterworks system, including water supply facilities, water wells, ground and elevated storage tanks, water transmission and distribution lines, pressure management control facilities (including restrictor valves), associated appurtenances, and related infrastructure; and (ii) paying legal, fiscal, design and engineering fees in connection with these projects.
- RATINGS FOR THE**
CERTIFICATES The Certificates have been rated "AA+" (stable outlook) by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), without regard to any credit enhancement (see "OTHER INFORMATION - Rating").

* Preliminary, subject to change.

BOOK-ENTRY-ONLY

SYSTEM..... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof 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 The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

SELECTED FINANCIAL INFORMATION

| Fiscal Year Ended 9/30 | Estimated Population ⁽¹⁾ | Taxable Assessed Valuation ⁽²⁾ | Taxable Assessed Valuation Per Capita | Net G.O. Tax Debt Outstanding at End of Year ⁽³⁾ | Ratio of Net G.O. Tax Debt to Taxable Assessed Valuation | Net G.O. Tax Debt Per Capita |
|------------------------|-------------------------------------|---|---------------------------------------|---|--|------------------------------|
| 2022 | 11,196 | \$ 1,730,596,627 | \$ 154,573 | \$ 19,935,924 | 1.15% | \$ 1,781 |
| 2023 | 10,483 | 2,706,020,362 | 258,134 | 18,023,876 | 0.67% | 1,719 |
| 2024 | 10,588 | 3,176,577,328 | 300,017 | 38,749,926 | 1.22% | 3,660 |
| 2025 | 10,363 | 3,514,660,007 | 339,155 | 37,162,970 | 1.06% | 3,586 |
| 2026 | 11,801 | 3,887,205,695 | 329,396 | 35,541,148 ⁽⁴⁾ | 0.91% | 3,012 |

(1) Source: City Staff.

(2) As reported by the Rockwall Central Appraisal District and Kaufman Central Appraisal District to the State Property Tax Board; subject to change during the ensuing year.

(3) Excludes self-supporting debt. (See "Table 10 – Computation of Self-Supporting Debt").

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

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

| | Fiscal Year Ended September 30 | | | | |
|---------------------|--------------------------------|---------------------|---------------------|-----------------------------|---------------------|
| | 2025 | 2024 | 2023 | 2022 | 2021 |
| Beginning Balance | \$ 5,199,844 | \$ 6,085,748 | \$ 6,650,665 | \$ 5,337,243 ⁽¹⁾ | \$ 4,697,187 |
| Total Revenue | 10,459,189 | 9,791,149 | 9,858,019 | 10,088,702 | 8,568,198 |
| Total Expenditures | 9,763,864 | 9,655,247 | 9,375,641 | 7,504,528 | 7,595,866 |
| Net Transfers | (205,900) | (1,021,806) | (1,047,295) | (1,270,752) | (333,800) |
| Net Funds Available | 489,425 | (885,904) | (564,917) | 1,313,422 | 638,532 |
| Ending Balance | <u>\$ 5,689,269</u> | <u>\$ 5,199,844</u> | <u>\$ 6,085,748</u> | <u>\$ 6,650,665</u> | <u>\$ 5,335,719</u> |

(1) Restated.

For additional information regarding the City, please contact:

Jay Ayers
 Director of Finance
jayers@heathtx.com
 City of Heath, Texas
 200 Laurence Drive
 Heath, Texas 75032
 (972) 771-6228

Jim S. Sabonis
 Managing Director
jim.sabonis@hilltopsecurities.com
 Hilltop Securities Inc.
 717 N. Harwood Street, Suite 3400
 Dallas, Texas 75201
 (214) 953-4195

Andre Ayala
 Managing Director
andre.ayala@hilltopsecurities.com
 Hilltop Securities Inc.
 717 N. Harwood Street, Suite 3400
 Dallas, Texas 75201
 (214) 953-4184

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

| <u>City Council</u> | <u>Length of Service</u> | <u>Terms Expires</u> | <u>Occupation</u> |
|---|--------------------------|----------------------|---------------------------|
| Jeremiah McClure Mayor | 23 Months | May 2026 | CEO |
| Cindy Horne Councilmember Place 1 | 11 Months | May 2027 | President & CEO |
| Johnny Myers Councilmember Place 2 | 11 Months | May 2027 | Insurance Adjuster |
| Ryan Moorman Councilmember Place 3 | 23 Months | May 2026 | Business Owner |
| Michelle Thurgood Councilmember Place 4 | 11 Months | May 2027 | Homemaker / Foster Parent |
| Scott Dodson Councilmember Mayor Pro Tem Place 5 | 23 Months | May 2026 | CEO |
| Mitch Ownby Councilmember Place 6 | 11 Months | May 2027 | EMS Chief |

SELECTED ADMINISTRATIVE STAFF

| <u>Name</u> | <u>Position</u> | <u>Length of Service to the City</u> |
|------------------|----------------------------|--------------------------------------|
| Steven Alexander | City Manager | 10 Months |
| Chelsey Gordon | Assistant City Manager | 6 Months |
| Jay Ayers | Director of Finance | 3 Years |
| Tara Plexico | Assistant Finance Director | 20 Years |

CONSULTANTS AND ADVISORS

AuditorsBrooksWatson & Co., PLLC
Houston, Texas

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

Municipal AdvisorHilltop Securities Inc.
Dallas, Texas

OFFICIAL STATEMENT
RELATING TO
\$38,420,000*
CITY OF HEATH, TEXAS
COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026
INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$38,420,000* City of Heath, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026 (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 Official Statement descriptions of the Certificates and certain information regarding the City of Heath, 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 municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City incorporated in 1959 and voters first approved the City's Home Rule Charter at an election held in August 2002. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six council members. The term of office is in two years with the terms of the Mayor and two of the Councilmembers' terms expiring in even-numbered years and the other terms of the four Councilmembers expiring in odd-numbered years. The City Manager is the chief administrative officer for the City. The 2020 Census population for the City was 9,769. The estimated population for 2026 is 11,801. The City covers approximately 10.7 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) designing, planning, acquiring, constructing, installing and equipping additions, extensions and improvements to the City's waterworks system, including water supply facilities, water wells, ground and elevated storage tanks, water transmission and distribution lines, pressure management control facilities (including restrictor valves), associated appurtenances, and related infrastructure; and (ii) paying legal, fiscal, design and engineering fees in connection with these 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 | |
| Cash Premium | |
| Total Sources of Funds | |

Uses of Funds

| | |
|------------------------------|--|
| Deposit to Project Fund | |
| Initial Purchaser's Discount | |
| Costs of Issuance | |
| Total Uses of Funds | |

* Preliminary, subject to change.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated May 1, 2026 (the "Dated Date"), and mature on August 15, 2026 and thereafter 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 May 21, 2026), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on each August 15 and February 15, commencing August 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, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").

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 Code, as amended, the City's Home Rule Charter, 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 limited pledge (not to exceed \$1,000) of the surplus revenues of the City's 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 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of such \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance.

OPTIONAL REDEMPTION OF THE CERTIFICATES . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2037, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on February 15, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the 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.

EXTRAORDINARY OPTIONAL REDEMPTION OF THE CERTIFICATES . . . The City reserves the right and option to redeem the Certificates of this series before their scheduled maturities, in whole or in part, and, if in part, the particular Certificates, or portions thereof, to be redeemed shall be selected and designated by the Issuer (provided that a portion of a Certificate may be redeemed only in an integral multiple of \$5,000), on any day up to and including May 31, 2029, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, from unspent proceeds from the sale of the Certificates upon the filing of a City Certificate stating that all Projects have been completed and that all costs of the Projects have been paid, or that any costs of the Projects are not required to be paid from the Construction Fund.

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, 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 shall 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 for any other Defeasance Securities will be maintained at any particular rating category.

Upon making such deposit in the manner described, such defeased Certificates shall no longer be deemed outstanding Certificates secured by the Ordinance, but will be payable only from the funds and Defeasance Securities deposited into 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 for any other purpose.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption, or take any other action amending the terms of the Certificates, are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for 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.

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 Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC

or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (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 Official Statement. In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry 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 The Bank of New York Mellon Trust Company, N.A., 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 established specific events of default with respect to the Certificates. If the City defaults in the payment of principal, interest or redemption price, as applicable, on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Ordinance and the continuation thereof for a period of sixty (60) days after notice of such default is given by any registered owner to the City, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's Certificates are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On 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, by principles of governmental immunity, and by general principles of equity which 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.

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.

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 Rockwall Central Appraisal District and Kaufman Central Appraisal District (together, 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.

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 appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. 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.

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

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

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 Property 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 Property 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 Property 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (See "– 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.

The foregoing sections represents the City's current understanding of the recently adopted Senate Bill 2, however the City cannot represent at this time what impact such legislation may have on the City. The City may revise and update this information as more information about Senate Bill 2 and its specific impact on the City becomes available.

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.

2025 REGULAR AND SPECIAL LEGISLATIVE SESSIONS . . . The regular session of the 89th Texas Legislature convened on January 14, 2025 and adjourned on June 2, 2025. The Legislature meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor of Texas (the "Governor") may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days and for which the Governor sets the agenda. The Governor has called a special legislative session that began Monday, July 21, 2025. The Governor identified eighteen (18) agenda items that are being considered in the first special session. Among the items being considered is "legislation reducing the property tax burden on Texans and legislation imposing spending limits on entities authorized to impose property taxes." The City is unable to predict the substance of such legislation or the effect, if any, it will have on the City's finances or operations.

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. Further, the City can make no representations or predictions regarding any proposed legislation on the agenda for the first called special session or any additional legislation that may be considered during any special session or the potential impact of such legislation at this time, but it intends to monitor applicable legislation related thereto.

CITY APPLICATION OF PROPERTY TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$3,000; the disabled are also granted an exemption of \$3,000.

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

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

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

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

The City does tax freeport property.

The City does tax goods in transit.

The City has adopted the tax freeze for citizens who are 65 years of age or older or disabled persons.

The City has levied a ½ cent sales tax for the Heath Economic Development Corporation (the "4A Corporation") and a ½ cent sales tax for the Heath Municipal Benefits Corporation (the "4B Corporation").

The City has not adopted a tax abatement policy.

The City has not created a TIF.

[The remainder of this page left blank intentionally]

TABLE 1 – ASSESSED VALUATION AND EXEMPTION

| | | |
|---|---------------|-----------------------|
| 2025/2026 Market Valuation Established by Rockwall County and Kaufman County Appraisal Districts (excluding totally exempt property) | | \$ 4,434,288,100 |
| Less Exemptions/Reductions at 100% Market Value: | | |
| Over 65 | \$ 3,667,099 | |
| Disabled Veterans | 79,003,670 | |
| Disabled Persons | 79,500 | |
| Homestead Cap Adjustment | 347,241,783 | |
| Circuit Breaker Limitation | 30,150,529 | |
| Pollution Control | 386,391 | |
| Solar | 43,676 | |
| Productivity Loss | 86,509,757 | <u>\$ 547,082,405</u> |
| 2025/2026 Taxable Assessed Valuation | | \$ 3,887,205,695 |
| Freeze Tax Exemptions | | <u>\$ 951,295,281</u> |
| 2025/2026 Total Taxable Assessed Valuation after Freeze Tax Exemptions | | \$ 2,935,910,414 |
| General Obligation Debt Payable from Ad Valorem Taxes as of 5/1/2026 | | \$ 54,867,000 |
| The Certificates ⁽¹⁾ | | <u>38,420,000</u> |
| Total General Obligation Debt Payable from Ad Valorem Taxes as of 5/1/2026 | | \$ 93,287,000 |
| Less: Self Supporting Debt ⁽²⁾ | | |
| Water & Sewer Supported Debt | \$ 13,414,533 | |
| 4B Sales Tax Supported Debt | 5,649,773 | |
| Haciendas Del Lago PID Assessment Revenues Supported Debt | 252,000 | |
| The Certificates (Water & Sewer Supported Debt) ⁽¹⁾ | 38,420,000 | |
| Total Self-Supporting Debt | | <u>\$ 57,736,306</u> |
| Net General Obligation Debt Payable from Ad Valorem Taxes ⁽¹⁾ | | \$ 35,550,694 |
| General Obligation Interest and Sinking Fund as of 2/1/2026 | | \$ 1,197,062 |
| Ratio of Net General Obligation Tax Debt to Taxable Assessed Valuation | | 0.91% |

2026 Estimated Population - 11,801
Per Capita Taxable Assessed Valuation - \$329,396
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$3,013

(1) Preliminary; subject to change.

(2) The City currently makes payments on the amount of debt identified as self-supporting from surplus revenues of the City’s waterworks and sewer system and the sales taxes collected for the 4B Corporation and assessment revenues collected for the Haciendas Del Lago Public Improvement District. It is the City’s current policy to make these payments from such revenues, but such policy is subject to change. In the event payments are not made from such revenues, the City will be required to assess an ad valorem tax sufficient to make such payments. (See “TABLE 10 – Computation of Self-Supporting Debt”).

[The remainder of this page left blank intentionally]

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 | \$ 3,877,071,902 | 87.43% | \$ 3,635,825,257 | 88.08% | \$ 3,283,246,266 | 87.24% |
| Real, Residential, Multi-Family | 1,693,487 | 0.04% | 1,563,502 | 0.04% | 1,317,291 | 0.04% |
| Real, Vacant Lots/Tracts | 117,886,045 | 2.66% | 114,861,954 | 2.78% | 129,324,482 | 3.44% |
| Real, Acreage (Land Only) | 87,224,908 | 1.97% | 93,933,256 | 2.28% | 88,735,466 | 2.36% |
| Real, Farm and Ranch Improvements | 78,028,421 | 1.76% | 60,721,026 | 1.47% | 51,532,056 | 1.37% |
| Real, Commercial and Industrial | 136,380,458 | 3.08% | 116,101,739 | 2.81% | 102,374,180 | 2.72% |
| Real and Intangible Personal, Utilities | 28,505,034 | 0.64% | 27,218,106 | 0.66% | 22,050,790 | 0.59% |
| Tangible Personal, Business | 26,034,790 | 0.59% | 24,651,337 | 0.60% | 28,686,874 | 0.76% |
| Real Property, Inventory | 81,463,055 | 1.84% | 53,034,696 | 1.28% | 56,156,672 | 1.49% |
| Total Appraised Value Before Exemptions | \$ 4,434,288,100 | 100.00% | \$ 4,127,910,873 | 100.00% | \$ 3,763,424,077 | 100.00% |
| Less: Total Exemptions/Reductions | 547,082,405 | | 613,250,866 | | 586,846,749 | |
| Taxable Assessed Value | <u>\$ 3,887,205,695</u> | | <u>\$ 3,514,660,007</u> | | <u>\$ 3,176,577,328</u> | |

| Category | Taxable Appraised Value for Fiscal Year Ended September 30, | | | |
|---|---|------------|-------------------------|------------|
| | 2023 | | 2022 | |
| | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | \$ 2,842,513,702 | 87.43% | \$ 1,997,948,685 | 85.24% |
| Real, Residential, Multi-Family | 1,247,552 | 0.04% | 1,063,420 | 0.05% |
| Real, Vacant Lots/Tracts | 85,942,276 | 2.64% | 72,404,920 | 3.09% |
| Real, Acreage (Land Only) | 70,976,428 | 2.18% | 63,094,067 | 2.69% |
| Real, Farm and Ranch Improvements | 46,261,414 | 1.42% | 42,430,813 | 1.81% |
| Real, Commercial and Industrial | 102,090,861 | 3.14% | 79,965,789 | 3.41% |
| Real and Intangible Personal, Utilities | 21,400,644 | 0.66% | 19,606,527 | 0.84% |
| Tangible Personal, Business | 18,675,575 | 0.57% | 22,819,390 | 0.97% |
| Real Property, Inventory | 62,069,132 | 1.91% | 44,513,882 | 1.90% |
| Total Appraised Value Before Exemptions | \$ 3,251,177,584 | 100.00% | \$ 2,343,847,493 | 100.00% |
| Less: Total Exemptions/Reductions | 545,157,222 | | 613,250,866 | |
| Taxable Assessed Value | <u>\$ 2,706,020,362</u> | | <u>\$ 1,730,596,627</u> | |

NOTE: Valuations shown are certified taxable assessed values reported by the Rockwall County and Kaufman County 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 Districts updates records.

[The remainder of this page left blank intentionally]

TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

| Fiscal Year Ended | Estimated | Taxable Assessed | Taxable Assessed Valuation | Net G.O. Tax Debt Outstanding at End of Year ⁽³⁾ | Ratio of Net G.O. Tax Debt to Taxable Assessed Valuation | Net G.O. Tax Debt Per Capita |
|-------------------|---------------------------|--------------------------|----------------------------|---|--|------------------------------|
| 9/30 | Population ⁽¹⁾ | Valuation ⁽²⁾ | Per Capita | | | Capita |
| 2022 | 11,196 | \$ 1,730,596,627 | \$ 154,573 | \$ 19,935,924 | 1.15% | \$ 1,781 |
| 2023 | 10,483 | 2,706,020,362 | 258,134 | 18,023,876 | 0.67% | 1,719 |
| 2024 | 10,588 | 3,176,577,328 | 300,017 | 38,749,926 | 1.22% | 3,660 |
| 2025 | 10,363 | 3,514,660,007 | 339,155 | 37,162,970 | 1.06% | 3,586 |
| 2026 | 11,801 | 3,887,205,695 | 329,396 | 35,541,148 ⁽⁴⁾ | 0.91% | 3,012 |

(1) Source: The City.

(2) As reported by the Appraisal Districts to the State Property Tax Board; subject to change during the ensuing year.

(3) Excludes self-supporting debt. (See “TABLE 10 – Computation of Self-Supporting Debt”)

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

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

| Fiscal Year Ended | Tax Rate | General Fund | Interest and Sinking Fund | Tax Levy ⁽¹⁾ | % Current Collections ⁽¹⁾ | % Total Collections ⁽¹⁾ |
|-------------------|-----------|--------------|---------------------------|-------------------------|--------------------------------------|------------------------------------|
| 9/30 | | | | | | |
| 2022 | \$ 0.3393 | \$ 0.2237 | \$ 0.1156 | \$ 7,387,714 | 99.53% | 99.73% |
| 2023 | 0.2912 | 0.1927 | 0.0985 | 7,747,855 | 99.42% | 99.65% |
| 2024 | 0.2775 | 0.1848 | 0.0927 | 8,766,075 | 98.01% | 98.01% |
| 2025 | 0.2903 | 0.1914 | 0.0989 | 9,854,254 | 98.76% | 99.72% |
| 2026 | 0.2757 | 0.1886 | 0.0870 | 10,234,619 | 92.64% ⁽²⁾ | 94.55% ⁽²⁾ |

(1) Source: City Staff and City’s Annual Comprehensive Financial Reports.

(2) Collections as of January 31, 2026.

