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.

HTS Continuing Disclosure Services
A Division of Hilltop Securities

PRELIMINARY OFFICIAL STATEMENT

Dated November 23, 2026

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

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date hereof, subject to the matters described herein. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

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

$10,255,000*
CITY OF HIGHLAND VILLAGE, TEXAS
(Denton County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026

Dated Date: December 1, 2026 **Due: February 15, as shown on page 2**
Interest accrues from the Delivery Date (defined herein)

PAYMENT TERMS. . . Interest on the $10,255,000* City of Highland Village, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates") will accrue from the date of initial delivery to the Initial Purchaser (defined herein) of the Certificates (the "Delivery Date", anticipated to be on or about December 29, 2026), will be payable February 15 and August 15 of each year commencing August 15, 2027, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, 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 (defined below) 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 BOKF, NA, Dallas, Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the City's Home Rule Charter, the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the City of Highland Village, Texas (the "City"), payable from a combination of (i) the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed $2,500) of the Net Revenues from the operation of the City's combined Water and Sewer System, as provided in the ordinance authorizing the Certificates (the "Ordinance") anticipated to be adopted by the City Council of the City on December 8, 2026 (see "THE CERTIFICATES - Authority for Issuance of the Certificates").

PURPOSE. . . Proceeds from the sale of the Certificates will be used for (i) constructing, improving and extending the City's water and sewer system, including the acquisition of land and rights-of-way therefor and (ii) professional services rendered in connection with the sale of the Certificates (see "PLAN OF FINANCING – Purpose").

CUSIP PREFIX: 430840
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 Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas, (see "Appendix C - Form of Bond Counsel's Opinion"). Norton Rose Fulbright US LLP will also act as disclosure counsel to the City.

DELIVERY. . . It is expected that the Certificates will be available for delivery through the facilities of DTC on December 29, 2026.

BIDS DUE TUESDAY, DECEMBER 8, 2026 AT 10:00 AM, CENTRAL TIME

* Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP Prefix: 430840[(1)]

Amount	Maturity 15-Feb	Initial Rate	Initial Yield	CUSIP Suffix[(1)]
$ 55,000	2030			
55,000	2031			
55,000	2032			
60,000	2033			
65,000	2034			
425,000	2035			
445,000	2036			
470,000	2037			
495,000	2038			
735,000	2039			
770,000	2040			
810,000	2041			
855,000	2042			
895,000	2043			
940,000	2044			
990,000	2045			
1,040,000	2046			
1,095,000	2047			

(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 Municipal Advisor or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

REDEMPTION OF THE CERTIFICATES . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2036, in whole or in part, in principal amounts of $5,000, or any integral multiple thereof, on February 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – Optional Redemption of the Certificates"). If two or more consecutive serial maturities of the Certificates are grouped into a single maturity (the "Term Certificates") by the Initial Purchaser, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance and will be described in the final Official Statement.

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* Preliminary, subject to change.

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

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

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

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

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

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

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

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

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

THE CITY ..... The City of Highland Village, Texas (the "City") is a political subdivision of the State of Texas (the "State"), and is a home rule municipal corporation located in Denton County, Texas. The City covers approximately 5.5 square miles (see "INTRODUCTION - Description of the City").

THE CERTIFICATES ..... The City's $10,255,000* Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates") are being issued as serial Certificates maturing February 15 in each of the years 2030 through 2047, inclusive, unless the Initial Purchaser designates two or more consecutive serial maturities as Term Certificates (see "THE CERTIFICATES - Description of the Certificates").

PAYMENT OF INTEREST ON THE CERTIFICATES ..... Interest on the Certificates accrues from the date of initial delivery (the "Delivery Date", anticipated to be December 29, 2026), and is payable February 15 and August 15 of each year, commencing August 15, 2027, until maturity or prior redemption (see "THE CERTIFICATES - Description of the Certificates").

AUTHORITY FOR ISSUANCE FOR THE CERTIFICATES ..... The Certificates are issued pursuant to the City's Home Rule Charter, the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance anticipated to be passed by the City Council of the City on December 8, 2026 (the "Ordinance"). (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 an annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, and (ii) a limited pledge (not to exceed $2,500) of the Net Revenues from the operation of the City's combined Waterworks and Sewer System, as provided in the Ordinance (see "THE CERTIFICATES - Security and Source of Payment of the Certificates").