TABLE 5 - TEN LARGEST TAXPAYERS

| Name of Taxpayer | Nature of Property | 2025/26 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|-------------------------------------|-------------------------|------------------------------------|---------------------------------------|
| HGYC LLC | Real Estate Development | \$ 24,893,961 | 0.64% |
| Oncor Electric Delivery Company | Utility | 23,988,600 | 0.62% |
| 5 Sharp Real Estate LLC | Real Estate Development | 15,670,427 | 0.40% |
| Heath Younger LLC | Real Estate | 12,886,851 | 0.33% |
| Trinity 888 Property Trust | Real Estate | 10,474,480 | 0.27% |
| SNH Medical Office Properties Trust | Medical | 10,200,000 | 0.26% |
| Scooby Doo Trust | Individual | 10,193,844 | 0.26% |
| Heath IRF, LLC | Real Estate | 8,312,828 | 0.21% |
| Whittle Highlands LLC | Real Estate Development | 8024004 | 0.21% |
| Atmos Energy/Mid-Tex | Utility | 7,361,607 | 0.19% |
| | | <u>\$ 132,006,602</u> | <u>3.40%</u> |

Source: Rockwall County and Kaufman County 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.

| Taxing Jurisdiction | 2025/26 | 2025/26 | Total | Estimated | City's |
|--|------------------|---------|------------------------------|------------|-----------------|
| | Taxable | | G.O. Tax | | Overlapping |
| | Assessed | Tax | Debt | % | G.O. |
| | Value | Rate | as of 5/1/2026 | Applicable | Tax Debt |
| | | | | | as of 3/15/2026 |
| City of Heath | \$ 3,887,205,695 | 0.2757 | \$ 93,287,000 ⁽¹⁾ | 100.00% | \$ 93,287,000 |
| Kaufman County | 28,412,075,356 | 0.3345 | 200,305,000 | 0.44% | 881,342 |
| Rockwall County | 25,298,517,655 | 0.2510 | 161,570,000 | 14.20% | 22,942,940 |
| Rockwall ISD | 18,611,347,729 | 1.0669 | 903,942,666 | 17.26% | 156,020,504 |
| Total Direct and Overlapping Tax Debt | | | | | \$ 273,131,786 |
| Per Capita Direct and Overlapping Tax Debt | | | | | \$ 23,144.80 |

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

TABLE 7 – TAX ADEQUACY

| | |
|---|--------------|
| 2026 Net Principal and Interest Requirements | \$ 3,142,878 |
| \$0.0817 Tax Rate at 99% Collection Produces | \$ 3,144,089 |
| Estimated Net Average Principal and Interest Requirements (2026-2043) | \$ 2,952,067 |
| \$0.0768 Tax Rate at 99% Collection Produces | \$ 2,955,520 |
| Maximum Net Principal and Interest Requirements, 2026 | \$ 3,142,878 |
| \$0.0817 Tax Rate at 98% Collection Produces | \$ 3,144,089 |

[The remainder of this page left blank intentionally]

DEBT INFORMATION

TABLE 8 – PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

| Fiscal Year Ending 9/30 | Outstanding Debt Service | | | The Certificates ⁽¹⁾ | | | Total General Obligation Debt Service | Less: | Less: | Less: | Net General Obligation Debt Service | % of Principal Retired | |
|-------------------------|--------------------------|----------------------|----------------------|---------------------------------|----------------------|----------------------|---------------------------------------|---|--|--|-------------------------------------|------------------------|---------|
| | Principal | Interest | Total | Principal | Interest | Total | | Water & Sewer System Supported Debt Service ⁽²⁾⁽³⁾ | Road, Drainage & Sewer PID Supported Debt Service ⁽²⁾ | 4B Corporation Sales Tax Supported Debt Service ⁽²⁾ | | | |
| 2026 | \$ 3,096,000 | \$ 2,401,673 | \$ 5,497,673 | \$ 300,000 | \$ 414,447 | \$ 714,447 | \$ 6,212,119 | \$ 2,571,992 | \$ 23,324 | \$ 473,925 | \$ 3,142,878 | | |
| 2027 | 3,187,000 | 2,292,817 | 5,479,817 | 325,000 | 1,753,075 | 2,078,075 | 7,557,892 | 3,921,061 | 23,806 | 473,925 | 3,139,101 | | |
| 2028 | 2,993,000 | 2,178,283 | 5,171,283 | 440,000 | 1,733,950 | 2,173,950 | 7,345,233 | 3,917,353 | 23,251 | 473,925 | 2,930,704 | | |
| 2029 | 3,114,000 | 2,060,860 | 5,174,860 | 460,000 | 1,711,450 | 2,171,450 | 7,346,310 | 3,921,069 | 23,696 | 473,925 | 2,927,620 | | |
| 2030 | 3,229,000 | 1,941,649 | 5,170,649 | 485,000 | 1,687,825 | 2,172,825 | 7,343,474 | 3,919,941 | 23,104 | 473,925 | 2,926,504 | 18.30% | |
| 2031 | 3,365,000 | 1,807,926 | 5,172,926 | 510,000 | 1,662,950 | 2,172,950 | 7,345,876 | 3,920,707 | 22,512 | 473,925 | 2,928,732 | | |
| 2032 | 3,511,000 | 1,658,716 | 5,169,716 | 535,000 | 1,636,825 | 2,171,825 | 7,341,541 | 3,917,218 | 22,920 | 473,925 | 2,927,478 | | |
| 2033 | 3,668,000 | 1,502,238 | 5,170,238 | 565,000 | 1,609,325 | 2,174,325 | 7,344,563 | 3,919,897 | 23,291 | 473,925 | 2,927,450 | | |
| 2034 | 3,160,000 | 1,348,523 | 4,508,523 | 1,275,000 | 1,563,325 | 2,838,325 | 7,346,848 | 3,918,239 | 23,625 | 473,925 | 2,931,059 | | |
| 2035 | 3,305,000 | 1,192,378 | 4,497,378 | 1,350,000 | 1,497,700 | 2,847,700 | 7,345,078 | 3,921,252 | 22,922 | 473,925 | 2,926,979 | 40.34% | |
| 2036 | 3,473,000 | 1,023,458 | 4,496,458 | 1,420,000 | 1,428,450 | 2,848,450 | 7,344,908 | 3,918,832 | 24,219 | 473,925 | 2,927,932 | | |
| 2037 | 3,644,000 | 846,052 | 4,490,052 | 1,500,000 | 1,355,450 | 2,855,450 | 7,345,502 | 3,920,401 | 23,442 | 473,925 | 2,927,734 | | |
| 2038 | 2,746,000 | 686,859 | 3,432,859 | 2,665,000 | 1,251,325 | 3,916,325 | 7,349,184 | 3,920,583 | 23,665 | 473,925 | 2,931,011 | | |
| 2039 | 2,866,000 | 561,217 | 3,427,217 | 2,800,000 | 1,114,700 | 3,914,700 | 7,341,917 | 3,917,810 | 23,851 | 473,925 | 2,926,331 | | |
| 2040 | 2,960,000 | 444,000 | 3,404,000 | 2,950,000 | 970,950 | 3,920,950 | 7,324,950 | 3,920,950 | - | 473,925 | 2,930,075 | 68.39% | |
| 2041 | 3,080,000 | 323,200 | 3,403,200 | 3,100,000 | 819,700 | 3,919,700 | 7,322,900 | 3,919,700 | - | 473,925 | 2,929,275 | | |
| 2042 | 3,205,000 | 197,500 | 3,402,500 | 3,260,000 | 660,700 | 3,920,700 | 7,323,200 | 3,920,700 | - | 473,925 | 2,928,575 | | |
| 2043 | 3,335,000 | 66,700 | 3,401,700 | 3,405,000 | 511,100 | 3,916,100 | 7,317,800 | 3,916,100 | - | 473,925 | 2,927,775 | | |
| 2044 | - | - | - | 3,545,000 | 372,100 | 3,917,100 | 3,917,100 | 3,917,100 | - | - | - | - | |
| 2045 | - | - | - | 3,690,000 | 227,400 | 3,917,400 | 3,917,400 | 3,917,400 | - | - | - | - | 96.01% |
| 2046 | - | - | - | 3,840,000 | 76,800 | 3,916,800 | 3,916,800 | 3,916,800 | - | - | - | - | 100.00% |
| | <u>\$ 57,937,000</u> | <u>\$ 22,534,048</u> | <u>\$ 80,471,048</u> | <u>\$ 38,420,000</u> | <u>\$ 24,059,547</u> | <u>\$ 62,479,547</u> | <u>\$ 142,950,595</u> | <u>\$ 80,955,105</u> | <u>\$ 327,628</u> | <u>\$ 8,530,650</u> | <u>\$ 53,137,211</u> | | |

- (1) Preliminary; subject to change.
- (2) The City currently makes payments on the amounts of debt identified as self-supported debt service from surplus revenues of the City’s waterworks and sewer system, sales taxes collected for the 4B Corporation, and assessment revenues collected for the Haciendas Del Lago Public Improvement District. It is the City’s current policy to make these payments from such revenues, but such policy is subject to change. In the event payments are not made from such revenues, the City will be required to assess an ad valorem tax sufficient to make such payments. (See “TABLE 10 – Computation of Self-Supporting Debt”).
- (3) Includes the Certificates. Preliminary, subject to change.

TABLE 9 – BUDGETED INTEREST AND SINKING FUND BUDGET PROJECTION

| | | |
|---|---------------|-------------------|
| Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2026 | | \$ 3,142,878 |
| Interest and Sinking Fund, Fiscal Year Ended 9/30/2025 | \$ 861,656 | |
| 2025/2026 Budgeted Interest and Sinking Fund Tax Levy Collection | 3,235,105 | |
| 2025/2026 Budgeted Miscellaneous Revenues | <u>17,300</u> | <u>4,114,061</u> |
| Estimated Balance, Fiscal Year Ending 9/30/2026 | | <u>\$ 971,183</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 the issuance of additional general obligation debt within the next twelve months.

OTHER OBLIGATIONS . . . For more information on other outstanding obligations, see “APPENDIX B – Excerpts from the Annual Financial Report” and notes thereto.

EMPLOYEE BENEFITS

PLAN DESCRIPTION . . . The City participates as one of 934 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 (ACFR) that can be obtained at www.tmrs.com. All eligible employees of the city are required to participate in TMRS.

PENSION PLAN 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 payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

For more detailed information concerning the Pension Plan, see Note V in "APPENDIX B - Excerpts from the City of Heath, Texas Annual Financial Report". More information regarding the City’s TMRS contribution rates is available at https://www.tmrs.com/rate_letters/2019/01316.pdf.

OTHER POST-EMPLOYMENT BENEFITS . . . Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees.

Employers 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 City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer other postemployment benefit plan (OPEB) (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

OTHER POST-EMPLOYMENT BENEFITS PROVIDED . . . The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit ("OPEB") and is a fixed amount of \$7,500.

For more detailed information concerning the Pension Plan, see Note V in "APPENDIX B - Excerpts from the City of Heath, Texas Annual Financial Report".

ACCRUED COMPENSATED ABSENCES . . . It is the City's policy to permit employees to accumulate earned, but unused vacation leave and sick leave. The City liquidates compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

[The remainder of this page left blank intentionally]

TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

| Waterworks and Sewer System General Obligation Debt | | |
|--|--|----------------------------------|
| | FY 2026 Outstanding Principal ⁽³⁾ | FY 2026 Debt Service (P+I) |
| Combination Tax and Surplus Revenue Certificates of Obligation, Series 2013 | \$ 5,455,000 | \$ 419,100 |
| General Obligation Refunding Bonds, Series 2015 | 795,000 | 407,129 |
| Combination Tax and Surplus Revenue Certificates of Obligation, Series 2017 | 8,375,000 | 1,027,400 |
| Combination Tax and Surplus Revenue Certificates of Obligation, Series 2019 | 39,533 | 3,917 |
| The Certificates ⁽²⁾ | 38,420,000 | 714,447 |
| TOTAL | <u>\$ 53,084,533</u> | <u>\$ 2,571,992</u> |
| Waterworks and Sewer System Revenue Available for Debt Service, FYE 2025 | | \$ 4,028,213 |
| Less: Waterworks and Sewer System Revenue Bonds Debt Service | | - |
| Net Revenue Available for Waterworks and Sewer System General Obligation Bonds | | <u>\$ 4,028,213</u> |

| Heath Municipal Benefits Corporation (4B Sales Tax) General Obligation Debt | | |
|---|--|----------------------------------|
| | FY 2026 Outstanding Principal ⁽³⁾ | FY 2026 Debt Service (P+I) |
| Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2023 | \$ 5,857,496 | \$ 473,925 |
| TOTAL | <u>\$ 5,857,496</u> | <u>\$ 473,925</u> |
| Heath 4B Corporation Gross Sales Tax Revenue Available for Debt Service, FYE 2025 | | \$ 893,212 |
| Less: Heath 4B Corporation Sales Tax Revenue Bonds Debt Service | | - |
| Net Gross Revenue Available for Heath 4B Corporation General Obligation Bonds | | <u>\$ 893,212</u> |

| Heath Road, Drainage & Sewer Public Improvement District General Obligation Debt | | |
|--|--|----------------------------------|
| | FY 2026 Outstanding Principal ⁽³⁾ | FY 2026 Debt Service (P+I) |
| Combination Tax and Surplus Revenue Certificates of Obligation, Series 2019 | \$ 252,000 | \$ 23,324 |
| TOTAL | <u>\$ 252,000</u> | <u>\$ 23,324</u> |
| Heath Roads, Drainage & Sewer Public Improvement District Revenue Available for Debt Service, FYE 2025 | | \$ 15,173 |
| Less: Roads, Drainage & Sewer Special Assessment Revenue Bonds Debt Service | | - |
| Net Gross Revenue Available for Heath Roads, Drainage & Sewer Public Improvement District General Obligation Bonds | | <u>\$ 15,173</u> |

- (1) The City currently makes payments on the amount of debt identified as self-supporting from surplus revenues of the City’s waterworks and sewer system, sales tax collected for the 4B Corporation, and assessment revenues collected for the Haciendas Del Lago Public Improvement District. It is the City’s current policy to make these payments from such revenues, but such policy is subject to change. In the event payments are not made from such revenues, the City will be required to assess an ad valorem tax sufficient to make such payments.
- (2) Preliminary; subject to change.
- (3) Principal outstanding at the beginning of the Fiscal Year.

FINANCIAL INFORMATION

TABLE 11 – CHANGES IN NET ASSETS

| | Fiscal Years Ended September 30 | | | | |
|------------------------------------|---------------------------------|-----------------------------|-----------------------------|----------------------------------|-----------------------------|
| | 2025 | 2024 | 2023 | 2022 | 2021 |
| Revenues: | | | | | |
| Program Revenues | | | | | |
| Charges for Services | \$ 1,125,252 | \$ 1,340,018 | \$ 1,643,104 | \$ 1,414,894 | \$ 1,123,724 |
| Operating Grants and Contributions | 766,522 | 567,298 | 477,540 | 1,901,959 | 630,819 |
| Capital Grants and Contributions | 404,721 | 3,336,000 | 296,000 | 918,211 | 6,438,792 |
| General Revenues | | | | | |
| Ad Valorem Taxes | 9,810,622 | 8,738,084 | 7,827,431 | 7,449,687 | 7,591,621 |
| Sales Taxes | 1,849,506 | 1,633,196 | 1,659,618 | 1,485,769 | 1,244,628 |
| Franchise Taxes | 823,509 | 725,834 | 692,309 | 625,609 | 559,495 |
| Miscellaneous | 1,719,787 | 546,642 | 320,933 | 863,560 | 989,328 |
| Unrestricted Investment Earnings | 2,280,513 | 2,162,712 | 706,097 | 111,434 | 9,489 |
| Gain on Sale of Capital Assets | - | - | - | - | - |
| Transfers | (31,742) | 533,875 | 286,307 | 271,000 | 271,000 |
| Total Revenues | <u>\$ 18,748,690</u> | <u>\$ 19,583,659</u> | <u>\$ 13,909,339</u> | <u>\$ 15,042,123</u> | <u>\$ 18,858,896</u> |
| Expenses: | | | | | |
| Administration | \$ 2,204,471 | \$ 3,035,604 | \$ 2,232,747 | \$ 1,537,129 | \$ 1,691,608 |
| Highways and Streets | 4,354,522 | 4,324,075 | 5,179,964 | 3,535,819 | 3,482,020 |
| Parks | 427,942 | 410,916 | 671,523 | 662,172 | 628,341 |
| Public Safety | 5,974,748 | 5,313,731 | 5,379,597 | 4,506,989 | 4,217,615 |
| Economic Development & Assistance | 721,453 | 782,848 | 753,059 | 655,723 | 609,763 |
| Interest and Fiscal Charges | 1,706,772 | 2,140,480 | 651,581 | 707,114 | 769,473 |
| Total Expenses | <u>\$ 15,389,908</u> | <u>\$ 16,007,654</u> | <u>\$ 14,868,471</u> | <u>\$ 11,604,946</u> | <u>\$ 11,398,820</u> |
| Increase (Decrease) in Net Assets | 3,358,782 | 3,576,005 | (959,132) | 3,437,177 | 7,460,076 |
| Net Assets - October 1 | <u>56,351,491</u> | <u>52,775,486</u> | <u>53,734,618</u> | <u>50,297,441</u> ⁽¹⁾ | <u>42,829,045</u> |
| Net Assets - September 30 | <u><u>\$ 59,710,273</u></u> | <u><u>\$ 56,351,491</u></u> | <u><u>\$ 52,775,486</u></u> | <u><u>\$ 53,734,618</u></u> | <u><u>\$ 50,289,121</u></u> |

(1) Restated

TABLE 11A – GENERAL FUND REVENUE AND EXPENDITURE HISTORY

| | Fiscal Years Ended September 30, | | | | |
|-------------------------|----------------------------------|-----------------------|-----------------------|---------------------------------|---------------------|
| | 2025 | 2024 | 2023 | 2022 | 2021 |
| <u>Revenues:</u> | | | | | |
| Taxes | \$ 9,163,911 | \$ 8,122,211 | \$ 7,503,770 | \$ 7,028,759 | \$ 6,789,450 |
| Licenses and Permits | 855,916 | 1,049,635 | 1,369,834 | 1,147,280 | 906,180 |
| Intergovernmental | 40,058 | 51,803 | 464,849 | 1,579,678 | 373,560 |
| Charges for Services | 119,137 | 124,143 | 121,247 | 147,244 | 142,979 |
| Fines | 150,199 | 166,240 | 152,023 | 120,370 | 74,565 |
| Interest Income | 82,414 | 219,992 | 164,941 | 31,813 | 3,188 |
| Miscellaneous | 47,554 | 57,125 | 81,355 | 33,558 | 278,276 |
| Total Revenues | <u>\$ 10,459,189</u> | <u>\$ 9,791,149</u> | <u>\$ 9,858,019</u> | <u>\$ 10,088,702</u> | <u>\$ 8,568,198</u> |
| <u>Expenditures:</u> | | | | | |
| Administration | \$ 2,112,992 | \$ 2,940,810 | \$ 2,133,956 | \$ 1,500,652 | \$ 1,289,873 |
| Street Department | 390,259 | 400,295 | 879,763 | 325,266 | 812,403 |
| Park Department | 420,265 | 396,068 | 469,677 | 478,407 | 423,057 |
| Public Safety | 5,585,367 | 4,835,661 | 4,777,771 | 4,211,047 | 4,167,492 |
| Building Inspection | 384,310 | 238,298 | 291,050 | 185,179 | 211,231 |
| Economic Development | 709,229 | 770,160 | 740,534 | 649,847 | 604,128 |
| Debt Service | 45,575 | - | - | 72,710 | 36,600 |
| Municipal Court | 115,867 | 73,955 | 82,890 | 81,420 | 51,082 |
| Total Expenditures | <u>\$ 9,763,864</u> | <u>\$ 9,655,247</u> | <u>\$ 9,375,641</u> | <u>\$ 7,504,528</u> | <u>\$ 7,595,866</u> |
| Excess (Deficiency) | \$ 695,325 | \$ 135,902 | \$ 482,378 | \$ 2,584,174 | \$ 972,332 |
| Budgeted Transfers In | \$ 369,300 | \$ 213,250 | \$ 271,000 | \$ 271,000 | \$ 271,000 |
| Budgeted Transfers Out | (575,200) | (1,235,056) | (1,318,295) | (1,541,752) | (604,800) |
| Total Transfers | <u>\$ (205,900)</u> | <u>\$ (1,021,806)</u> | <u>\$ (1,047,295)</u> | <u>\$ (1,270,752)</u> | <u>\$ (333,800)</u> |
| Net Increase (Decrease) | 489,425 | (885,904) | (564,917) | 1,313,422 | 638,532 |
| Beginning Fund Balance | <u>5,199,844</u> | <u>6,085,748</u> | <u>6,650,665</u> | <u>5,337,243</u> ⁽¹⁾ | <u>4,697,187</u> |
| Ending Fund Balance | <u>\$ 5,689,269</u> | <u>\$ 5,199,844</u> | <u>\$ 6,085,748</u> | <u>\$ 6,650,665</u> | <u>\$ 5,335,719</u> |

(1) Restated

TABLE 12 - 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 ½ of 1% for the benefit of the Heath Economic Development Corporation (the “4A Corporation”) and an additional ½ of 1% percent for the benefit of the Heath Municipal Benefits Corporation (the “4B Corporation” and, together with the 4A Corporation, the “Corporations”). The collective sales and use tax for economic development is collected solely for the benefit of the Corporations and may be pledged to secure payment of sales tax revenue bonds issued by the Corporations but may not be pledged to payment on the Certificates. The current sales and use tax rates within the City total 2%, 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. **Sales and use tax proceeds are not pledged to payment of the Certificates. Although it is the City’s current policy to pay certain of the self-supporting debt listed in Table 10 above from revenues collected for the Corporations 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.**

| Fiscal Year Ended 9/30 | City Total 1% Collected ⁽¹⁾ | % of Ad Valorem Tax Levy | Equivalent of Ad Valorem Tax Rate | Per Capita ⁽²⁾ |
|------------------------|--|--------------------------|-----------------------------------|---------------------------|
| 2022 | \$ 1,355,150 | 18.34% | \$ 0.0783 | \$ 121.04 |
| 2023 | 1,504,762 | 19.42% | 0.0556 | 143.54 |
| 2024 | 1,541,444 | 17.58% | 0.0485 | 145.58 |
| 2025 | 1,731,543 | 17.57% | 0.0493 | 167.09 |
| 2026 | 1,094,283 ⁽³⁾ | 10.69% | 0.0282 | 92.73 |

(1) Does not include the ½ of 1% percent sales tax for the 4A Corporation or the ½ of 1% percent sales tax for the 4B Corporation.

(2) Based on City population estimates.

(3) Collections through April 2026.

FINANCIAL MANAGEMENT POLICIES

Basis of Accounting . . . All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used by all governmental fund types and agency funds.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into investments in capital assets, net of related debt, and restricted and unrestricted net assets. Proprietary fund-type operating statements represent increases and decreases in net total assets. Proprietary fund types are accounted for using the accrual basis of accounting.

General Fund Balance . . . It is the City’s policy that a designated fund balance shall be maintained as of October 1 of each year equal to 25% of that year’s budgeted expenditures for both the General and Utility Funds.

Use of Bond Proceeds . . . It is the City’s policy that debt will only be issued to finance long-term capital projects, that debt will not be issued to fund current expenditures, and that debt will not be issued with a maturity longer than the estimated life of the project.

Budgetary Procedures . . . It is the City’s policy that a multi-year financial forecast shall be prepared annually, to be issued as a planning tool in developing the following year’s operating budget. The budget is developed by the City staff and presented to the City Council for consideration.

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 13 - CURRENT INVESTMENTS

As of January 31, 2026, the City's investable funds were invested in the following categories:

| <u>Type of Investment</u> | <u>% of Portfolio</u> | <u>Market Value</u> |
|---------------------------|---------------------------|-------------------------|
| TexPool | 26.04% | \$ 19,237,487 |
| TexSTAR | 67.32% | 49,734,011 |
| Bank Account | 6.64% | 4,904,743 |
| | <u>100.00%</u> | <u>\$ 73,876,241</u> |

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 corporation's "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the 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 foreign investors, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 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 owner of the Certificates. The City is required to observe the agreement while 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 certain specified events, to the Municipal Securities Rulemaking Board ("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 6 and 8 through 13. The City will update and provide this information in the numbered tables within six (6) months after the end of each fiscal year ending in and after 2026 and audited financial statements within twelve (12) months after the end of each fiscal year ending in and after 2026. If the audit of such financial statements is not complete within 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 B or such other accounting principles as the City may be required to employ from time to time pursuant to

State law or regulation. The 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 must be provided by March 31 in each year, 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 trustee or the change of name of a trustee, 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 that 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+" (stable outlook) by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC (S&P) 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 effect on the ability of the City to pay the principal of or interest on the Certificates.

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). Section 271.051, Texas Local Government Code, provides that the Certificates are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, trustees and guardians, and for the sinking funds of municipalities, school districts, and other political subdivisions or public agencies of the State of Texas. 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 obligations 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 from a limited pledge (not to exceed \$1,000) 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 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 Official Statement. The Municipal Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Municipal Advisor does not guarantee the accuracy or completeness of such information.

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control

of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CERTIFICATION OF 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 Heath, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THIS PAGE LEFT BLANK INTENTIONALLY

THE CITY

The City of Heath is located in Rockwall and Kaufman Counties, approximately 20 miles east of Dallas. Included in the City's corporate boundaries are 10.7 square miles. Lake Ray Hubbard, a major water supply facility for the City of Dallas, forms the City's western corporate limits. The City's prime location on the shores of Lake Ray Hubbard and its close proximity to the Dallas Consolidated Metropolitan Area have increased residential development and tourist trade at a rapid pace.

EDUCATION

The City is served by the Rockwall Independent School District, which consists of sixteen elementary schools, three middle schools, and three high schools. The present enrollment of the District for year 2024/2025 is approximately 19,235 students.

THE COUNTIES

Rockwall County is a central Texas county with a 2024 census population estimate of 137,044. The economy is based on manufacturing and agriculture. Manufacturing include aluminum, leather goods, windows, apparel, and steel products. Crops include cotton, wheat, sorghum, and beef cattle.

The City of Rockwall is the County Seat and principal commercial center with a 2024 census population estimate of 53,547. The City is located at the intersection of Interstate Highway 30 and U.S. Highways 66 and 205, approximately 20 miles east of Dallas.

Kaufman County is a northeast Texas county, traversed by I-20, U.S. Highways 80 and 175 and State Highways 34, 248, and 274. The 2024 census population estimate is 197,829. The County is located adjacent to the eastern boundary of Dallas County. Incorporated cities within the County include Kaufman, Terrell, Forney, Crandall and Kemp. The economy is based on manufacturing and agriculture. Many County residents commute to jobs in metropolitan Dallas, approximately 25 miles away. The Texas Almanac designates livestock, timber, wheat, cotton, hay, oats and sorghums as principal sources of agricultural income. Cedar Creek Lake offers camping and boating facilities.

LABOR FORCE

Employment statistics for Rockwall County as reflected by the Texas Workforce Commission are as follows:

| | January | Average Annual | | | |
|----------------------|---------|----------------|--------|--------|--------|
| | 2026 | 2025 | 2024 | 2023 | 2022 |
| Civilian Labor Force | 74,779 | 75,039 | 72,907 | 62,294 | 59,221 |
| Total Employed | 71,859 | 72,288 | 70,344 | 60,179 | 57,261 |
| Total Unemployed | 2,920 | 2,751 | 2,563 | 2,115 | 1,960 |
| Unemployment Rate | 3.90% | 3.67% | 3.52% | 3.40% | 3.31% |

Employment statistics for Kaufman County as reflected by the Texas Workforce Commission are as follows:

| | January | Average Annual | | | |
|----------------------|---------|----------------|--------|--------|--------|
| | 2026 | 2025 | 2024 | 2023 | 2022 |
| Civilian Labor Force | 102,973 | 103,199 | 98,262 | 95,953 | 88,015 |
| Total Employed | 98,392 | 98,959 | 94,351 | 92,302 | 84,874 |
| Total Unemployed | 4,581 | 4,240 | 3,911 | 3,651 | 3,141 |
| Unemployment Rate | 4.45% | 4.11% | 3.98% | 3.80% | 3.57% |

APPENDIX B

EXCERPTS FROM THE
CITY OF HEATH, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2025

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

THIS PAGE LEFT BLANK INTENTIONALLY



**A Premier Outdoor
Lifestyle Community**

CITY OF HEATH

ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2025
Prepared by the Finance Department

City of Heath, Texas

TABLE OF CONTENTS

September 30, 2025

INTRODUCTORY SECTION

| | |
|--|---|
| Letter of Transmittal | 1 |
| Certificate of Achievement for Excellence in Financial Reporting | 7 |
| Organization Chart | 8 |
| List of Principal Officials | 9 |

FINANCIAL SECTION

| | |
|--------------------------------------|----|
| Independent Auditor's Report | 13 |
| Management's Discussion and Analysis | 17 |

Basic Financial Statements

Government-Wide Financial Statements

| | |
|---------------------------|----|
| Statement of Net Position | 32 |
| Statement of Activities | 34 |

Fund Financial Statements

Governmental Funds:

| | |
|--|----|
| Balance Sheet | 36 |
| Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental Funds | 39 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds | 40 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 43 |

Proprietary Funds:

| | |
|---|----|
| Statement of Net Position | 44 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position | 47 |
| Statement of Cash Flows | 48 |

Fiduciary Funds:

| | |
|--|----|
| Statement of Fiduciary Net Position | 50 |
| Statement of Changes in Fiduciary Net Position | 51 |

| | |
|--------------------------------------|-----------|
| Notes to Financial Statements | 53 |
|--------------------------------------|-----------|

City of Heath, Texas

TABLE OF CONTENTS

September 30, 2025

REQUIRED SUPPLEMENTARY INFORMATION

| | |
|---|-----|
| Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund | 96 |
| Schedule of Changes in Net Pension Liability and Related Ratios | 98 |
| Schedule of Employer Contributions to Pension Plan | 100 |
| Schedule of Changes in OPEB Liability and Related Ratios | 102 |

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

| | |
|--|-----|
| Combining Balance Sheet – Nonmajor Governmental Funds | 108 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds | 110 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual: | |
| Debt Service Fund | 112 |
| PATH Fund | 113 |
| Drainage Fund | 114 |
| Fire Station Building Fund | 115 |
| Equipment Replacement Fund | 116 |
| Heath Economic Development Corporation | 117 |
| Heath Municipal Benefits Corporation | 118 |

Discretely Presented Component Units:

| | |
|--|-----|
| Balance Sheet | 119 |
| Reconciliation of the Balance Sheet to the Statement of Net Position- Discretely Presented Component Units | 120 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance- Discretely Presented Component Units | 121 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Discretely Presented Component Units to the Statement of Activities | 122 |
| Combining Schedule of Net Position – Discretely Presented Component Units | 123 |
| Combining Schedule of of Activities - Discretely Presented Component Units | 124 |

City of Heath, Texas

TABLE OF CONTENTS

September 30, 2025

STATISTICAL SECTION

| | |
|---|-----|
| Net Position by Component | 128 |
| Changes in Net Position | 132 |
| Fund Balances, Government Funds | 134 |
| Changes in Fund Balance, Governmental Funds | 136 |
| Assessed Value and Estimated Actual Value of Taxable Property | 139 |
| Property Tax Rates – Direct and Overlapping Governments | 140 |
| Principal Property Taxpayers | 143 |
| Property Tax Levies and Collections | 144 |
| Ratios of Outstanding Debt by Type | 146 |
| Ratio of General Bonded Debt Outstanding | 148 |
| Direct and Overlapping Governmental Activities Debt | 150 |
| Demographic and Economic Statistics | 151 |
| Principal Employers | 152 |
| Full-Time Equivalent City Employees by Function/Program | 153 |
| Operating Indicators by Function/Program | 154 |
| Capital Asset Statistics by Function/Program | 156 |

INTRODUCTORY SECTION



March 18, 2026

The Honorable Mayor and Members of the City Council:

We are pleased to submit the Annual Comprehensive Financial Report (ACFR) of the City of Heath, Texas for the year ended September 30, 2025. The purpose of the report is to provide the Council, management, staff, the public and other interested parties with detailed information reflecting the City's financial condition.

THE REPORT

In accordance with Section 103.001 of the Texas Local Government Code, the City of Heath is required to undergo an annual audit. This requirement has been satisfied, and the independent auditors' report is included in the Annual Comprehensive Financial Report for the fiscal year ended September 30, 2025.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosure necessary to enable the reader to gain an understanding of the City's financial activities has been included.

Brooks Watson and Company, PLLC issued an unmodified opinion on the City of Heath's financial statements for the year ended September 30, 2025. The independent auditors' report is located at the front of the financial section of this report.

The financial section of the report includes the independent auditor's report, Management's Discussion and Analysis (MD&A), the basic financial statements, and the related notes. The government-wide financial statements present an overview of the City's financial position and activities, while the fund financial statements provide information on the City's major funds and individual fund activity. Required supplementary information and combining statements are also included to provide additional detail and context.

PROFILE OF THE GOVERNMENT

The City of Heath is located in southwestern Rockwall County and northern Kaufman County along the eastern shore of Lake Ray Hubbard. The City is conveniently positioned just minutes from Interstate Highway 30 to the north and U.S. Highway 80 to the south, providing access to the Dallas-Fort Worth Metroplex. Heath is primarily a residential community characterized by premier neighborhoods, open green spaces, parks, and an extensive trail system. Consistent with the City's Comprehensive Plan, adopted in 2025, the City Council and the Heath Economic Development Corporation continue to pursue and promote development that preserves Heath's unique character, high quality of life, and long-term sustainability.

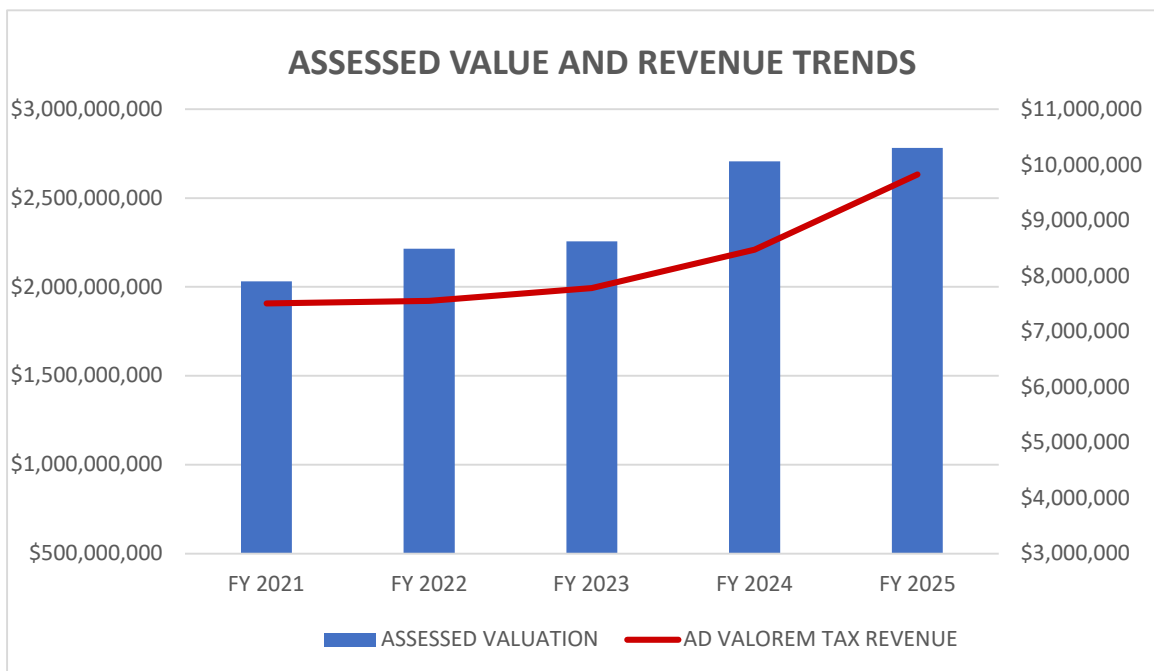
The City of Heath was incorporated in 1959 under the general laws of the State of Texas and operates under a Council-Manager form of government. As a Home Rule City, policy-making and legislative authorities are vested in a governing council consisting of the Mayor and six other at-large members. The term of office is two years, with the terms of the Mayor and two of the Council members expiring in even numbered years and the terms of the other four Council members expiring in odd numbered years. The City Manager is the Chief Administrative and Executive Officer of the City.

The City provides a full range of services including police and fire protection, construction and maintenance of streets and municipal buildings, parks and recreation, planning and zoning, economic development, and general administrative services. In addition to general governmental activities, the City provides water, sewer, and sanitation services. North Texas Municipal Water District (NTMWD) provides water to the City of Rockwall who, in turn, provides water to the City of Heath. Sewage treatment is provided by NTMWD and Progressive Waste Solutions of Texas, Inc. provides sanitation collection.

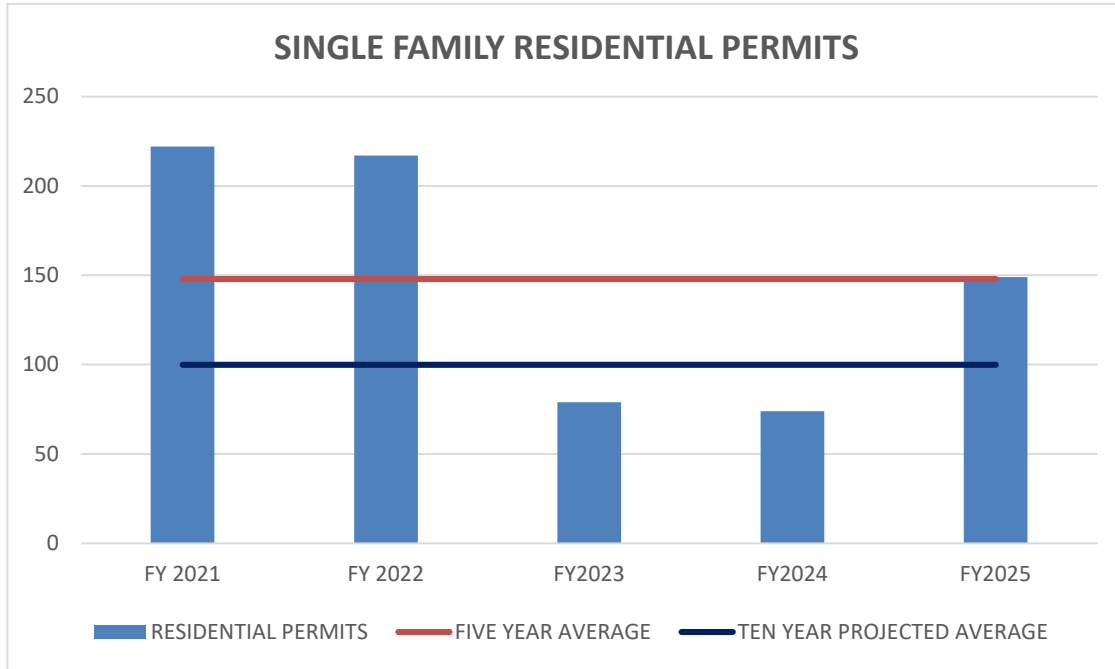
ECONOMIC CONDITION AND OUTLOOK

According to the Federal Reserve Bank of Dallas’ Dallas-Fort Worth Economic Indicators, the Dallas-Fort Worth regional economy continued to expand, supported by moderate payroll employment growth and relatively low unemployment levels. Home prices remained generally stable, with housing affordability holding steady. Office leasing activity remained subdued, while industrial demand showed continued improvement.

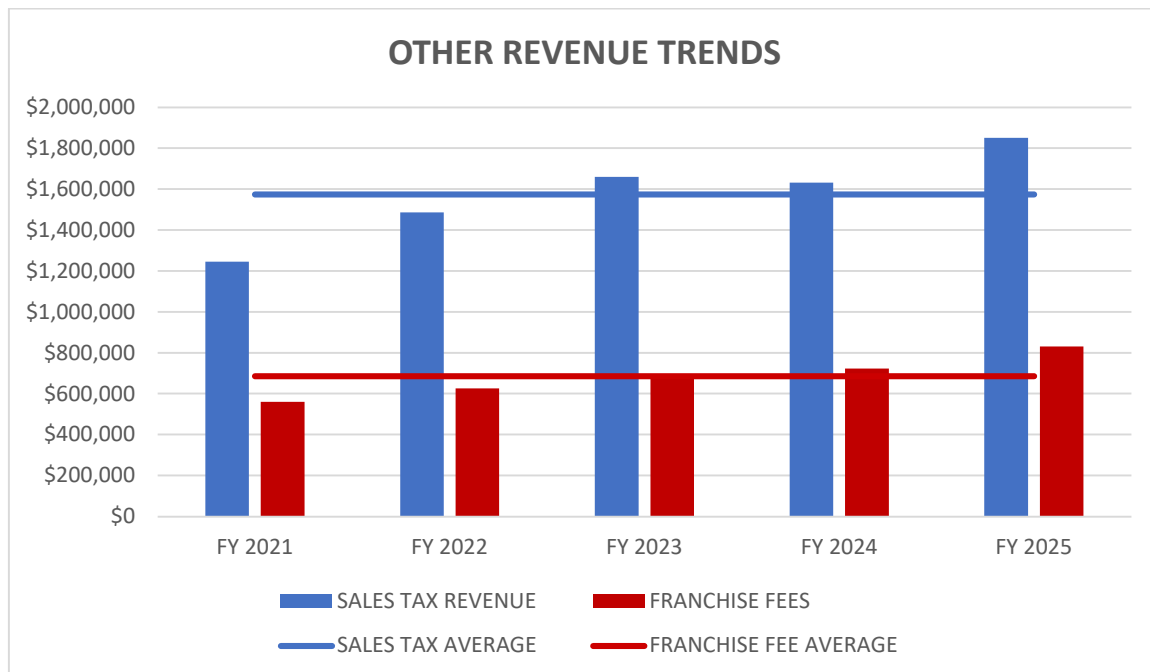
The City’s Fiscal Year 2025 Assessed Value increased \$76M, or 4%, over the Fiscal Year 2024 Assessed Value. This is the ninth consecutive year Assessed Values have increased over the prior year. Single family residential taxable assessed valuations apportioned roughly 85% to 90% of the total assessed valuation for the City before any calculated exemptions and reductions in fiscal year 2025.



The City issued 149 single-family residential permits in FY2025, representing a significant increase compared to FY2024 (74 permits) and a partial rebound from the recent low point experienced in FY2023 and FY2024. While permit activity in FY2025 remains below the five-year historical average of 148 permits and well below peak levels observed in FY2021 and FY2022, the increase reflects early signs of recovery in residential development activity.



Sales tax and franchise fees both exceeded their five-year averages in FY2025. Sales tax increased 3.9% year-over-year to \$1.85 million, while franchise fees reached \$830,160, reflecting sustained growth in economic activity and utility consumption.



Economic Indicators continue to reflect consistent growth and a stable local economy for the City of Heath. Improving revenue trends, including growth in sales tax and franchise fee collections, reflect sustained residential and commercial activity and support the City's long-term financial outlook. These trends have enabled the City to maintain service levels, invest in infrastructure, and preserve financial stability amid ongoing economic pressures.

Projections associated with future residential and commercial development were a key component of the Fiscal Year 2025 budget process. City Council emphasized cost containment, operational efficiency, infrastructure and asset management planning, and the maintenance of low and stable tax rates, while balancing fiscal impacts of inflation, statutory revenue limitations, and continued population growth.

As part of the Fiscal 2025 budget adoption, City Council approved a property tax rate of \$0.290311 per \$100 of assessed valuation, compared to the prior-year rate of \$0.277493. The rate increase reflects the City's strategic decision to support ongoing service demands and advance critical capital investments necessary to address aging infrastructure, public safety needs, facility improvements, and long-term utility system capacity. The adopted rate allows the City to responsibly fund these priorities while maintaining a tax rate that remains competitive relative to peer communities.

The Fiscal Year 2025 budget continues the City's commitment to maintaining strong financial reserves in setting an ideal fund balance of 35% in both the General Fund and Utility Fund. Budget appropriations are aligned with the City's long-range planning goals and focus on enhancing service delivery while ensuring financial sustainability.

Significant capital investments were incorporated into the budget to support both current and future needs. These include improvements to City Hall and other municipal facilities, citywide street improvements, park and trail connectivity projects, and major public safety and public works initiatives. In addition, substantial investments continue in the City's water and sewer system, including advanced meter infrastructure, fire flow improvements, water well development, and planning and design of additional storage capacity to support long-term growth and system reliability.

Utility rates were evaluated using the Willdan Rate Study to ensure the long-term sustainability of the water and sewer systems. Water rates increased modestly from the prior year, and sewer charges continue to be calculated using a winter-average consumption methodology for residential customers, providing a more equitable and usage-based structure.

Through disciplined financial planning, conservative budgeting practices, and ongoing monitoring of economic conditions, the City maintained healthy fund balances in both the General Fund and the Utility Fund. These reserves provide financial flexibility to address operational needs, capital priorities, and future obligations, while positioning the City of Heath to continue delivering high-quality public services and responsibly managing growth.

FINANCIAL INFORMATION

Financial Planning - Users of this document, as well as others interested in the programs and services offered by the City of Heath, are encouraged to read the City's Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. The document can be obtained from the City of Heath Finance Department by calling (972) 961- 4896. The budget can also be accessed through the City's web site at www.heathtx.com. Use the department tab to select *Finance* where *Related Documents* offers a selection of annual operating budgets, as well as annual financial reports.

Financial Policies – The City’s fund balance/operating position concept continues to be an important factor in policy decisions. The policy notes that the City’s target unassigned fund balance is 25% of budgeted general fund expenditures. During times of economic uncertainty, the fund balance may exceed the target in anticipation of future revenue shortfalls. These monies will be used to avoid cash flow interruptions, generate interest income, reduce the need for borrowing, and assist in maintaining a high-grade, high-quality investment rating.

Accounting System and Budgetary Control - In developing and evaluating the City’s accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from the control. The evaluation of costs and benefits requires estimates and judgments by management. We believe that the City’s current system of internal accounting controls adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual budget approved by the City Council. Activities of the general fund, enterprise funds, and debt service fund are included in the annual budget. The level of budgetary control, the level at which expenditures cannot legally exceed the appropriated amount, is established at the divisional level. Examples of a Division include Streets, Engineering, and Parks. These Divisions are part of the Public Works Department. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. The Finance Department generates monthly reports that detail expenditures and revenue on a division and line-item level. The reports provide year-to-date expenditures along with a comparison to budget, giving a budget balance and expended percentage. As demonstrated by the statements and schedules included in the financial section of this report, the City continues meeting its responsibilities for sound financial management.