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS ..... The City will not designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

OPTIONAL REDEMPTION OF THE CERTIFICATES ..... The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2036, in whole or in part, in principal amounts of $5,000, or any integral multiple thereof, on February 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – Optional Redemption of the Certificates"). If two or more consecutive serial maturities of the Certificates are grouped into a single maturity (the "Term Certificates") by the Initial Purchaser, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance and will be described in the final Official Statement.

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 (i) constructing, improving and extending the City's water and sewer system, including the acquisition of land and rights-of-way therefor and (ii) professional services rendered in connection with the sale of the Certificates (see "PLAN OF FINANCING – Purpose").

RATING FOR THE CERTIFICATES ..... The Certificates are expected to be rated "AAA" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") without regard to 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 of the Certificates is BOKF, NA, 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
2023	16,700	$ 2,255,395,328	$ 135,054	$ 24,410,000	1.08%	$ 1,462
2024	16,697	3,055,513,547	182,998	25,805,000	0.84%	1,545
2025	16,875	3,376,559,075	200,092	31,169,000	0.92%	1,847
2026	16,875	3,518,411,665	208,498	29,451,000	0.84%	1,745
2027	16,889	3,423,962,449	202,733	27,601,000 [4]	0.81% [4]	1,634 [4]

(1) Source: The City's Annual Comprehensive Financial Reports and City Staff.
(2) As reported by the Denton Central Appraisal District to the State Property Tax Board. Subject to change during the ensuing year.
(3) Does not include self-supporting debt.
(4) Projected. Includes the Certificates. Preliminary, subject to change.

For additional information regarding the City, please contact:

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Charlotte Wilcox Mayor - Place 1	15 Years	May-28	Realtor
Hogan Heathington Councilmember, Place 2	5 Months	May-28	Consultant
Kevin Cox Councilmember, Place 3	3 Years	May-27	Project Manager
Shawn Nelson Deputy Mayor Pro Tem, Place 4	4 Years	May-28	Consultant
Rhonda Hurst Councilmember, Place 5	3 Years	May-27	Project Manager
Daniel Jaworski Councilmember, Place 6	7 Years	May-28	Cybersecurity Manager
Brian Fiorenza Mayor Pro Tem, Place 7	10 Years	May-27	Self Employed

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service to City	Total Governmental Service
Paul Stevens	City Manager	6 Years	36 Years
Heather Miller, CPA	Finance Director	19 Years	19 Years
Angela Miller	City Secretary	11 Years	30 Years

CONSULTANTS AND ADVISORS

Auditors ..... Pattillo, Brown & Hill, L.L.P.
Waco, Texas

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

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

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

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

$10,255,000*
CITY OF HIGHLAND VILLAGE, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026

INTRODUCTION

This Preliminary Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the $10,255,000* City of Highland Village, Texas, Combination Tax and 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 anticipated to be adopted on the date of sale of the Certificates which will authorize the issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

There follows in this Preliminary Official Statement descriptions of the Certificates and certain information regarding the City of Highland Village, 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 was incorporated in 1963, first adopted its Home-Rule Charter in 1986 and last amended said charter by an election in 2017. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Council members elected for staggered two year terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2020 Census population for the City was 15,899, while the estimated 2027 population is 16,889. The City covers approximately 5.5 square miles.

PLAN OF FINANCING

PURPOSE. . . Proceeds from the sale of the Certificates will be used for (i) constructing, improving and extending the City's water and sewer system, including the acquisition of land and rights-of-way therefor and (ii) professional services rendered in connection with the sale of the Certificates .

SOURCES AND USES OF FUNDS . . Proceeds from the sale of the Certificates, and other lawfully available funds of the City, if any are necessary, are expected to be expended as follows:

SOURCES OF FUNDS	
Par Amount of the Certificates	
Net Premium [(1)]	
TOTAL SOURCES	
USES OF FUNDS	
Project Fund	
Initial Purchaser's Discount	
Cost of Issuance	
TOTAL USES	

(1) Includes Initial Purchaser's Discount which is not part of the proceeds received by the City.