Tax Rates – All eligible property within the City is subject to assessment, levy, and collection of an ad valorem tax sufficient to provide for the payment of principal and interest on outstanding bonds within the limits prescribed by law, and the payment of maintenance and operation costs as approved by the City Council.

Under state law, the City is limited to a maximum tax rate of \$2.50 per \$100 assessed valuation. The tax rate adopted by the City Council has historically been substantially lower than the maximum provided by law. Allocation of the property tax levy by purpose for Fiscal Year 2025 is \$0.191375 for maintenance and operations and \$0.098936 for debt service on each one hundred dollars of assessed value.

OTHER INFORMATION

Independent Audit – The City of Heath’s financial statements have been audited by Brooks Watson and Company, PLLC. Their responsibility is to express an opinion on the City’s financial statements. They conducted the audit in accordance with auditing standards generally accepted in the United States. Those standards require that they plan and perform the audit to obtain reasonable assurance that the City’s financial statements are free of material misstatements. The independent auditor’s issued an unmodified opinion concluding that the statements are presented fairly in accordance with generally accepted accounting principles. The independent auditors’ report is included in the ACFR.

Awards – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Heath for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended September 30, 2024. This was the sixteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized ACFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Annual

Comprehensive Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments – The preparation of the ACFR on a timely basis was made possible by the dedicated service of the entire staff of the finance department and our independent auditors. I would like to express sincere appreciation to all employees who contributed to its preparation.

I would also like to thank the Mayor and City Council Members for their interest and support in planning and conducting the financial operations of the City in a responsible and future-focused manner.

Sincerely,

A handwritten signature in blue ink, appearing to read "S. Alexander". The signature is fluid and cursive, with a large loop at the end.

Steven Alexander, CGFO
City Manager

A handwritten signature in blue ink, appearing to read "Jay Ayers". The signature is cursive and somewhat stylized.

Jay Ayers, CGFO
Director of Finance



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Heath
Texas**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

September 30, 2024

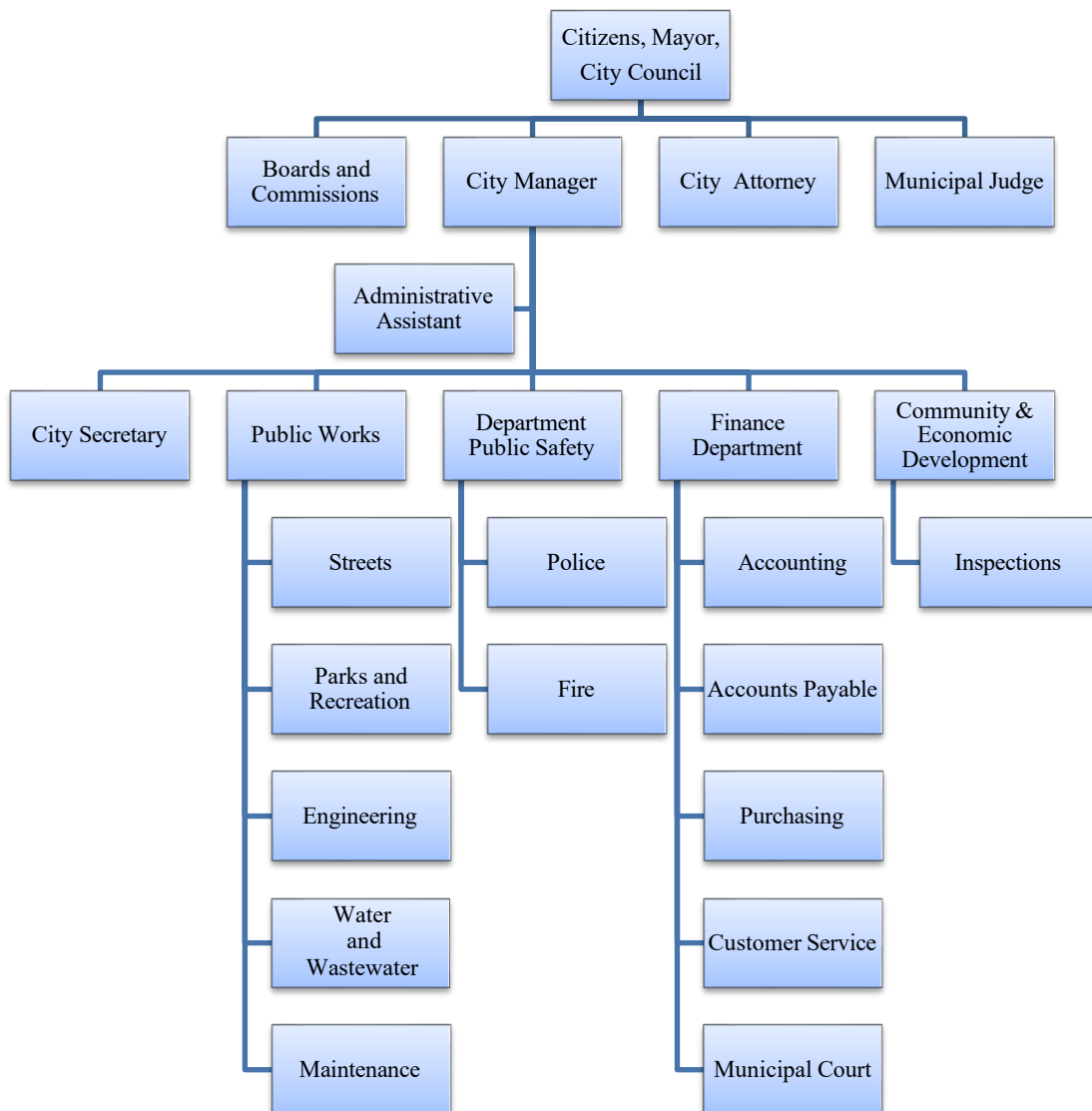
Christopher P. Morill

Executive Director/CEO



CITY OF HEATH

as of September 30, 2025



Principal Officials

Mayor & City Council

Jeremiah McClure, Mayor

Scott Dodson, Mayor Pro Tem

Cindy Horne, Council Member Place 1

Johnny Myers, Council Member Place 2

Ryan Moorman, Council Member Place 3

Michelle Thurgood, Council Member Place 4

Mitch Ownby, Council Member Place 6

City Staff

Steven Alexander, City Manager

Chelsey Gordon, Assistant City Manager

Jay Ayers, CGFO, Director of Finance

Bryan Creed, Director of Public Works

Brandon Seery, Director of Public Safety

David Gonzalez, AICP, Director of Community Development

Norma Duncan, TRMC, City Secretary

Richard Dormier, P.E., City Engineer

Suzanne Brooke, Chief Communications Officer/Events Coordinator

Andy Messer, City Attorney

(This page intentionally left blank.)

FINANCIAL SECTION

(This page intentionally left blank.)

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair

presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Emphasis of Matter

As discussed in Note V.H. to the financial statements, due to the implementation of GASB 101, *Compensated Absences*, the City restated its beginning net position/fund balance for governmental activities, business-type activities, the water & sewer fund, Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, schedules of changes in other postemployment benefits liability and related ratios, and budgetary comparison information for the general fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

This accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Brooks Watson & Co.

Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
March 18, 2026

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

(This page intentionally left blank.)

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2025

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

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows (net position) at September 30, 2025 by \$111,132,437. Of this amount, \$59,833,217 (net investment in capital assets) has been invested in the City's infrastructure, buildings, and other assets.
- The City's total net position increased by \$4,730,782. The increase is primarily related to new capital investments made during the year.
- The City's governmental funds reported combined ending fund balances of \$50,971,996 at September 30, 2025, a decrease of \$5,164,604 from the prior fiscal year; this includes an increase of \$1,057,751 in the capital improvement fund, an increase of \$193,113 in the debt service fund, an increase of \$489,425 in the general fund, a decrease of \$7,628,595 in the capital projects CO Series 2023 fund, and an increase of \$723,702 in the nonmajor governmental funds.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$5,677,476 or 58% of total general fund expenditures.
- The City's outstanding long-term debt decreased by \$3,343,835 (including premiums). The total long-term debt at the close of the fiscal year was \$61,544,222 (including premiums), including self-supporting debt of the proprietary fund which was \$15,692,418 (including premiums).

Overview of the Financial Statements

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

Government-Wide Statements

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

The *statement of net position* presents information on all of the City's assets, deferred outflows/inflows, and liabilities. The difference between the two is reported as *net position*. Over time, increases or

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate discretely presented component units Heath Economic Development Corporation (HEDC) and Heath Municipal Benefits Corporation (HMBC), for which the City is also financially accountable. The government-wide financial statements also include the Club Municipal Management District (Club MMD), a discretely presented component unit, formed to facilitate the construction and continued maintenance of a quality mix-use residential and commercial development to benefit the city residents. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

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

The City maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, the capital improvements fund, and the capital projects – CO Series 2023 fund, which are considered to be major funds.

The City adopts an annual appropriated budget for its general fund, debt service fund, the Parks CIP fund, the PATH fund, the Drainage fund, the Fire Station fund, the Equipment Replacement fund, the Heath EDC, and the Heath MBC. The City did not adopt a budget for the public safety donations fund, Martha's Happy Haven fund, farmers' market fund, tree mitigation fund, park in lieu fund, or the opioid settlement fund. A budgetary comparison statement has been provided for each fund with an approved budget to demonstrate compliance with the budget.

Proprietary Funds

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

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund since it is considered a major fund of the City.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

The City maintains one type of fiduciary fund. The *Streets Escrow fund* is used to report resources held in escrow prior to determination of usage or refunding to developers.

Component Units

The City maintains the accounting and financial statements for two component units, the Heath Economic Development Corporation (EDC) and the Heath Municipal Benefits Corporation (MBC). The EDC and MBC are reported as discretely presented component units. The Club Municipal Management District is also a discretely presented component unit, in which the City does not maintain financial statements. The Club Municipal Management District is governed by a board of directors appointed, at will, by the City Council.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison for the general fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Heath, assets and deferred outflows exceeded liabilities and deferred inflows by \$111,132,437 as of September 30, 2025, in the primary government.

The largest portion of the City's net position, \$59,833,217, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

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

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

| | 2025 | | | 2024 | | |
|---------------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|
| | Governmental | Business-Type | Total | Governmental | Business-Type | Total |
| | Activities | Activities | | Activities | Activities | |
| Current and | | | | | | |
| other assets | \$ 55,451,977 | \$ 26,916,441 | \$ 82,368,418 | \$ 58,422,963 | \$ 27,028,871 | \$ 85,451,834 |
| Capital assets, net | 56,709,420 | 43,216,650 | 99,926,070 | 50,081,539 | 41,658,409 | 91,739,948 |
| Total Assets | 112,161,397 | 70,133,091 | 182,294,488 | 108,504,502 | 68,687,280 | 177,191,782 |
| Deferred | | | | | | |
| Outflows | 564,273 | 140,265 | 704,538 | 790,742 | 197,143 | 987,885 |
| Other liabilities | 7,228,821 | 4,327,554 | 11,556,375 | 5,138,953 | 2,803,979 | 7,942,932 |
| Long-term liabilities | 45,325,572 | 14,733,869 | 60,059,441 | 47,687,622 | 16,273,581 | 63,961,203 |
| Total Liabilities | 52,554,393 | 19,061,423 | 71,615,816 | 52,826,575 | 19,077,560 | 71,904,135 |
| Deferred | | | | | | |
| Inflows | 202,099 | 48,674 | 250,773 | 116,949 | 28,165 | 145,114 |
| Net Position: | | | | | | |
| Net investment | | | | | | |
| in capital assets | 32,824,772 | 27,008,445 | 59,833,217 | 39,002,809 | 25,716,464 | 64,719,273 |
| Restricted | 17,342,190 | - | 17,342,190 | 13,267,986 | - | 13,267,986 |
| Unrestricted | 9,802,216 | 24,154,814 | 33,957,030 | 4,080,925 | 24,062,234 | 28,143,159 |
| Total Net Position | \$ 59,969,178 | \$ 51,163,259 | \$ 111,132,437 | \$ 56,351,720 | \$ 49,778,698 | \$ 106,130,418 |

Current and other assets for governmental activities decreased primarily due to less cash on hand, resulting from available funds being spent on new capital improvements during the year. Total capital assets for the primary government increased due to new capital investments outweighing current year depreciation expense. Other liabilities for the primary government increased due to nonrecurring vendor payables for new capital purchases and timing of repayments subsequent to yearend. Total long-term liabilities decreased primarily as a result of current year debt principal payments and the reduction in the City's net pension liability.

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

Statement of Activities:

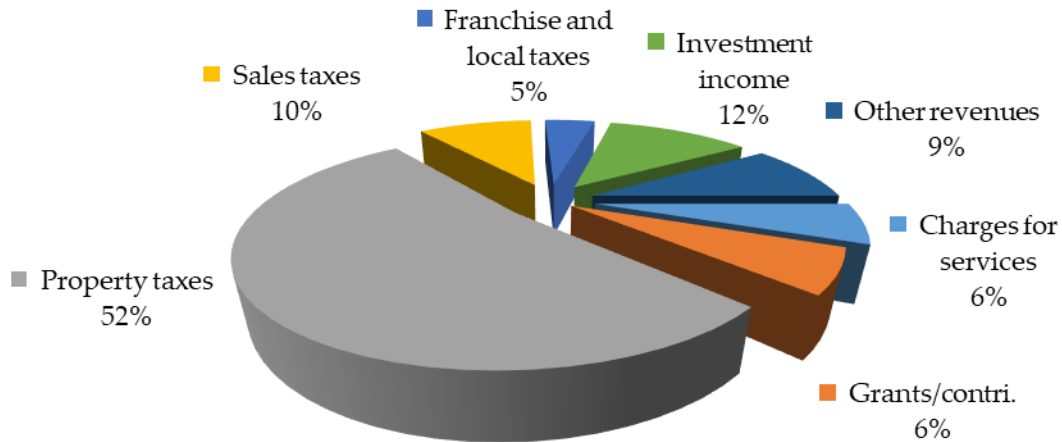
| | For the Year Ended September 30, 2025 | | | For the Year Ended September 30, 2024 | | |
|--------------------------------|---------------------------------------|-----------------------------|-----------------------|---------------------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-Type Activities | Primary Government | Governmental Activities | Business-Type Activities | Primary Government |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,125,252 | \$ 18,251,041 | \$ 19,376,293 | \$ 1,340,018 | \$ 16,509,075 | \$ 17,849,093 |
| Operating grants | 766,522 | - | 766,522 | 567,298 | - | 567,298 |
| Capital contributions | 404,721 | 100,526 | 505,247 | 3,336,000 | - | 3,336,000 |
| General revenues: | | | | | | |
| Property taxes | 9,810,622 | - | 9,810,622 | 8,738,084 | - | 8,738,084 |
| Sales taxes | 1,849,506 | - | 1,849,506 | 1,633,196 | - | 1,633,196 |
| Franchise and local taxes | 823,509 | - | 823,509 | 725,834 | - | 725,834 |
| Investment income | 2,280,513 | 821,896 | 3,102,409 | 2,162,712 | 884,397 | 3,047,109 |
| Other revenues | 1,719,787 | 714,651 | 2,434,438 | 546,642 | 124,812 | 671,454 |
| Total Revenues | 18,780,432 | 19,888,114 | 38,668,546 | 19,049,784 | 17,518,284 | 36,568,068 |
| Expenses | | | | | | |
| General government | 2,204,471 | - | 2,204,471 | 3,035,604 | - | 3,035,604 |
| Public safety | 5,974,748 | - | 5,974,748 | 5,313,731 | - | 5,313,731 |
| Public works | 4,354,522 | - | 4,354,522 | 4,324,075 | - | 4,324,075 |
| Culture and recreation | 427,942 | - | 427,942 | 410,916 | - | 410,916 |
| Community development | 721,453 | - | 721,453 | 782,848 | - | 782,848 |
| Interest on long-term debt | 1,706,772 | 780,644 | 2,487,416 | 2,140,480 | 704,477 | 2,844,957 |
| Water, sewer, & solid waste | - | 17,767,212 | 17,767,212 | - | 12,947,281 | 12,947,281 |
| Total Expenses | 15,389,908 | 18,547,856 | 33,937,764 | 16,007,654 | 13,651,758 | 29,659,412 |
| Change in Net Position | | | | | | |
| Before Transfers | 3,390,524 | 1,340,258 | 4,730,782 | 3,042,130 | 3,866,526 | 6,908,656 |
| Transfers | (31,742) | 31,742 | - | 533,875 | (533,875) | - |
| Total | (31,742) | 31,742 | - | 533,875 | (533,875) | - |
| Change in Net Position | 3,358,782 | 1,372,000 | 4,730,782 | 3,576,005 | 3,332,651 | 6,908,656 |
| Beg. Net Position (restated) * | 56,610,396 | 49,791,259 | 106,401,655 | 52,775,715 | 46,446,047 | 99,221,762 |
| Ending Net Position | \$ 59,969,178 | \$ 51,163,259 | \$ 111,132,437 | \$ 56,351,720 | \$ 49,778,698 | \$ 106,130,418 |

*Includes restatement for New Acct Standard – GASB 101

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

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

Governmental Activities - Revenues



For the year ended September 30, 2025, revenues from governmental activities totaled \$18,780,432. Total revenues decreased by \$269,352, or 1%. Property tax is the City's largest general revenue source. Capital contributions decreased by \$2,931,279, or 88%, primarily as a result of nonrecurring capital contributions received from the Heath MBC in the prior year. Property taxes increased by \$1,072,538, or 12%, primarily due to greater tax rates and appraised property values in the current year. Charges for services decreased by \$214,766, or 16%, due to nonrecurring building permits and new development fees in the prior year. Sales and franchise taxes increased by \$216,310 and \$97,675, respectively, primarily due to local economic growth. Investment income increased by \$117,801, or 5%, as of result of greater interest-bearing accounts and the realization of higher interest in the current year. Other revenues increased by \$1,173,145, or 215%, primarily due to nonrecurring roadway impact and developer fees received in the current year. All other revenues remained relatively consistent with the prior year.

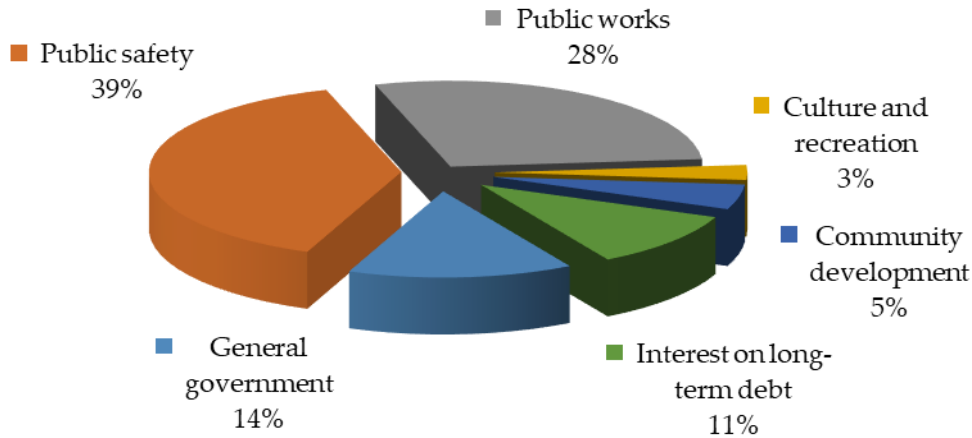
City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

This graph shows the governmental function expenses of the City:

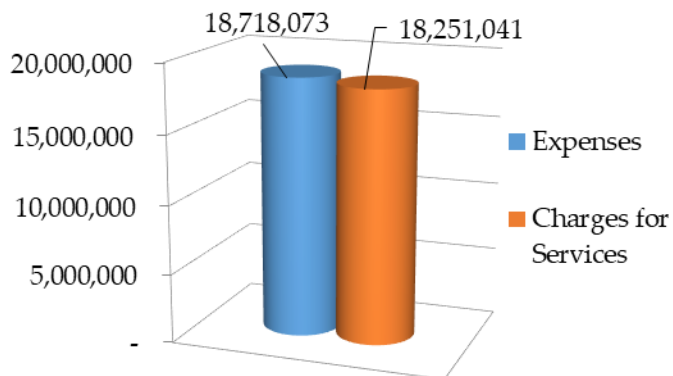
Governmental Activities - Expenses



For the year ended September 30, 2025, expenses for governmental activities totaled \$15,389,908. This represents a decrease of \$617,746, or 4%. This variance stems primarily from decreases in interest and general government expenses. General government decreased by \$831,133, or 27% primarily due to nonrecurring legal fees, technology maintenance services, and special event expenses in the prior year. Public safety expenses increased by \$661,017 or 12% primarily due to greater personnel costs, resulting from pay rate adjustments and step plan implementation. In addition, new positions were added and greater overtime was paid in the current year. Interest and fiscal charges decreased by \$433,708, or 20%, primarily due to nonrecurring issuance costs in the prior year, relating to the certificates of obligation issued during fiscal year 2024. All other expenses remained relatively consistent with the prior year.

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

Business-Type Activities - Revenues and Expenses



City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

For the year ended September 30, 2025, charges for services by business-type activities totaled \$18,251,041. This is an increase of \$1,741,966, or 11%, from the previous year. This increase was a result of city growth, greater active customer accounts and utility consumption, and increased service rates during the year. In addition, the City recognized nonrecurring water/sewer impact fees from new infrastructure developments in the current year.

Utility service expenses increased by \$4,819,931, to a total of \$17,767,212, or a change of 37%. The increase was a direct result of greater personnel expenses, water/sewer commodity purchase costs, debt service payments to the NTMWD, asset depreciation, and nonrecurring sewer system maintenance in the current year. Interest expenses decreased by \$76,167 or 11% primarily as a result of outstanding debt approaching maturity.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At September 30, 2025, the City's governmental funds reported combined fund balances of \$50,971,996, a decrease of \$5,164,604 in comparison with the prior year. Approximately 11% of this amount, \$5,677,476, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, committed, assigned, or restricted*. Nonspendable fund balance indicates that it is not in spendable form. The City had \$11,793 in nonspendable funds at year end. Committed fund balance can be used only for the specific purposes determined by the City Council. Assigned fund balance is limited for specific purposes intended by council or management. The City had \$1,082,434 in assigned funds at year end. Restricted fund balance represents funds that are restricted by law, debt agreements, or grantors for particular purposes. The City had \$44,200,293 in restricted funds at year end.

As of the end of the year the general fund reflected a total fund balance of \$5,689,269. The fund balance increased by \$489,425. The general fund balance increase is a direct result of current year revenues exceeding expenditures. Total fund revenues increased approximately \$668,000 compared to the prior year, primarily due to greater property and sales taxes. In addition, transfers out to other funds decreased by approximately \$534,000 compared to the prior year.

As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The unassigned (the amount available for spending) fund balance of the general fund of \$5,677,476 is 58% of total general fund expenditures.

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

The debt service fund had an ending fund balance of \$861,656 at September 30, 2025 compared to the previous year's balance of \$668,543. This is an increase of \$193,113 and primarily due to revenues and exceeding current year debt service payments. Property tax revenues increased approximately \$464,000 compared to the prior year.

The capital improvements fund experienced an increase in fund balance of \$1,057,751 primarily due to greater roadway impact and developer fees earned in the current year. The City earned approximately \$1,088,000 more impact fees in the current year. During the year, the City expended \$309,353 on improving the City's infrastructure from this fund.

The capital projects – CO Series 2023 fund had an ending fund balance of \$26,106,118. The decrease in fund balance of \$7,628,595 was capital outlay expenses exceeding investment income during the year. Capital outlay expenses increased approximately \$8.3 million over the course of the year.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position in the water and sewer fund totaled \$50,756,102. Unrestricted net position of the fund at the close of the fiscal year amounted to \$23,917,874. The capital assets of the water and sewer fund had a net book value of \$43,046,433.

The City operates and maintains a water and sewer distribution system with force mains and lift stations.

Other factors concerning the finances of the water and sewer enterprise fund have already been addressed in the discussion of the City's business-type activities; however, the following are additional comments regarding operations of the enterprise fund:

Net increases to capital assets were \$1,558,241. The increase in capital assets was a result of total assets purchased/constructed exceeding depreciation and disposals during the year. Operational expenses excluding depreciation and amortization in the water and sewer fund were \$14,719,335. Cash and cash equivalents in the water and sewer fund were \$24,102,584 at fiscal year end.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original general fund budget indicated a deficit of \$102,150, and in total was amended to a final budget deficit of \$204,761.

There was a positive variance of \$463,789 over final budgeted general fund revenues. The following are additional comments regarding appropriations:

- There was a positive variance of \$266,397 for budgeted expenditures. Seven general fund departments exceeded budget appropriations at the legal level of control (city council, city manager, finance, engineering & inspection, municipal court, public safety, and public safety).

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2025

- \$730,186 is the variance surplus of revenues over expenditures before transfers. The positive variance was due to the aforementioned positive expenditure variance, and a positive revenue variance of \$463,789. Revenues were estimated conservatively based on prior year results and current year expectations. With a conservative outlook rather than aggressive, the actual results were expected to exceed estimates and did so for all revenue categories, with the exception of licenses & permits, charges for services, investment income, and other revenues.
- There was a net positive overall budget variance of \$694,186.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$56,709,420 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested \$43,046,433 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles, equipment, park improvements, and infrastructure. Major capital asset events during the current year include the following:

- Waterline improvements on Hubbard Drive totaling \$1,315,179.
- Southside lift station improvements for \$265,088.
- Improvements to Heath Town Center totaling \$6,711,972.
- Improvements to public works building for \$2,008,929.
- Darr Estates water line improvements for \$1,919,467.
- New meter equipment purchased for \$1,325,552.
- Heath water well #1 improvements for \$284,755.
- City-wide street improvements totaling \$134,974.

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

LONG-TERM DEBT

At the end of the current fiscal year, the City had total bonded and other debt obligations of \$61,544,222. Of this amount, \$14,797,082 (excluding premiums) is self-supporting through revenues collected from the rates of the City's water and sewer fund. All of the City's debt is backed by a full-faith credit pledge of property taxes with a limited pledge of revenues of the enterprise/water and sewer system. The City monitors its debt obligations and callable bonds for refinancing opportunities with market conditions.

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

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2025

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Heath and improving services provided to their public citizens. The City is budgeting for growth in the upcoming fiscal year's budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department at 200 Laurence Drive, Heath Texas 75032 or call (972) 961-4896.

FINANCIAL STATEMENTS

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

| | Primary Government | | | Component Units |
|--|------------------------------------|-------------------------------------|--------------------|----------------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| <u>Assets</u> | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 54,684,988 | \$ 13,382,492 | \$ 68,067,480 | \$ 3,603,274 |
| Restricted cash | - | 11,045,295 | 11,045,295 | 4,673,532 |
| Receivables, net | 754,454 | 2,447,103 | 3,201,557 | 978,370 |
| Due from component unit | 11 | - | 11 | - |
| Interfund balances | 731 | (731) | - | - |
| Inventory | - | 41,292 | 41,292 | - |
| Prepays | 11,793 | 990 | 12,783 | 3,179 |
| Total Current Assets | 55,451,977 | 26,916,441 | 82,368,418 | 9,258,355 |
| Noncurrent assets: | | | | |
| Assessment receivables, net | - | - | - | 35,781,301 |
| Capital assets: | | | | |
| Non-depreciable | 17,550,288 | 3,534,240 | 21,084,528 | 4,870,574 |
| Net depreciable capital assets | 39,159,132 | 39,682,410 | 78,841,542 | 1,580,408 |
| Total Noncurrent Assets | 56,709,420 | 43,216,650 | 99,926,070 | 42,232,283 |
| Total Assets | 112,161,397 | 70,133,091 | 182,294,488 | 51,490,638 |
| | | (731.00) | | |
| <u>Deferred Outflows of Resources</u> | | | | |
| Pension outflows | 525,977 | 126,681 | 652,658 | - |
| OPEB outflows | 2,406 | 580 | 2,986 | - |
| Deferred charge on refunding | 35,890 | 13,004 | 48,894 | - |
| Total Deferred Outflows of Resources | 564,273 | 140,265 | 704,538 | - |

See Notes to Financial Statements.

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

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|-----------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 3,736,830 | \$ 2,356,882 | \$ 6,093,712 | \$ 154,962 |
| Accrued interest payable | 457,927 | 168,135 | 626,062 | 245,694 |
| Customer deposits | 385,000 | 384,850 | 769,850 | - |
| Due to primary government | - | - | - | 11 |
| Compensated absences, current | 762,305 | 106,484 | 868,789 | - |
| Long-term debt due within one year | 1,886,759 | 1,311,203 | 3,197,962 | 1,047,906 |
| Total Current Liabilities | 7,228,821 | 4,327,554 | 11,556,375 | 1,448,573 |
| Noncurrent liabilities: | | | | |
| Long-term debt due in more than one year | 43,914,925 | 14,431,335 | 58,346,260 | 38,863,514 |
| Compensated absences, noncurrent | 362,287 | 50,040 | 412,327 | - |
| Net pension liability | 918,881 | 221,309 | 1,140,190 | - |
| OPEB liability | 129,479 | 31,185 | 160,664 | - |
| Total Noncurrent Liabilities | 45,325,572 | 14,733,869 | 60,059,441 | 38,863,514 |
| Total Liabilities | 52,554,393 | 19,061,423 | 71,615,816 | 40,312,087 |
| Deferred Inflows of Resources | | | | |
| Pension inflows | 172,051 | 41,438 | 213,489 | - |
| OPEB inflows | 30,048 | 7,236 | 37,284 | - |
| Total Deferred Inflows of Resources | 202,099 | 48,674 | 250,773 | - |
| Net Position | | | | |
| Net investment in capital assets | 32,824,772 | 27,008,445 | 59,833,217 | 3,220,378 |
| Restricted for: | | | | |
| Debt service | 861,656 | - | 861,656 | - |
| Capital improvement | 12,715,015 | - | 12,715,015 | - |
| Economic development | - | - | - | 6,329,500 |
| Economic opportunities | - | - | - | 1,628,673 |
| Public safety and other programs | 3,765,519 | - | 3,765,519 | - |
| Unrestricted | 9,802,216 | 24,154,814 | 33,957,030 | - |
| Total Net Position | \$ 59,969,178 | \$ 51,163,259 | \$ 111,132,437 | \$ 11,178,551 |

See Notes to Financial Statements.

City of Heath, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2025

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental Activities | | | | |
| General government | \$ 2,204,471 | \$ 115,387 | \$ 473,925 | \$ - |
| Public safety | 5,974,748 | 150,199 | 40,058 | - |
| Public works | 4,354,522 | - | - | - |
| Culture and recreation | 427,942 | 3,750 | 252,539 | 404,721 |
| Community development | 721,453 | 855,916 | - | - |
| Interest on long-term debt | 1,706,772 | - | - | - |
| Total Governmental Activities | 15,389,908 | 1,125,252 | 766,522 | 404,721 |
| Business-Type Activities | | | | |
| Water & sewer | 17,215,792 | 16,764,649 | 100,526 | - |
| Solid waste | 1,332,064 | 1,486,392 | - | - |
| Total Business-Type Activities | 18,547,856 | 18,251,041 | 100,526 | - |
| Total Primary Government | \$ 33,937,764 | \$ 19,376,293 | \$ 867,048 | \$ 404,721 |
| Component Units: | | | | |
| Heath Club MMD | 16,104,618 | - | - | - |
| Heath EDC | 322,352 | - | - | - |
| Heath MBC | 751,630 | - | - | - |
| Total Component Units | \$ 17,178,600 | \$ - | \$ - | \$ - |

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local taxes
- Property assessments
- Investment income
- Other revenues

Transfers:

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position, as previously presented

New Acct. Standard - GASB 101

Error corrections

Beginning Net Position, as restated

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

| Primary Government | | | |
|------------------------------------|-------------------------------------|-----------------------|----------------------------|
| Governmental Activities | Business-Type Activities | Total | Component Units |
| \$ (1,615,159) | \$ - | \$ (1,615,159) | \$ - |
| (5,784,491) | - | (5,784,491) | - |
| (4,354,522) | - | (4,354,522) | - |
| 233,068 | - | 233,068 | - |
| 134,463 | - | 134,463 | - |
| (1,706,772) | - | (1,706,772) | - |
| <u>(13,093,413)</u> | <u>-</u> | <u>(13,093,413)</u> | <u>-</u> |
| - | (350,617) | (350,617) | - |
| - | 154,328 | 154,328 | - |
| <u>-</u> | <u>(196,289)</u> | <u>(196,289)</u> | <u>-</u> |
| \$ (13,093,413) | \$ (196,289) | \$ (13,289,702) | \$ - |
| - | - | - | (16,104,618) |
| - | - | - | (322,352) |
| - | - | - | (751,630) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (17,178,600)</u> |
| 9,810,622 | - | 9,810,622 | - |
| 1,849,506 | - | 1,849,506 | 1,786,424 |
| 823,509 | - | 823,509 | - |
| - | - | - | 18,455,841 |
| 2,280,513 | 821,896 | 3,102,409 | 452,433 |
| 1,719,787 | 714,651 | 2,434,438 | - |
| (31,742) | 31,742 | - | - |
| <u>16,452,195</u> | <u>1,568,289</u> | <u>18,020,484</u> | <u>20,694,698</u> |
| 3,358,782 | 1,372,000 | 4,730,782 | 3,516,098 |
| 56,351,491 | 49,778,927 | 106,130,418 | 7,662,453 |
| 258,676 | 12,561 | 271,237 | - |
| 229 | (229) | - | - |
| <u>56,610,396</u> | <u>49,791,259</u> | <u>106,401,655</u> | <u>7,662,453</u> |
| <u>\$ 59,969,178</u> | <u>\$ 51,163,259</u> | <u>\$ 111,132,437</u> | <u>\$ 11,178,551</u> |

City of Heath, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2025

| | General | Debt Service | Capital Improvements | Capital Projects - CO Series 2023 |
|--|---------------------|---------------------|-------------------------|--------------------------------------|
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 7,046,106 | \$ 852,723 | \$ 13,793,589 | \$ 28,083,075 |
| Receivables, net | 543,884 | 210,570 | - | - |
| Prepays | 11,793 | - | - | - |
| Due from other funds | 731 | - | - | - |
| Due from component unit | 11 | - | - | - |
| Total Assets | \$ 7,602,525 | \$ 1,063,293 | \$ 13,793,589 | \$ 28,083,075 |
| <u>Liabilities</u> | | | | |
| Accounts payable and accrued liabilities | \$ 1,370,991 | \$ 751 | \$ 326,589 | \$ 1,976,957 |
| Deposits payable | 385,000 | - | - | - |
| Total Liabilities | 1,755,991 | 751 | 326,589 | 1,976,957 |
| <u>Deferred Inflows of Resources</u> | | | | |
| Unavailable revenue - | | | | |
| Property taxes | 152,301 | 73,164 | - | - |
| Fines receivable, net | 1,464 | - | - | - |
| Assessments receivable | - | 127,722 | - | - |
| Other | 3,500 | - | - | - |
| Total Deferred Inflows | 157,265 | 200,886 | - | - |
| <u>Fund Balances</u> | | | | |
| Nonspendable for: | | | | |
| Prepays | 11,793 | - | - | - |
| Assigned | - | - | - | - |
| Restricted | - | 861,656 | 13,467,000 | 26,106,118 |
| Unassigned | 5,677,476 | - | - | - |
| Total Fund Balances | 5,689,269 | 861,656 | 13,467,000 | 26,106,118 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 7,602,525 | \$ 1,063,293 | \$ 13,793,589 | \$ 28,083,075 |

See Notes to Financial Statements.

| Nonmajor Governmental Funds | Total Governmental Funds |
|--|---|
| \$ 4,909,495 | \$ 54,684,988 |
| - | 754,454 |
| - | 11,793 |
| - | 731 |
| - | 11 |
| \$ 4,909,495 | \$ 55,451,977 |

| | |
|-----------|--------------|
| \$ 61,542 | \$ 3,736,830 |
| - | 385,000 |
| 61,542 | 4,121,830 |

| | |
|---|---------|
| - | 225,465 |
| - | 1,464 |
| - | 127,722 |
| - | 3,500 |
| - | 358,151 |

| | |
|-----------|------------|
| - | 11,793 |
| 1,082,434 | 1,082,434 |
| 3,765,519 | 44,200,293 |
| - | 5,677,476 |
| 4,847,953 | 50,971,996 |

| | |
|--------------|---------------|
| \$ 4,909,495 | \$ 55,451,977 |
|--------------|---------------|

(This page intentionally left blank.)

City of Heath, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2025

Fund Balances - Total Governmental Funds \$ 50,971,996

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

| | |
|----------------------------------|------------|
| Capital assets - non-depreciable | 17,550,288 |
| Capital assets - net depreciable | 39,159,132 |

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

| | |
|-------------------------|---------|
| Property tax receivable | 225,465 |
| Fines receivable, net | 1,464 |
| Assessments receivable | 127,722 |
| Other | 3,500 |

Deferred outflows (inflows) of resources, represent a consumption (acquisition) of net position that applies to a future period(s) and is not recognized as an outflow (inflow) of resources (expense/expenditure) (revenue) until then.

| | |
|--|-----------|
| Pension contributions | 490,097 |
| OPEB contributions | 2,406 |
| OPEB change in assumptions | (28,316) |
| OPEB difference in experience | (1,732) |
| Pension investment earnings | (172,051) |
| Pension actual experience vs. assumption | 34,435 |
| Pension assumption changes | 1,445 |
| Deferred charge on refunding | 35,890 |

Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.

| | |
|---|--------------|
| Accrued interest | (457,927) |
| Bond premium | (2,600,402) |
| Non-current liabilities due in one year | (1,886,759) |
| Non-current liabilities due in more than one year | (41,314,523) |
| Compensated absences | (1,124,592) |
| Net pension liability | (918,881) |
| OPEB liability | (129,479) |

| | |
|--|----------------------|
| Net Position of Governmental Activities | \$ 59,969,178 |
|--|----------------------|

See Notes to Financial Statements.

City of Heath, Texas

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

For the Year Ended September 30, 2025

| | General | Debt Service | Capital Improvements | Capital Projects - CO Series 2023 |
|--|--------------|-----------------|-------------------------|--------------------------------------|
| <u>Revenues</u> | | | | |
| Taxes: | | | | |
| Property tax | \$ 6,490,896 | \$ 3,355,153 | \$ - | \$ - |
| Sales and beverage tax | 1,849,506 | - | - | - |
| Franchise tax | 823,509 | - | - | - |
| Licenses and permits | 855,916 | - | - | - |
| Intergovernmental | 40,058 | 473,925 | - | - |
| Charges for services | 119,137 | - | - | - |
| Fines and forfeitures | 150,199 | - | - | - |
| Special assessments | - | 15,173 | - | - |
| Contributions and donations | - | - | 11,080 | - |
| Investment income | 82,414 | 4,096 | 516,088 | 1,625,167 |
| Other revenue | 47,554 | - | 1,643,294 | - |
| Total Revenues | 10,459,189 | 3,848,347 | 2,170,462 | 1,625,167 |
| <u>Expenditures</u> | | | | |
| Administration | 2,112,992 | 14,869 | 39,701 | - |
| Highways and streets | 390,259 | - | - | - |
| Parks | 420,265 | - | - | - |
| Engineering and inspection | 384,310 | - | 156,115 | - |
| Municipal court | 115,867 | - | - | - |
| Public safety | 5,585,367 | - | - | - |
| Community development | 709,229 | - | - | - |
| Debt Service: | | | | |
| Principal | 45,575 | 1,792,340 | - | - |
| Interest and fiscal charges | - | 1,848,025 | - | - |
| Capital outlay | - | - | 309,353 | 9,253,762 |
| Total Expenditures | 9,763,864 | 3,655,234 | 505,169 | 9,253,762 |
| Excess of Revenue Over (Under) | | | | |
| Expenditures | 695,325 | 193,113 | 1,665,293 | (7,628,595) |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers in | 369,300 | - | 29,500 | - |
| Transfers (out) | (575,200) | - | (637,042) | - |
| Sale of capital assets | - | - | - | - |
| Total Other Financing Sources (Uses) | (205,900) | - | (607,542) | - |
| Net Change in Fund Balances | 489,425 | 193,113 | 1,057,751 | (7,628,595) |
| Beginning fund balances | 5,199,844 | 668,543 | 12,409,249 | 33,734,713 |
| Ending Fund Balances | \$ 5,689,269 | \$ 861,656 | \$ 13,467,000 | \$ 26,106,118 |

See Notes to Financial Statements.

| Nonmajor Governmental Funds | Total Governmental Funds |
|--|---|
| \$ - | \$ 9,846,049 |
| - | 1,849,506 |
| - | 823,509 |
| - | 855,916 |
| 404,721 | 918,704 |
| - | 119,137 |
| - | 150,199 |
| - | 15,173 |
| 241,459 | 252,539 |
| 52,748 | 2,280,513 |
| 15,117 | 1,705,965 |
| 714,045 | 18,817,210 |
| - | 2,167,562 |
| - | 390,259 |
| - | 420,265 |
| - | 540,425 |
| - | 115,867 |
| 13,224 | 5,598,591 |
| - | 709,229 |
| - | 1,837,915 |
| - | 1,848,025 |
| 764,980 | 10,328,095 |
| 778,204 | 23,956,233 |
| (64,159) | (5,139,023) |
| 781,700 | 1,180,500 |
| - | (1,212,242) |
| 6,161 | 6,161 |
| 787,861 | (25,581) |
| 723,702 | (5,164,604) |
| 4,124,251 | 56,136,600 |
| \$ 4,847,953 | \$ 50,971,996 |

(This page intentionally left blank.)

City of Heath, Texas

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

For the Year Ended September 30, 2025

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

| | | |
|---|----|-------------|
| Net changes in fund balances - total governmental funds | \$ | (5,164,604) |
|---|----|-------------|

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | | |
|----------------------|--|-------------|
| Capital outlay | | 9,968,965 |
| Depreciation expense | | (3,341,084) |

| | | |
|--|--|----------|
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (42,939) |
|--|--|----------|

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | | |
|----------------------|--|----------|
| Compensated absences | | (97,188) |
| Accrued interest | | (6,813) |
| Pension expense | | 61,677 |
| OPEB expense | | (5,213) |

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities.

This amount is the net effect of these differences in the treatment of long-term debt and related items.

| | | |
|---|--|-----------|
| Amortization of deferred charges on refunding | | (26,043) |
| Amortization of debt premium | | 174,109 |
| Principal payments | | 1,837,915 |

| | | |
|--|-----------|------------------|
| Change in Net Position of Governmental Activities | \$ | 3,358,782 |
|--|-----------|------------------|

See Notes to Financial Statements.

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

| | Water & Sewer | Nonmajor Solid Waste | Total Proprietary Funds |
|--|------------------------------|-------------------------------------|--|
| <u>Assets</u> | | | |
| <u>Current Assets</u> | | | |
| Cash and cash equivalents | \$ 13,057,289 | \$ 325,203 | \$ 13,382,492 |
| Restricted cash | 11,045,295 | - | 11,045,295 |
| Receivables, net | 2,242,488 | 204,615 | 2,447,103 |
| Inventory | 41,292 | - | 41,292 |
| Prepays | 990 | - | 990 |
| Total Current Assets | 26,387,354 | 529,818 | 26,917,172 |
| <u>Noncurrent Assets</u> | | | |
| Capital assets: | | | |
| Non-depreciable | 3,534,240 | - | 3,534,240 |
| Net depreciable capital assets | 39,682,410 | - | 39,682,410 |
| Total Noncurrent Assets | 43,216,650 | - | 43,216,650 |
| Total Assets | 69,604,004 | 529,818 | 70,133,822 |
| <u>Deferred Outflows of Resources</u> | | | |
| Pension outflows | 126,681 | - | 126,681 |
| OPEB outflows | 580 | - | 580 |
| Deferred charge on refunding | 13,004 | - | 13,004 |
| Total Deferred Outflows | 140,265 | - | 140,265 |

See Notes to Financial Statements.

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

| | <u>Water & Sewer</u> | <u>Nonmajor Solid Waste</u> | <u>Total Proprietary Funds</u> |
|---|------------------------------|-------------------------------------|--|
| <u>Liabilities</u> | | | |
| <u>Current Liabilities</u> | | | |
| Accounts payable and accrued liabilities | \$ 2,064,004 | \$ 292,878 | \$ 2,356,882 |
| Accrued interest | 168,135 | - | 168,135 |
| Due to other funds | 731 | - | 731 |
| Customer deposits | 384,850 | - | 384,850 |
| Compensated absences, current | 106,484 | - | 106,484 |
| Long-term debt, current | 1,311,203 | - | 1,311,203 |
| Total Current Liabilities | 4,035,407 | 292,878 | 4,328,285 |
| <u>Noncurrent Liabilities</u> | | | |
| Compensated absences, noncurrent | 50,040 | - | 50,040 |
| Long-term debt, noncurrent | 14,431,335 | - | 14,431,335 |
| Net pension liability | 221,309 | - | 221,309 |
| OPEB liability | 31,185 | - | 31,185 |
| Total Noncurrent Liabilities | 14,733,869 | - | 14,733,869 |
| Total Liabilities | 18,769,276 | 292,878 | 19,062,154 |
| <u>Deferred Inflows of Resources</u> | | | |
| Pension inflows | 41,438 | - | 41,438 |
| OPEB inflows | 7,236 | - | 7,236 |
| Total Deferred Inflows | 48,674 | - | 48,674 |
| <u>Net Position</u> | | | |
| Net investment in capital assets | 27,008,445 | - | 27,008,445 |
| Unrestricted | 23,917,874 | 236,940 | 24,154,814 |
| Total Net Position | \$ 50,926,319 | \$ 236,940 | \$ 51,163,259 |

See Notes to Financial Statements.

(This page intentionally left blank.)

City of Heath, Texas

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

For the Year Ended September 30, 2025

| | Water & Sewer | Nonmajor Solid Waste | Total Proprietary Funds |
|---|----------------------|----------------------------|-------------------------------|
| <u>Operating Revenues</u> | | | |
| Water revenue | \$ 7,778,703 | \$ - | \$ 7,778,703 |
| Sewer revenue | 8,554,203 | - | 8,554,203 |
| Sanitation revenue | - | 1,385,866 | 1,385,866 |
| Connection and tap charges | 532,269 | - | 532,269 |
| Grant revenue | - | 100,526 | 100,526 |
| Other revenue | 714,651 | - | 714,651 |
| Total Operating Revenues | 17,579,826 | 1,486,392 | 19,066,218 |
| <u>Operating Expenses</u> | | | |
| Personnel | 1,844,257 | - | 1,844,257 |
| Supplies and services | 892,158 | 1,332,064 | 2,224,222 |
| Operating expenses | 3,490,341 | - | 3,490,341 |
| Materials and equipment | 220,244 | - | 220,244 |
| Cost of water | 3,965,746 | - | 3,965,746 |
| Cost of sewer | 3,945,432 | - | 3,945,432 |
| Depreciation | 2,076,970 | - | 2,076,970 |
| Total Operating Expenses | 16,435,148 | 1,332,064 | 17,767,212 |
| Operating Income (Loss) | 1,144,678 | 154,328 | 1,299,006 |
| <u>Nonoperating Revenues (Expenses)</u> | | | |
| Investment income | 806,565 | 15,331 | 821,896 |
| Interest expense | (589,704) | - | (589,704) |
| Impairment of capital assets | (190,940) | - | (190,940) |
| Total Nonoperating Revenues (Expenses) | 25,921 | 15,331 | 41,252 |
| Income (Loss) Before Transfers | 1,170,599 | 169,659 | 1,340,258 |
| Transfers in | 441,042 | - | 441,042 |
| Transfers (out) | (329,300) | (80,000) | (409,300) |
| Change in Net Position | 1,282,341 | 89,659 | 1,372,000 |
| Beginning net position, as previously presented | 49,631,646 | 147,281 | 49,778,927 |
| New Acct. Standard - GASB 101 | 12,561 | - | 12,561 |
| Error corrections | (229) | - | (229) |
| Beginning net position, as restated | 49,643,978 | 147,281 | 49,791,259 |
| Ending Net Position | \$ 50,926,319 | \$ 236,940 | \$ 51,163,259 |

See Notes to Financial Statements.

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

| | <u>Water & Sewer</u> | <u>Nonmajor Solid Waste</u> | <u>Total Proprietary Funds</u> |
|--|------------------------------|-------------------------------------|--|
| <u>Cash Flows from Operating Activities</u> | | | |
| Receipts from customers | \$ 17,859,642 | \$ 1,471,310 | \$ 19,330,952 |
| Payments to suppliers | (10,548,929) | (1,346,946) | (11,895,875) |
| Payments to employees | (1,795,857) | - | (1,795,857) |
| Net Cash Provided (Used) by Operating Activities | <u>5,514,856</u> | <u>124,364</u> | <u>5,639,220</u> |
| <u>Cash Flows from Noncapital Financing Activities</u> | | | |
| Transfers in | 441,042 | - | 441,042 |
| Transfers (out) | (329,300) | (80,000) | (409,300) |
| Net Cash Provided by (Used for) Noncapital Financing Activities | <u>111,742</u> | <u>(80,000)</u> | <u>31,742</u> |
| <u>Cash Flows from Capital and Related Financing Activities</u> | | | |
| Capital purchases | (3,826,151) | - | (3,826,151) |
| Principal paid on debt | (1,251,350) | - | (1,251,350) |
| Interest paid on debt | (660,729) | - | (660,729) |
| Net Cash (Used for) Capital and Related Financing Activities | <u>(5,738,230)</u> | <u>-</u> | <u>(5,738,230)</u> |
| <u>Cash Flows from Investing Activities</u> | | | |
| Interest on investments | 806,565 | 15,331 | 821,896 |
| Net Cash Provided by Investing Activities | <u>806,565</u> | <u>15,331</u> | <u>821,896</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 694,933 | 59,695 | 754,628 |
| Beginning cash and cash equivalents | <u>23,407,651</u> | <u>265,508</u> | <u>23,673,159</u> |
| Ending Cash and Cash Equivalents | <u>\$ 24,102,584</u> | <u>\$ 325,203</u> | <u>\$ 24,427,787</u> |

See Notes to Financial Statements.

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

| | <u>Water & Sewer</u> | <u>Nonmajor Solid Waste</u> | <u>Total Proprietary Funds</u> |
|--|------------------------------|-------------------------------------|--|
| <u>Reconciliation of Operating Income</u> | | | |
| <u>to Net Cash Provided by Operating Activities</u> | | | |
| Operating income (loss) | \$ 1,144,678 | \$ 154,328 | \$ 1,299,006 |
| Adjustments to reconcile operating income to net cash provided: | | | |
| Depreciation | 2,076,970 | - | 2,076,970 |
| Changes in Operating Assets and Liabilities: | | | |
| (Increase) Decrease in: | | | |
| Accounts receivable | 257,279 | (15,082) | 242,197 |
| Prepays | 624,130 | - | 624,130 |
| Increase (Decrease) in: | | | |
| Accounts payable and accrued liabilities | 1,340,862 | (14,882) | 1,325,980 |
| Compensated absences | 62,089 | - | 62,089 |
| Customer deposits | 22,537 | - | 22,537 |
| Due to other funds | 731 | - | 731 |
| Pension outflows | 47,525 | - | 47,525 |
| OPEB outflows | (83) | - | (83) |
| OPEB inflows | 767 | - | 767 |
| Pension inflows | 19,742 | - | 19,742 |
| Net pension liability | (82,953) | - | (82,953) |
| OPEB liability | 582 | - | 582 |
| Net Cash Provided (Used) by Operating Activities | \$ 5,514,856 | \$ 124,364 | \$ 5,639,220 |

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
September 30, 2025

| | | <u>Custodial Fund</u> |
|------------------------------------|---------------------------|---------------------------|
| | | <u>Streets Escrow</u> |
| <u>Assets</u> | | |
| <u>Current Assets</u> | | |
| Cash and cash equivalents | | \$ 883,722 |
| | Total Assets | <u>883,722</u> |
| <u>Liabilities</u> | | |
| Accrued liabilities | | 598,790 |
| | Total Liabilities | <u>\$ 598,790</u> |
| <u>Net Position</u> | | |
| Restricted for street improvements | | 284,932 |
| | Total Net Position | <u>\$ 284,932</u> |

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
STREETS ESCROW FUND
For the Year Ended September 30, 2025

| | | <u>Custodial Fund</u> <u>Streets Escrow</u> |
|------------------------|-------------------------------|--|
| <u>Revenues</u> | | |
| Capital contributions | | \$ 275,023 |
| | Total Additions | <u>275,023</u> |
| <u>Expenses</u> | | |
| Expenses | | 275,023 |
| | Total Expenses | <u>\$ 275,023</u> |
| | Change in Net Position | - |
| Beginning net position | | 284,932 |
| | Ending Net Position | <u>\$ 284,932</u> |

See Notes to Financial Statements.

(This page intentionally left blank.)

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

The City of Heath, Texas (the "City") was incorporated in 1959 and is governed by an elected mayor and six city council members which comprise the city council. The City provides a full range of municipal services including public safety, streets, parks and recreation, planning and zoning, and general administrative services. In addition, the City provides water and sewer service, and sanitation service as an enterprise function of the City.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Heath Economic Development Corporation (the "HEDC"), Heath Municipal Benefits Corporation (the "HMBC"), and the Club Municipal Management District Number 1 (the "Club MMD") are legally separate and presented as discretely presented component units. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Units

Heath Economic Development Corporation

The Heath Economic Development Corporation is governed by a seven-member board of directors appointed, at will, by the City Council. The HEDC's main activities involve contributing to the City's construction of infrastructure within the City limits in order to improve economic development. The HEDC does not provide services entirely, or almost entirely to the City, nor does it maintain debt of any type that are repaid using City resources. The HEDC collects a half cent sales tax to support its activities. Separate financial statements have not been prepared. However, additional financial information for the HEDC may be obtained at the entity's administrative offices at the following address: Heath Economic Development Corporation, 200 Laurence Drive, Heath, Texas 75032.

Heath Municipal Benefits Corporation

The City of Heath Municipal Benefits Corporation is governed by a seven-member board of directors appointed, at will, by the City Council. The HMBC's goal is to improve the quality of life within the City and contributes to construction of items such as parks and recreational facilities. The HMBC does not provide services entirely, or almost entirely to the City, nor does it maintain debt of any type that are repaid using City resources. The HMBC collects a half cent sales tax to support its activities. Separate financial statements have not been prepared. However, additional financial information for the HMBC may be obtained at the entity's administrative offices at the following address: Heath Municipal Benefit Corporation, 200 Laurence Drive, Heath, Texas 75032.

Club Municipal Management District Number 1

The Club Municipal Management District (the "Club MMD") is a special purpose district within the City limits. This district was created by an act of the 82nd Texas legislature in 2011. The primary purpose of the district is to facilitate the construction and continued maintenance of a quality mixed-use residential and commercial development to benefit city residents. The City of Heath Municipal Management District is governed by a board of directors appointed, at will, by the City Council. Club MMD does not provide services entirely, or almost entirely to the City, nor does it maintain debt of any type that are repaid using City resources. Club MMD issues separate financial statements that are available from the City of Heath Finance Department at 972-771-6228. The City has the ability to impose its will over the district, and therefore it is considered a component unit of the City.

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

C. Basis of Presentation - Government-Wide Financial Statements

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

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and component units. Separate statements for each fund category; governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, highways and streets, engineering, community development, parks, and municipal court.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Capital Improvements Fund

The capital improvements fund accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds.

Capital Projects – CO Series 2023 Fund

This capital improvements fund accounts for the acquisition and construction of the government's major capital facilities with the proceeds received through the issuance of \$28,740,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation in December 2023.

The government reports the following major enterprise fund:

Water & Sewer Fund

This fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

Additionally, the City reports the following fund types:

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund.

Fiduciary Fund

The fiduciary fund accounts for street escrow funds which the City holds in a custodial capacity.

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

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

eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

E. Measurement focus and basis of accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Custodial funds use the economic resources focus, and utilize the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund, Heath Economic Development Corporation, and Heath Municipal Benefits Corporation. The capital improvements fund is appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund and function. At any time during the fiscal year, the Finance Director may transfer up to \$5,000 of the unencumbered appropriated balance between classifications of expenditure within a division (Division is a specific functional area within a City department. Streets is a division of the Public Works department). Transfers, within a division, exceeding \$5,000 must be approved by the City Manager. A transfer may not be made from the unencumbered appropriated balance in the Personnel Services classification of expenditure. Any revision that alters total expenditures of any division must be approved by the City Council. The legal level of budgetary control is at the divisional level.

Appropriations in all budgeted funds lapse at the end of the fiscal year.

G. Assets, Liabilities, and Fund Equity or Net Position

1. Deposits and Investments

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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

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

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Fully collateralized direct repurchase agreements with a defined termination date
- Money market mutual funds
- Ultra-short bonds
- Statewide investment pools

2. Fair Value Measurement

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

3. Receivables and Interfund Transactions

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

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

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

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

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). Inventories of supplies to be used internally are valued at cost using the first-in/first-out method. Inventories to be resold are valued at the lower of cost or market, and removed using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art, and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value on the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

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

| Asset Description | Estimated Useful Life |
|----------------------------|------------------------------|
| Vehicles | 5 to 10 years |
| Machinery and equipment | 3 to 7 years |
| Infrastructure | 5 to 50 years |
| Buildings and improvements | 10 to 22 years |
| SBITA assets | 3 years |

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

6. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, fines, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7. Net Position Flow Assumptions

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

8. Fund Balance Flow Assumptions

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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

9. Fund Balance Policies

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

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

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

10. Long-Term Obligations

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

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

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

statements only for the portion expected to be financed from expendable available financial resources.

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

Assets acquired under the terms of leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

11. Estimates

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

12. Pensions

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

13. Other Postemployment Benefits ("OPEB")

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary, calculated based on the employee's actual earnings on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

H. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

3. Compensated Absences

The City accounts for vacation and sick leave in accordance with the provisions of GASB Statement No. 101, *Compensated Absences*.

Under GASB Statement No. 101, the City recognizes a liability for compensated absences for vacation leave that is attributable to services already rendered and for which the City has a present obligation to provide compensation through paid time off or cash settlement.

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

Vacation leave is reported as a liability regardless of whether it is expected to be paid within one year.

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

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

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of

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

the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, capital improvements, certain special revenue funds, HEDC, HMBC, water and sewer, and sanitation funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the division level for the general fund. For all other fund budgets, the legal level of control is the fund level. The Finance Director may transfer up to \$5,000 within a division. Transfers within a division exceeding \$5,000 must be approved by the City Manager. Any revision that alters total expenditures of any division must be approved by the City Council.

A. Expenditures Over Appropriations

For the year ending September 30, 2025, expenditures exceeded appropriations at the legal level of control as follows:

| | |
|-----------------------------|---------|
| General Fund: | |
| City council | \$ 42 |
| City manager | 6,626 |
| Finance | 9,270 |
| Engineering & inspection | 13,162 |
| Municipal court | 2,404 |
| Public safety | 58,747 |
| | |
| Debt Service Fund: | |
| Total expenditures | 478,265 |
| | |
| Path Fund: | |
| Total expenditures | 13,939 |
| | |
| Equipment Replacement Fund: | |
| Total expenditures | 65,975 |

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As stated in I.G.1., the City’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

from the date of acquisition. The City's investments in 2a7-like pools such as TexPool are included in this category. Although the City's investments in TexPool and TexStar are available for immediate withdrawal, disclosure of the pool's weighted average maturity and bond rating are required.

The City had the following investments at year end:

| <u>Investment Type</u> | <u>Value</u> | <u>Weighted Average Maturity (Years)</u> | <u>Credit Rating</u> |
|-------------------------------------|----------------------|--|----------------------|
| External investment pools | | | |
| TexPool | \$ 17,805,320 | 0.12 | AAAm |
| TexStar | 55,843,268 | 0.14 | AAAm |
| Total carrying value | <u>\$ 73,648,588</u> | | |
| Portfolio weighted average maturity | | 0.13 | |

The Heath EDC had the following investments at year end:

| <u>Investment Type</u> | <u>Value</u> | <u>Weighted Average Maturity (Years)</u> | <u>Credit Rating</u> |
|-------------------------------------|---------------------|--|----------------------|
| External investment pools | | | |
| TexPool | \$ 1,284,734 | 0.12 | AAAm |
| TexStar | 1,570,267 | 0.14 | AAAm |
| Total carrying value | <u>\$ 2,855,001</u> | | |
| Portfolio weighted average maturity | | 0.13 | |

The Heath MBC had the following investments at year end:

| <u>Investment Type</u> | <u>Value</u> | <u>Weighted Average Maturity (Years)</u> | <u>Credit Rating</u> |
|-------------------------------------|---------------------|--|----------------------|
| External investment pools | | | |
| TexPool | \$ 1,044,038 | 0.12 | AAAm |
| TexStar | 1,192,915 | 0.14 | AAAm |
| Total carrying value | <u>\$ 2,236,953</u> | | |
| Portfolio weighted average maturity | | 0.13 | |

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity to meet liquidity demands; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk – The City’s investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than “A” or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2025, the City’s investments in TexPool and TexStar were rated AAAM by Standard & Poor’s.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of the deposits. As of September 30, 2025, the fair values of pledged securities and FDIC insurance exceeded bank balances.

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

TexPool

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

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

TexStar

The TexStar Participant Services Local Government Investment Pool ("TexStar") is an external investment pool operated by First Southwest Asset Management, Inc. and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexStar and of other persons who do not have a business relationship with TexStar. The Advisory Board members review the investment policy and management fee structure. Standard & Poor's rates TexStar AAAm. At September 30, 2025, the fair value of the position in TexStar approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

B. Receivables

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

| | General | Debt Service | Water & Sewer | Nonmajor Solid Waste | Total |
|---------------------|-------------------|---------------------|------------------------------|-------------------------------------|---------------------|
| Property taxes | \$ 152,896 | \$ 72,392 | \$ - | \$ - | \$ 225,288 |
| Special assessments | - | 136,325 | - | - | 136,325 |
| Sales tax | 310,370 | - | - | - | 310,370 |
| Fines | 2,440 | - | - | - | 2,440 |
| Other | 10,476 | 1,853 | 71,530 | - | 83,859 |
| Accounts | 68,678 | - | 2,185,144 | 207,193 | 2,461,015 |
| Allowance | (976) | - | (14,186) | (2,578) | (17,740) |
| | <u>\$ 543,884</u> | <u>\$ 210,570</u> | <u>\$ 2,242,488</u> | <u>\$ 204,615</u> | <u>\$ 3,201,557</u> |

The following comprise receivables balances of the City's discretely presented component units at year end:

| | Heath Club MMD | Heath EDC | Heath MBC | Total |
|-------------|---------------------------|----------------------|----------------------|----------------------|
| Sales tax | \$ - | \$ 155,185 | \$ 155,185 | \$ 310,370 |
| Assessments | 36,449,301 | - | - | 36,449,301 |
| | <u>\$ 36,449,301</u> | <u>\$ 155,185</u> | <u>\$ 155,185</u> | <u>\$ 36,759,671</u> |

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

C. Capital Assets

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

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases/ Reclassifications</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|---|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 5,304,992 | \$ - | \$ - | \$ 5,304,992 |
| Construction in progress | 2,825,252 | 9,420,044 | - | 12,245,296 |
| Total capital assets not being depreciated | <u>8,130,244</u> | <u>9,420,044</u> | <u>-</u> | <u>17,550,288</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 2,451,787 | - | - | 2,451,787 |
| Improvements other than buildings | 5,347,927 | 47,488 | - | 5,395,415 |
| Infrastructure | 76,800,353 | - | - | 76,800,353 |
| Machinery and equipment | 4,021,768 | 501,433 | (34,055) | 4,489,146 |
| Subscription assets - software | 143,201 | - | - | 143,201 |
| Total capital assets being depreciated | <u>88,765,036</u> | <u>548,921</u> | <u>(34,055)</u> | <u>89,279,902</u> |
| Less accumulated depreciation: | | | | |
| Buildings | (2,104,887) | (95,305) | - | (2,200,192) |
| Improvements other than buildings | (2,804,833) | (195,894) | - | (3,000,727) |
| Infrastructure | (38,779,819) | (2,623,261) | - | (41,403,080) |
| Machinery and equipment | (3,076,469) | (378,891) | 34,055 | (3,421,305) |
| Subscription assets - software | (47,733) | (47,733) | - | (95,466) |
| Total accumulated depreciation | <u>(46,813,741)</u> | <u>(3,341,084)</u> | <u>34,055</u> | <u>(50,120,770)</u> |
| Net capital assets being depreciated | 41,951,295 | (2,792,163) | - | 39,159,132 |
| Total Capital Assets | <u>\$ 50,081,539</u> | <u>\$ 6,627,881</u> | <u>\$ -</u> | <u>\$ 56,709,420</u> |

Depreciation was charged to governmental functions as follows:

| | |
|---|---------------------|
| General government | \$ 48,579 |
| Public safety | 215,215 |
| Public works | 3,060,356 |
| Culture and recreation | 4,710 |
| Community Development | 12,224 |
| Total Governmental Activities Depreciation Expense | <u>\$ 3,341,084</u> |

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

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

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases/ Reclassifications</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|---|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 993,216 | \$ - | \$ - | \$ 993,216 |
| Construction in progress | 2,284,362 | 3,522,686 | (3,266,024) | 2,541,024 |
| Total capital assets not being depreciated | <u>3,277,578</u> | <u>3,522,686</u> | <u>(3,266,024)</u> | <u>3,534,240</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 391,512 | - | - | 391,512 |
| Improvements other than buildings | 61,046,704 | 296,990 | 3,075,084 | 64,418,778 |
| Machinery and equipment | 1,227,487 | 6,475 | - | 1,233,962 |
| Subscription assets - software | 143,200 | - | - | 143,200 |
| Total capital assets being depreciated | <u>62,808,903</u> | <u>303,465</u> | <u>3,075,084</u> | <u>66,187,452</u> |
| Less accumulated depreciation: | | | | |
| Buildings | (294,780) | (20,902) | - | (315,682) |
| Improvements other than buildings | (23,192,374) | (1,888,742) | - | (25,081,116) |
| Machinery and equipment | (893,184) | (119,592) | - | (1,012,776) |
| Subscription assets - software | (47,734) | (47,734) | - | (95,468) |
| Total accumulated depreciation | <u>(24,428,072)</u> | <u>(2,076,970)</u> | <u>-</u> | <u>(26,505,042)</u> |
| Net capital assets being depreciated | <u>38,380,831</u> | <u>(1,773,505)</u> | <u>3,075,084</u> | <u>39,682,410</u> |
| Total Capital Assets | <u>\$ 41,658,409</u> | <u>\$ 1,749,181</u> | <u>\$ (190,940)</u> | <u>\$ 43,216,650</u> |

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

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

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases/ Reclassifications</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|---|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ - | \$ 4,870,574 | \$ - | \$ 4,870,574 |
| Total capital assets not being depreciated | <u>-</u> | <u>4,870,574</u> | <u>-</u> | <u>4,870,574</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | - | 1,580,639 | - | 1,580,639 |
| Total capital assets being depreciated | <u>-</u> | <u>1,580,639</u> | <u>-</u> | <u>1,580,639</u> |
| Less accumulated depreciation: | | | | |
| Buildings | - | (231) | - | (231) |
| Total accumulated depreciation | <u>-</u> | <u>(231)</u> | <u>-</u> | <u>(231)</u> |
| Net capital assets being depreciated | <u>-</u> | <u>1,580,408</u> | <u>-</u> | <u>1,580,408</u> |
| Total Capital Assets | <u>\$ -</u> | <u>\$ 6,450,982</u> | <u>\$ -</u> | <u>\$ 6,450,982</u> |

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

D. Compensated Absences

The following summarizes the changes in the compensated absences balances of the primary government during the year. In general, the City uses the general and water and sewer funds to liquidate compensated absences.

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|--|------------------------------|-------------------|---------------------|---------------------------|--|
| Governmental Activities: | | | | | |
| Compensated Absences | \$ 1,027,404 | \$ 782,923 | \$ (685,735) | \$ 1,124,592 | \$ 762,305 |
| Total Governmental Activities | <u>\$ 1,027,404</u> | <u>\$ 782,923</u> | <u>\$ (685,735)</u> | <u>\$ 1,124,592</u> | <u>\$ 762,305</u> |
| Other Long-term Liabilities Due in More than One Year | | | | <u>\$ 362,287</u> | |
| Business-Type Activities: | | | | | |
| Compensated Absences | \$ 94,435 | \$ 127,171 | \$ (65,082) | \$ 156,524 | \$ 106,484 |
| Total Business-Type Activities | <u>\$ 94,435</u> | <u>\$ 127,171</u> | <u>\$ (65,082)</u> | <u>\$ 156,524</u> | <u>\$ 106,484</u> |
| Other Long-term Liabilities Due in More than One Year | | | | <u>\$ 50,040</u> | |

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

E. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the general and debt service fund to liquidate governmental long-term liabilities, including the City's net pension and OPEB liabilities.

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending</u> <u>Balance</u> | <u>Amounts</u> <u>Due within</u> <u>One Year</u> |
|--|------------------------------------|------------------|-----------------------|---------------------------------|--|
| Governmental Activities: | | | | | |
| Bonds, notes and other payables: | | | | | |
| General Obligation Bonds | \$ 1,725,000 | \$ - | \$ (565,000) | \$ 1,160,000 | \$ 575,000 |
| Certificates of Obligation | 43,218,503 | - | (1,227,340) | 41,991,163 | 1,261,640 |
| Premiums | 2,774,511 | - | (174,109) | 2,600,402 | - |
| Other liabilities: | | | | | |
| Subscription liabilities | 95,694 | - | (45,575) | 50,119 | 50,119 |
| Total Governmental Activities | <u>\$ 47,813,708</u> | <u>\$ -</u> | <u>\$ (2,012,024)</u> | <u>\$ 45,801,684</u> | <u>\$ 1,886,759</u> |
| Long-term liabilities due in more than one year | | | | <u>\$ 43,914,925</u> | |
| Business-Type Activities: | | | | | |
| Bonds, notes and other payables: | | | | | |
| General Obligation Bonds | \$ 1,180,000 | \$ - | \$ (385,000) | \$ 795,000 | \$ 395,000 |
| Certificates of Obligation | 14,822,857 | - | (820,775) | 14,002,082 | 866,083 |
| Premium | 975,797 | - | (80,461) | 895,336 | - |
| Other liabilities: | | | | | |
| Subscription liabilities | 95,695 | - | (45,575) | 50,120 | 50,120 |
| Total Business-Type Activities | <u>\$ 17,074,349</u> | <u>\$ -</u> | <u>\$ (1,331,811)</u> | <u>\$ 15,742,538</u> | <u>\$ 1,311,203</u> |
| Long-term liabilities due in more than one year | | | | <u>\$ 14,431,335</u> | |

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. The City intends to retire all of its general long-term liabilities, plus accrued interest, from property taxes and other current revenues from the debt service fund as has been done in prior years. The proprietary fund type long-term debt will be repaid, plus accrued interest, from operating revenues of the water and sewer fund.

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

Long-term debt at year end was comprised of the following debt issues:

| Description | Interest Rates | Original Balance | Current Balance |
|---|----------------|----------------------|----------------------|
| Governmental Activities: | | | |
| 2015 General Obligation Refunding Bonds | 2.03% | \$ 4,725,000 | \$ 1,160,000 |
| Total General Obligation Bonds | | <u>4,725,000</u> | <u>1,160,000</u> |
| 2017 Combination Tax & Revenue Certificates | 3.00-5.00% | 5,940,000 | 4,040,000 |
| 2014 Combination Tax & Revenue Certificates | 3.00-4.00% | 14,205,000 | 7,860,000 |
| 2013 Combination Tax & Revenue Certificates | 2.00-4.00% | 1,654,037 | 1,150,000 |
| 2019 Combination Tax & Revenue Certificates | 3.70% | 453,197 | 301,163 |
| 2023 Combination Tax & Revenue Certificates | 4.50% | 28,740,000 | 28,640,000 |
| Total Certificates of Obligation | | <u>50,992,234</u> | <u>41,991,163</u> |
| Subscription Liabilities | 5.10% | 95,694 | 50,119 |
| Total Subscription liabilities | | <u>95,694</u> | <u>50,119</u> |
| Total Governmental Activities | | <u>\$ 55,812,928</u> | <u>\$ 43,201,282</u> |
| Business-type Activities: | | | |
| 2015 General Obligation Refunding Bonds | 2.03% | \$ 3,200,000 | \$ 795,000 |
| Total General Obligation Bonds | | <u>3,200,000</u> | <u>795,000</u> |
| 2019 Combination Tax & Revenue Certificates | 3.70% | 256,802 | 172,082 |
| 2017 Combination Tax & Revenue Certificates | 3.00-5.00% | 11,600,000 | 8,375,000 |
| 2013 Combination Tax & Revenue Certificates | 2.00-4.00% | 6,540,963 | 5,455,000 |
| Total Certificates of Obligation | | <u>18,397,765</u> | <u>14,002,082</u> |
| Subscription liabilities | 5.10% | 95,695 | 50,120 |
| Total Subscription liabilities | | <u>95,695</u> | <u>50,120</u> |
| Total Business-Type Activities | | <u>\$ 21,597,765</u> | <u>\$ 14,847,202</u> |
| Total Bonds & Certificates | | | |
| General Obligation Refunding Bonds | | \$ 7,925,000 | \$ 1,955,000 |
| Certificates of Obligation | | 69,389,999 | 55,993,245 |
| Total Primary Government | | <u>\$ 77,410,693</u> | <u>\$ 58,048,484</u> |

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

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

| Governmental Activities | | | | |
|--------------------------------------|---------------------------------|------------------|-----------------------------------|----------------------|
| Year ending September 30, | General Obligation Bonds | | Certificates of Obligation | |
| | Principal | Interest | Principal | Interest |
| 2026 | \$ 575,000 | \$ 17,712 | \$ 1,261,640 | \$ 1,779,178 |
| 2027 | 585,000 | 5,938 | 1,307,280 | 1,731,912 |
| 2028 | - | - | 1,747,920 | 1,683,360 |
| 2029 | - | - | 1,813,560 | 1,624,685 |
| 2030 | - | - | 1,883,560 | 1,554,660 |
| 2031-2035 | - | - | 10,750,443 | 6,518,202 |
| 2036-2040 | - | - | 13,606,760 | 4,018,418 |
| 2041-2044 | - | - | 9,620,000 | 964,700 |
| Total | \$ 1,160,000 | \$ 23,650 | \$ 41,991,163 | \$ 19,875,115 |

Subscription Liabilities

| Governmental Activities | | |
|--------------------------------------|---------------------------------|-----------------|
| Year ending September 30, | Subscription Liabilities | |
| | Principal | Interest |
| 2026 | \$ 50,119 | \$ 2,255 |
| Total | \$ 50,119 | \$ 2,255 |

The City entered into subscription-based arrangements for software. The subscriptions are classified as right-to-use subscription assets for governmental activities and have a total carrying value of \$47,735.

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

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

| Business-Type Activities | | | | |
|--------------------------------------|---------------------------------|------------------|-----------------------------------|---------------------|
| Year ending September 30, | General Obligation Bonds | | Certificates of Obligation | |
| | Principal | Interest | Principal | Interest |
| 2026 | \$ 395,000 | \$ 12,129 | \$ 866,083 | \$ 597,654 |
| 2027 | 400,000 | 4,060 | 894,720 | 555,908 |
| 2028 | - | - | 1,245,080 | 509,798 |
| 2029 | - | - | 1,300,440 | 461,425 |
| 2030 | - | - | 1,345,440 | 413,614 |
| 2031 | - | - | 1,400,800 | 358,627 |
| 2032 | - | - | 1,461,160 | 295,953 |
| 2033 | - | - | 1,526,880 | 230,490 |
| 2034 | - | - | 917,600 | 174,175 |
| 2035 | - | - | 957,600 | 127,459 |
| 2036 | - | - | 1,010,542 | 78,618 |
| 2037 | - | - | 1,046,548 | 27,487 |
| 2038 | - | - | 14,760 | 1,092 |
| 2039 | - | - | 14,429 | 546 |
| Total | \$ 795,000 | \$ 16,189 | \$ 14,002,082 | \$ 3,832,846 |

Subscription Liabilities

| Governmental Activities | | |
|--------------------------------------|---------------------------------|-----------------|
| Year ending September 30, | Subscription Liabilities | |
| | Principal | Interest |
| 2026 | \$ 50,120 | \$ 2,255 |
| Total | \$ 50,120 | \$ 2,255 |

The City entered into subscription-based arrangements for software. The subscriptions are classified as right-to-use subscription assets for business-type activities and have a total carrying value of \$47,732.

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

The following is a summary of changes in the City's discretely presented component units' total long-term liabilities for the year ended.

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|--|------------------------------|----------------------|---------------------|---------------------------|--------------------------------|
| Special Assessment | | | | | |
| Revenue Bonds Series 2016 | \$ 7,460,000 | \$ - | \$ (265,000) | \$ 7,195,000 | \$ 160,000 |
| Revenue Bonds Series 2021 | 8,461,000 | - | (288,000) | 8,173,000 | 209,000 |
| Revenue Bonds Series 2024 | - | 17,270,000 | - | 17,270,000 | 288,000 |
| Notes payable to developer | 3,921,158 | - | (12,653) | 3,908,505 | 94,006 |
| Premium | 139,645 | - | (5,334) | 134,311 | - |
| Total Club MMD | <u>\$ 19,981,803</u> | <u>\$ 17,270,000</u> | <u>\$ (570,987)</u> | <u>\$ 36,680,816</u> | <u>\$ 751,006</u> |
| Long-term liabilities due in more than one year | | | | <u>\$ 35,929,810</u> | |

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due within One Year</u> |
|--|------------------------------|---------------------|--------------------|---------------------------|--|
| Heath EDC | | | | | |
| Note payable | \$ - | \$ 3,250,000 | \$ (19,396) | \$ 3,230,604 | \$ 296,900 |
| Total Heath EDC | <u>\$ -</u> | <u>\$ 3,250,000</u> | <u>\$ (19,396)</u> | <u>\$ 3,230,604</u> | <u>\$ 296,900</u> |
| Long-term liabilities due in more than one year | | | | <u>\$ 2,933,704</u> | |

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

The annual requirements to amortize discretely presented component units debt outstanding at year ending were as follows:

| Club Municipal Management District | | |
|---|---------------------------------|----------------------|
| Year ending | Special Assessment Bonds | |
| September 30, | Principal | Interest |
| 2026 | \$ 657,000 | \$ 1,882,985 |
| 2027 | 734,000 | 1,881,722 |
| 2028 | 701,000 | 1,856,378 |
| 2029 | 800,000 | 1,830,798 |
| 2030 | 4,494,000 | 7,337,458 |
| 2031-2035 | 5,525,000 | 6,129,487 |
| 2036-2040 | 7,068,000 | 4,555,761 |
| 2041-2045 | 6,655,000 | 2,588,753 |
| 2046-2050 | 4,952,000 | 1,060,454 |
| 2051-2052 | 1,052,000 | 56,545 |
| Total | \$ 32,638,000 | \$ 29,180,341 |

| Club Municipal Management District | | |
|---|-----------------------------------|---------------------|
| Year ending | Notes payable to developer | |
| September 30, | Principal | Interest |
| 2026 | \$ 94,006 | \$ 232,451 |
| 2027 | 105,257 | 227,745 |
| 2028 | 116,555 | 222,575 |
| 2029 | 127,900 | 216,505 |
| 2030-2035 | 721,479 | 971,836 |
| 2036-2040 | 933,367 | 748,537 |
| 2041-2045 | 1,223,549 | 450,388 |
| 2046-2050 | 514,089 | 84,018 |
| 2050 | 72,303 | 2,661 |
| Total | \$ 3,908,505 | \$ 3,156,716 |

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

| Heath EDC | | |
|------------------------------|--------------|--------------|
| Year ending September 30, | Note Payable | |
| | Principal | Interest |
| 2026 | \$ 296,900 | \$ 192,896 |
| 2027 | 329,800 | 159,995 |
| 2028 | 373,869 | 122,990 |
| 2029 | 91,311 | 98,484 |
| 2030 | 95,506 | 94,289 |
| 2031-2035 | 543,727 | 410,956 |
| 2036-2040 | 642,349 | 420,808 |
| 2041-2045 | 857,142 | 152,857 |
| Total | \$ 3,230,604 | \$ 1,653,275 |

F. Deferred Charge on Refunding

Deferred charges resulting from the issuance of the 2015 general obligation refunding bonds and 2017 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities and business-type activity totaled \$35,890 and \$13,004, respectively. Current year amortization expense for governmental activities and business-type activities totaled \$26,043 and \$9,436, respectively.

G. Interfund Transfers

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

| Transfers Out: | Transfers In: | | | | Total |
|-----------------|---------------|------------------------|--------------------------|------------------|--------------|
| | General | Capital Improvement | Nonmajor Governmental | Water & Sewer | |
| General | \$ - | \$ 29,500 | \$ 545,700 | \$ - | \$ 575,200 |
| Capital Improv. | - | - | 236,000 | 401,042 | 637,042 |
| Water & sewer | 329,300 | - | - | - | 329,300 |
| Solid waste | 40,000 | - | - | 40,000 | 80,000 |
| Total | \$ 369,300 | \$ 29,500 | \$ 781,700 | \$ 441,042 | \$ 1,621,542 |

The City uses fund accounting so that it may track the City's activities in specific detail. Transfers are made between funds to support operations as budgeted.

During the year, the City's discretely presented component units contributed a total of \$899,983 to the primary government.

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

The compositions of interfund balances as of year end were as follows:

| Due To (Payable fund): | Due From (Receivable fund): General |
|-----------------------------------|--|
| Water & sewer | \$ 731 |
| | \$ 731 |

H. Restricted Fund Balance

The City records restricted fund balance to indicate that a portion is legally restricted for a specific future use.

The following is a list of restricted, committed, and assigned fund balance of the City:

| | Govt. Funds |
|-----------------------|--------------------|
| Restricted for: | |
| * Public safety | \$ 26,165 |
| Fire station | 1,577,942 |
| Debt service | 861,656 |
| Special programs | 345,781 |
| Parks | 1,512,531 |
| Streets | 303,100 |
| Capital improvements | 39,573,118 |
| Total Restricted | \$ 44,200,293 |
| Assigned for: | |
| Equipment replacement | \$ 822,370 |
| Tree mitigation | 114,403 |
| Police department | 145,661 |
| Total Assigned | \$ 1,082,434 |

* Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,700 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

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

C. Defined Benefit Pension Plans

1. Texas Municipal Retirement Systems

Plan Description

The City of Heath participates as one of 938 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

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

2. Benefits Provided

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

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

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

| | <u>Plan Year 2024</u> | <u>Plan Year 2023</u> |
|--|--------------------------|--------------------------|
| Employee deposit rate | 7.0% | 7.0% |
| Matching ratio (city to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service retirement eligibility (expressed as age / years of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% Repeating Transfers | 100% Repeating Transfers |
| Annuity increase (to retirees) | 0% of CPI | 0% of CPI |

Employees covered by benefit terms

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

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 39 |
| Inactive employees entitled to but not yet receiving benefits | 59 |
| Active employees | 70 |
| Total | 168 |

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN)

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

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 Heath were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Heath were 12.22% and 12.22% in calendar years 2025 and 2024, respectively. The City's contributions to TMRS for the year ended September 30, 2025, were \$829,870, and was equal to the required contributions.

4. Net Pension Liability

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

Actuarial assumptions:

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

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

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the 3.5% and 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of December 31, 2022. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

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

Discount Rate:

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

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

Sensitivity of the Net Pension Liability (Asset) 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 (asset) 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 | Current Single Rate | 1% Increase |
|--------------|---------------------|----------------|
| 5.75% | 6.75% | 7.75% |
| \$ 3,955,754 | \$ 1,140,190 | \$ (1,173,283) |

Changes in the Net Pension Liability:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|--|--------------------------------|------------------------------------|------------------------------------|
| Balance at 12/31/23 | \$ 18,061,083 | \$ 16,493,525 | \$ 1,567,558 |
| Changes for the year: | | | |
| Service Cost | 1,025,617 | - | 1,025,617 |
| Interest | 1,227,502 | - | 1,227,502 |
| Difference between expected and actual experience | 196,891 | - | 196,891 |
| Changes of assumptions | - | - | - |
| Contributions – employer | - | 743,799 | (743,799) |
| Contributions – employee | - | 426,072 | (426,072) |
| Net investment income | - | 1,718,755 | (1,718,755) |
| Benefit payments, including refunds of emp. contributions | (777,364) | (777,364) | - |
| Administrative expense | - | (10,991) | 10,991 |
| Other changes | - | (257) | 257 |
| Net changes | 1,672,646 | 2,100,014 | (427,368) |
| Balance at 12/31/24 | \$ 19,733,729 | \$ 18,593,539 | \$ 1,140,190 |

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.

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

Pension expense for the year ended September 30, 2025 was \$749,063.

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

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

| | Deferred Outflows of Resources | Deferred (Inflows) of Resources |
|--|---|--|
| Contributions subsequent to the measurement date | \$ 608,138 | \$ - |
| Difference in experience | 42,728 | - |
| Changes in actuarial assumptions | 1,792 | - |
| Pension investment earnings | - | (213,489) |
| Total | \$ 652,658 | \$ (213,489) |

The City reported \$608,138 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended | |
|---------------------|---------------------|
| December 31: | |
| 2025 | \$ 3,934 |
| 2026 | 171,961 |
| 2027 | (223,778) |
| 2028 | (121,086) |
| 2029 | - |
| Thereafter | - |
| Total | \$ (168,969) |

Other Post-Employment Benefits

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

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

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

Employees covered by benefit terms

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

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 29 |
| Inactive employees entitled to but not yet receiving benefits | 14 |
| Active employees | 70 |
| Total | 113 |

The City's contributions to the TMRS SDBF for the years ended 2025, 2024 and 2023 were \$4,075, \$3,494, and \$3,044, respectively, which equaled the required contributions each year.

Three-Year Contribution Information: (Retiree Portion)

| | <u>2025</u> | <u>2024</u> | <u>2023</u> |
|-------------------------------------|-------------|-------------|-------------|
| Annual Required Contribution (Rate) | 0.06% | 0.06% | 0.06% |
| Actual Contributions Made | 0.06% | 0.06% | 0.06% |
| Percentage of APC Contributed | 100% | 100% | 100% |

Total OPEB Liability

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

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

Actuarial assumptions:

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females. The rates are projected on a fully generational basis by the most recent Scale MP=2021 (with immediate convergence) to account for future mortality improvements subject to the 3.5% and 3% floor.

Discount Rate:

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

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

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

| 1% Decrease 3.08% | Current Single Rate 4.08% | 1% Increase 5.08% |
|----------------------|------------------------------|----------------------|
| \$ 194,285 | \$ 160,664 | \$ 134,663 |

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

Changes in the Total OPEB Liability:

| | Total OPEB Liability |
|--|---------------------------------|
| Balance at 12/31/23 | \$ 157,707 |
| Changes for the year: | |
| Service Cost | 10,347 |
| Interest | 6,072 |
| Difference between expected and actual experience | (253) |
| Changes of assumptions | (9,557) |
| Benefit payments | (3,652) |
| Net changes | 2,957 |
| Balance at 12/31/24 | \$ 160,664 |

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

For the year ended September 30, 2025, the City recognized OPEB expense of \$10,555.

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

| | Deferred Outflows of Resources | Deferred (Inflows) of Resources |
|---|---|--|
| Contributions subsequent to the measurement date | \$ 2,986 | \$ - |
| Difference in experience | - | (2,149) |
| Changes in actuarial assumptions | - | (35,135) |
| Total | \$ 2,986 | \$ (37,284) |

The City reported \$2,986 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2026.

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

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

| Year ended December 31: | |
|--------------------------------|-------------|
| 2025 | \$ (5,295) |
| 2026 | (9,662) |
| 2027 | (12,668) |
| 2028 | (8,296) |
| 2029 | (1,363) |
| Thereafter | - |
| | \$ (37,284) |

D. North Texas Municipal Water District (the District)

The District is a conservation and reclamation district and political subdivision of the State of Texas, created and functioning under Chapter 62, Acts of 1951, 52nd Legislature, Regular Session, as amended, originally compiled as Vernon's Article 8270-141 (the "Act"), pursuant to Article 16, Section 59 of the Texas Constitution. The District comprises all of the territory of its member cities, Garland, Princeton, Plano, Mesquite, Wylie, Rockwall, Farmersville, McKinney, Richardson, Forney and Royse City (the "Member Cities"). The District was created for the purpose of providing a source of water supply for municipal, domestic and industrial use and for the treatment, processing and transportation of such water to its Member Cities, and to its other customers located in North Central Texas, all within the Dallas Standard Metropolitan Statistical Area.

Under the Act, including specifically Section 27 thereof, and under the Constitution and Statutes of the State of Texas, the District has broad powers to (1) impound, control, store, preserve, treat, transmit and use storm and flood water, the water of rivers and streams and underground water, for industrial and commercial uses and purposes and all other beneficial uses and purposes; and (2) collect, transport, process, treat, dispose of, and control all municipal, domestic, industrial or commercial waste whether in fluid, solid or composite state, including specifically the control, abatement or reduction of all types of pollution. The City retains no ongoing financial interest, equity investments and/or responsibilities for the District other than the contractual arrangements discussed more fully herein.

The District has a long-term contract with the City to provide sewer treatment. The City contracted with the District to build sewage treatment plants and provide treatment services to the City. Under the terms of the contract, the City's payments, which began when the facilities were first utilized, are equal to the operating and maintenance expenses for the ensuing fiscal year, as shown in the annual budget. The contract further provides that the debt service payments would be equal to the principal and/or interest coming due on the bonds on the next succeeding interest payment date, plus the fees and charges of the paying agent and registrar.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2025

E. Buffalo Creek Wastewater Interceptor System

In January 2004, the Cities of Rockwall and Heath in Rockwall County, and the City of Forney in Kaufman County entered into a contract with the District to provide for the acquisition, construction, improvement, operation, and maintenance of the Regional Buffalo Creek Wastewater Interceptor System (System) for the purpose of providing facilities to adequately receive, transport, treat, and dispose of wastewater. The District will own the System with Rockwall, Heath and Forney as the initial participants. The District issued approximately \$17 million in bonds to construct this new facility in April 2004. Budget calculations for operating costs and debt service for the System on the service commencement date is based on the following estimated flow ratio: City of Rockwall - 78%, the City of Heath - 14%, and the City of Forney - 8%. "Service Commencement Date" means the first date upon which the System is available to treat wastewater from the participants. Heath's long-term commitment to the System's debt service component is approximately \$2 million.

The District will send each participant a letter detailing the annual requirement necessary to operate the System each year. The annual requirement budget will include an operation and maintenance component and a bond service component. The budgeting ratio described earlier is only valid for the first year of System operations. In subsequent years, budgets and year-end audits will be based on actual flow ratios. For example, if the flow measurements indicate that 80% of the flow is produced by Rockwall, 15% by Heath and 5% by Forney, then the next year's operating and debt service components would be allocated using a 80/15/5 split. If in the future, additional participants are added, then the flow ratios will be adjusted using the above method.

F. Rockwall Emergency Services Corporation (the Corporation)

The Corporation was created pursuant to Subchapter D of Chapter 431, Texas Transportation Code, to provide emergency services and public safety services on behalf of the City of Fate, the City of Heath, the City of McLendon Chisholm, the City of Mobile City, the City of Rockwall, the City of Rowlett, the City of Royse City, and Rockwall County, Texas. This Corporation was created to construct, manage, and operate a law enforcement training facility, a firearms training center.

The Corporation issued debt to construct the facility. Each participant government is required to pay a portion of the debt service and operation and maintenance cost based on the number of personnel authorized to use the facility on April 1 each year.

The agreement for these payments, dated August 23, 2006 was for a ten-year term. There is also an ongoing monthly operating agreement that is still in effect today.

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

G. Animal Adoption Center Interlocal Agreement

In 2007 the City agreed to jointly construct an Animal Adoption Center (the “Center”) with the City of Rockwall. The Center is located in Rockwall. The City of Rockwall issued debt for the construction of the Center and the City of Heath agreed to pay 17.4% for an equal interest in the Center.

The City of Rockwall is solely responsible for providing maintenance and personnel to operate the Center. The Center’s annual budget is approved by the City of Rockwall and the City of Heath and is jointly paid by the two cities based on population.

The City of Heath can relinquish ownership of its portion of the Center with a ninety-day written notice to the City of Rockwall. If the City were to relinquish its ownership the debt related to the construction of the Center will be due within ninety days. The debt related to the Center is recorded as a note payable within the governmental activities.

H. Restatement

Due to the City’s implementation of GASB 101, *Compensated Absences*, the City restated its beginning net position for governmental activities, business-type activities, & the water & sewer fund. The restatements are summarized below:

| | Governmental Activities | Business-Type Activities | Water & Sewer |
|--|------------------------------------|-------------------------------------|------------------------------|
| Prior year ending net position, as reported | \$ 56,351,491 | \$ 49,778,927 | \$ 49,631,646 |
| Implementation of GASB 101 | 258,676 | 12,561 | 12,561 |
| Correction to SBITA subscription assets | (95,466) | 95,466 | 95,466 |
| Correction to SBITA subscription liabilities | 95,695 | (95,695) | (95,695) |
| Restated beginning net position | <u>\$ 56,610,396</u> | <u>\$ 49,791,259</u> | <u>\$ 49,643,978</u> |

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

I. New Accounting Pronouncements

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

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

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

This standard was applied retroactively and resulted in a sick leave liability restatement totaling \$271,237.

J. Subsequent Events

Subsequent events were evaluated through March 18, 2026, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Heath, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2) GENERAL FUND

For the Year Ended September 30, 2025

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------|--------------|---|
| Revenues | | | | |
| Taxes: | | | | |
| Property tax | \$ 6,156,100 | \$ 6,156,100 | \$ 6,490,896 | \$ 334,796 |
| Sales & beverage tax | 1,592,400 | 1,592,400 | 1,849,506 | 257,106 |
| Franchise tax | 685,000 | 685,000 | 823,509 | 138,509 |
| Licenses and permits | 1,069,400 | 1,069,400 | 855,916 | (213,484) |
| Intergovernmental | 27,800 | 27,800 | 40,058 | 12,258 |
| Charges for services | 139,600 | 139,600 | 119,137 | (20,463) |
| Fines and forfeitures | 140,100 | 140,100 | 150,199 | 10,099 |
| Investment income | 125,000 | 125,000 | 82,414 | (42,586) |
| Other revenue | 60,000 | 60,000 | 47,554 | (12,446) |
| Total Revenues | 9,995,400 | 9,995,400 | 10,459,189 | 463,789 |
| Expenditures | | | | |
| Current: | | | | |
| City council | 45,600 | 45,600 | 45,642 | (42) * |
| City secretary | 310,600 | 336,302 | 335,700 | 602 |
| City attorney | 400,100 | 400,100 | 346,403 | 53,697 |
| City manager | 340,700 | 217,373 | 223,999 | (6,626) * |
| Finance | 353,400 | 353,420 | 362,690 | (9,270) * |
| Non-divisional | 550,300 | 558,051 | 542,655 | 15,396 |
| Highways and streets | 408,140 | 408,140 | 390,259 | 17,881 |
| Parks | 562,400 | 562,400 | 420,265 | 142,135 |
| Information technology | 314,835 | 314,835 | 255,903 | 58,932 |
| Engineering and inspection | 401,900 | 371,148 | 384,310 | (13,162) * |
| Municipal court | 97,200 | 113,463 | 115,867 | (2,404) * |
| Public safety | 5,193,000 | 5,526,620 | 5,585,367 | (58,747) * |
| Communication and economic development | 903,900 | 777,234 | 709,229 | 68,005 |
| Debt service | | | | |
| Principal | 45,575 | 45,575 | 45,575 | - |
| Total Expenditures | 9,927,650 | 10,030,261 | 9,763,864 | 266,397 |
| Revenues Over (Under) Expenditures | 67,750 | (34,861) | 695,325 | 730,186 |

City of Heath, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2) GENERAL FUND

For the Year Ended September 30, 2025

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|--------------------|--------------|--------------|-------------------------------|
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers in | \$ 530,300 | \$ 530,300 | \$ 369,300 | \$ (161,000) |
| Transfers (out) | (700,200) | (700,200) | (575,200) | 125,000 |
| Total Other Financing Sources | | | | |
| (Uses) | (169,900) | (169,900) | (205,900) | (36,000) |
| Net Change in Fund Balance | \$ (102,150) | \$ (204,761) | 489,425 | \$ 694,186 |
| Beginning fund balance | | | 5,199,844 | |
| Ending Fund Balance | | | \$ 5,689,269 | |

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- * Expenditures exceeded appropriations at the legal level of control.

City of Heath, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended December 31,

| | <u>2024</u> | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|---|----------------------------|----------------------------|----------------------------|--------------------------|
| Total pension liability | | | | |
| Service cost | \$ 1,025,617 | \$ 900,873 | \$ 811,572 | \$ 820,876 |
| Interest | 1,227,502 | 1,137,916 | 1,063,292 | 979,233 |
| Differences between expected and actual experience | 196,891 | (86,409) | (180,244) | 59,450 |
| Changes of assumptions | - | 3,194 | - | - |
| Benefit payments, including refunds of participant contributions | (777,364) | (604,142) | (663,301) | (555,887) |
| Net change in total pension liability | <u>1,672,646</u> | <u>1,351,432</u> | <u>1,031,319</u> | <u>1,303,672</u> |
| Total pension liability - beginning | <u>\$ 18,061,083</u> | <u>\$ 16,709,651</u> | <u>\$ 15,678,332</u> | <u>\$ 14,374,660</u> |
| Total pension liability - ending (a) | <u>\$ 19,733,729</u> | <u>\$ 18,061,083</u> | <u>\$ 16,709,651</u> | <u>\$ 15,678,332</u> |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 743,799 | \$ 666,384 | \$ 603,777 | \$ 582,870 |
| Contributions - members | 426,072 | 381,726 | 343,056 | 340,008 |
| Net investment income | 1,718,755 | 1,670,426 | (1,113,409) | 1,716,650 |
| Benefit payments, including refunds of participant contributions | (777,364) | (604,142) | (663,301) | (555,887) |
| Administrative expenses | (10,991) | (10,595) | (9,613) | (7,927) |
| Other | (257) | (74) | 11,471 | 54 |
| Net change in plan fiduciary net position | <u>2,100,014</u> | <u>2,103,725</u> | <u>(828,019)</u> | <u>2,075,768</u> |
| Plan fiduciary net position - beginning | <u>16,493,525</u> | <u>14,389,800</u> | <u>15,217,819</u> | <u>13,142,051</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 18,593,539</u> | <u>\$ 16,493,525</u> | <u>\$ 14,389,800</u> | <u>\$ 15,217,819</u> |
| Fund's net pension liability - ending (a) - (b) | <u><u>\$ 1,140,190</u></u> | <u><u>\$ 1,567,558</u></u> | <u><u>\$ 2,319,851</u></u> | <u><u>\$ 460,513</u></u> |
| | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | 94.22% | 91.32% | 86.12% | 97.06% |
| Covered payroll | \$ 6,086,746 | \$ 5,453,229 | \$ 4,900,796 | \$ 4,857,253 |
| Fund's net pension liability as a percentage of covered payroll | 18.73% | 28.75% | 47.34% | 9.48% |

| 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---------------|---------------|---------------|---------------|--------------|--------------|
| \$ 782,078 | \$ 685,576 | \$ 642,835 | \$ 579,954 | \$ 545,303 | \$ 511,422 |
| 884,390 | 799,111 | 719,174 | 659,959 | 607,425 | 553,402 |
| 250,621 | 128,465 | 155,824 | (73,547) | (70,104) | 77,120 |
| - | 60,664 | - | - | - | 185,491 |
| (506,923) | (410,419) | (299,493) | (341,591) | (301,756) | (200,712) |
| 1,410,166 | 1,263,397 | 1,218,340 | 824,775 | 780,868 | 1,126,723 |
| \$ 12,964,494 | \$ 11,701,097 | \$ 10,482,757 | \$ 9,657,982 | \$ 8,877,114 | \$ 7,750,391 |
| \$ 14,374,660 | \$ 12,964,494 | \$ 11,701,097 | \$ 10,482,757 | \$ 9,657,982 | \$ 8,877,114 |
| \$ 536,083 | \$ 457,597 | \$ 433,642 | \$ 405,755 | \$ 352,127 | \$ 340,543 |
| 324,899 | 287,539 | 271,894 | 247,844 | 230,363 | 221,749 |
| 904,105 | 1,550,733 | (297,233) | 1,170,154 | 516,987 | 10,741 |
| (506,923) | (410,419) | (299,493) | (341,591) | (301,756) | (200,712) |
| (5,840) | (8,747) | (5,738) | (6,059) | (5,834) | (6,541) |
| (227) | (264) | (298) | (306) | (314) | (324) |
| 1,252,097 | 1,876,439 | 102,774 | 1,475,797 | 791,573 | 365,456 |
| 11,889,954 | 10,013,515 | 9,910,741 | 8,434,944 | 7,643,371 | 7,277,915 |
| \$ 13,142,051 | \$ 11,889,954 | \$ 10,013,515 | \$ 9,910,741 | \$ 8,434,944 | \$ 7,643,371 |
| \$ 1,232,609 | \$ 1,074,540 | \$ 1,687,582 | \$ 572,016 | \$ 1,223,038 | \$ 1,233,743 |
| 91.43% | 91.71% | 85.58% | 94.54% | 87.34% | 86.10% |
| \$ 4,641,411 | \$ 4,107,702 | \$ 3,884,201 | \$ 3,540,624 | \$ 3,290,903 | \$ 3,135,634 |
| 26.56% | 26.16% | 43.45% | 16.16% | 37.16% | 39.35% |

City of Heath, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN TEXAS MUNICIPAL RETIREMENT SYSTEM

Years Ended:

| | 9/30/2025 | 9/30/2024 | 9/30/2023 | 9/30/2022 |
|--|--------------|--------------|--------------|--------------|
| Actuarially determined employer contributions | \$ 829,870 | \$ 711,627 | \$ 634,102 | \$ 588,517 |
| Contributions in relation to the actuarially determined contribution | 829,870 | 711,627 | 634,102 | 588,517 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| Annual covered payroll | \$ 6,791,077 | \$ 5,823,463 | \$ 5,308,462 | \$ 4,765,347 |
| Employer contributions as a percentage of covered payroll | 12.22% | 12.22% | 11.95% | 12.35% |

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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 | 21 years (longest amortization ladder) |
| Asset Valuation Method | 10 Year smoothed market; 12% soft corridor |
| Inflation | 2.50% |
| Salary Increases | 3.60% to 11.85% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2023 valuation pursuant to an experience study of the period 2022. |
| Mortality | Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). |

Other Information:

Notes There were no benefit changes during the year.

| <u>9/30/2021</u> | <u>9/30/2020</u> | <u>9/30/2019</u> | <u>9/30/2018</u> | <u>9/30/2017</u> | <u>9/30/2016</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ 566,320 | \$ 501,630 | \$ 454,243 | \$ 429,534 | \$ 392,931 | \$ 363,477 |
| <u>566,320</u> | <u>501,630</u> | <u>454,243</u> | <u>429,534</u> | <u>392,931</u> | <u>363,477</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| \$ 4,813,274 | \$ 4,377,302 | \$ 4,075,081 | \$ 3,822,831 | \$ 3,482,574 | \$ 3,392,712 |
| 11.77% | 11.46% | 11.15% | 11.24% | 11.28% | 10.71% |

City of Heath, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFITS PLAN

Year Ended December 31,

| | <u>2024</u> | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Total OPEB liability | | | | |
| Service cost | \$ 10,347 | \$ 8,725 | \$ 13,232 | \$ 13,600 |
| Interest | 6,072 | 6,009 | 3,953 | 3,814 |
| Differences between expected and actual experience | (253) | (8,212) | 5,336 | 2,274 |
| Changes of assumptions | (9,557) | 8,809 | (83,863) | 7,059 |
| Benefit payments, including refunds of participant contributions | (3,652) | (3,272) | (2,450) | (2,429) |
| Net change in total OPEB liability | <u>2,957</u> | <u>12,059</u> | <u>(63,792)</u> | <u>24,318</u> |
| Total OPEB liability - beginning | <u>\$ 157,707</u> | <u>\$ 145,648</u> | <u>\$ 209,440</u> | <u>\$ 185,122</u> |
| Total OPEB liability - ending | <u><u>\$ 160,664</u></u> | <u><u>\$ 157,707</u></u> | <u><u>\$ 145,648</u></u> | <u><u>\$ 209,440</u></u> |
| | | | | |
| Covered-employee payroll | \$ 6,086,746 | \$ 5,453,229 | \$ 4,900,796 | \$ 4,857,253 |
| | | | | |
| City's total OPEB liability as a percentage of covered-employee payroll | 2.64% | 2.89% | 2.97% | 4.31% |

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

| <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | ¹ |
|----------------------------|----------------------------|----------------------------|----------------------------|--------------|
| \$ 12,068 | \$ 8,215 | \$ 10,487 | \$ 8,497 | |
| 4,104 | 4,115 | 3,568 | 3,264 | |
| (450) | (186) | (513) | - | |
| 26,652 | 24,932 | (8,897) | 9,071 | |
| (928) | (411) | (388) | (354) | |
| <u>41,446</u> | <u>36,665</u> | <u>4,257</u> | <u>20,478</u> | |
| \$ 143,676 | \$ 107,011 | \$ 102,754 | \$ 82,276 | |
| \$ 185,122 | \$ 143,676 | \$ 107,011 | \$ 102,754 | ² |
| <u><u>\$ 4,641,411</u></u> | <u><u>\$ 4,107,702</u></u> | <u><u>\$ 3,884,201</u></u> | <u><u>\$ 3,540,624</u></u> | |
| 3.99% | 3.50% | 2.76% | 2.90% | |

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

THIS PAGE LEFT BLANK INTENTIONALLY

Proposed Form of Opinion of Bond Counsel

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

[Issue Date]

**CITY OF HEATH, TEXAS
COMBINATION TAX AND LIMITED SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
SERIES 2026
DATED MARCH 15, 2026
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____**

AS BOND COUNSEL FOR THE CITY OF HEATH, TEXAS (the "Issuer") in connection with the issuance of the Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026, described above (the "Certificates of Obligation"), we have examined into the legality and validity of the Certificates of Obligation, 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 of Obligation. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Certificates of Obligation (the "Ordinance").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the City Council of the Issuer relating to the issuance of the Certificates of Obligation, including the Ordinance and other documents authorizing and relating to the issuance of the Certificates of Obligation; and we have examined various certificates and documents executed by officers and officials of the Issuer upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Certificates (Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates of Obligation have been duly authorized, issued, and delivered in accordance with law; and that the Certificates of Obligation, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity and governmental immunity of political subdivisions which permit the exercise of judicial discretion, 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 of Obligation have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates of Obligation are additionally secured by and payable from limited surplus revenues (not to exceed \$1,000) 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 that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Certificates of Obligation (i) is excludable from the gross income of the owners thereof and (ii) the Certificates of Obligation will not be treated as "specified private activity bonds" the interest on which would 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 of Obligation and the use of the property financed and refinanced 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 of Obligation may become includable in gross income retroactively to the date of issuance of the Certificates of Obligation.

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 of Obligation, including the amount, accrual or receipt of interest on, the Certificates of Obligation. Owners of the Certificates of Obligation should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates of Obligation.

WE CALL YOUR ATTENTION TO THE FACT THAT the interest on tax-exempt obligations, such as the Certificates of Obligation, is 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 of Obligation, nor as to any insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates of Obligation is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Certificates of Obligation 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 of Obligation 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 of Obligation, 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 of Obligation 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 surplus net 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 of Obligation 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 of Obligation. 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 of Obligation as includable in gross income for federal income tax purposes.

Respectfully,

THIS PAGE LEFT BLANK INTENTIONALLY

Municipal Advisory Services
Provided By