* Preliminary, subject to change.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES. . . The Certificates are dated December 1, 2026, and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the date of initial delivery (the "Delivery Date", anticipated to be December 29, 2026), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year commencing August 15, 2027, until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").

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

SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES. . . The Certificates are payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and from a limited pledge of the Net Revenues (as defined in the Ordinance) of the City's combined Waterworks and Sewer System (the "System"), such pledge being limited to an amount of $2,500 and subject to the prior lien on and pledge of the Net Revenues of the System to the payment and security of any Prior Lien Obligations (as defined and identified in the Ordinance) hereafter issued by the City. As of the date of this Official Statement, no Prior Lien Obligations are outstanding.

In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations without limitation as to principal amount but subject to any applicable terms, conditions or restrictions under law or otherwise as well as the right to issue additional obligations payable from the same sources as are the Certificates and, together with the Certificates and Previously Issued Certificates, equally and ratably secured by a parity lien on and pledge of the surplus Net Revenues of the System.

OPTIONAL REDEMPTION OF THE CERTIFICATES . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2036, in whole or in part, in principal amounts of $5,000, or any integral multiple thereof, on February 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of such Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION . . .If two or more consecutive serial maturities of the Certificates are grouped into a single maturity (the "Term Certificates") by the Initial Purchaser, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance and will be described in the final Official Statement.

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

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, or any other notice, 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 a paying agent or other authorized entity, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent accounting or consulting firm to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates being defeased, 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 Government Securities. The Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (d) any other then authorized securities or obligations that may be used to defease obligations such as the Certificates under the then applicable laws of the State of Texas. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. The City has reserved the option, however, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date, which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee 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 considers the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

DTC, New York, New York, 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 security certificate for each maturity will be issued for the Certificates in the aggregate principal amount thereof and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participant to whose account such Certificates are credited, which may or may not be a Beneficial Owner. 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 the Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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. 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).

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

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

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

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

Effect of Termination of Book-Entry-Only System. In the event the Book-Entry-Only System with respect to the Certificates is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Certificates is discontinued by the City, printed securities certificates will be issued to the holders of the affected Certificates, and the applicable Certificates will be subject to transfer, exchange, and registration provisions as set forth in the Ordinance, summarized under "THE CERTIFICATES - Transfer, Exchange, and Registration" below.

PAYING AGENT/REGISTRAR. . . The initial Paying Agent/Registrar of the Certificates is BOKF, NA, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, 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; provided, however, that 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, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - Book-Entry-Only System" above 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 (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Registered Owner of the uncalled balance of a Certificate.

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

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

REMEDIES . . . The Ordinance does not establish specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on any of the Certificates when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Certificates, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, conditions or obligations. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the obligations and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so it rests with the discretion of the court, but it may not be arbitrarily refused. There is no acceleration of maturity of any of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On April 1, 2016, the Texas Supreme Court ruled in Wasson Interests, Ltd. v. City of Jacksonville, 489 S.W. 3d 427 (Tex. 2016) ("Wasson") that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. The Texas Supreme Court reviewed Wasson again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court has ruled in Tooke v. City of Mexia, 197 S.W. 3d 325 (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.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors, including 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 creditors' rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Certificates will be Cede & Co., the nominee of DTC. See "THE CERTIFICATES - Book-Entry-Only System" above for a description of the duties of DTC with regard to ownership of the Certificates.

AMENDMENTS …The City may, without the consent of or notice to any registered owner, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or 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 affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the outstanding Certificates, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Certificates, reduce the principal amount thereof, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Certificates; (2) give any preference to any Certificate over any other Certificate; or (3) reduce the aggregate principal amount of Certificates required to be held by Holders for consent to any such amendment, addition, or rescission.

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 Denton Central Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in their 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.

Through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2026 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than $5.32 million (the "Maximum Property Value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property.

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 – City and Taxpayer Remedies."

STATE MANDATED HOMESTEAD EXEMPTIONS. . . State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action, and surviving spouses of first responders killed or fatally wounded in the line of duty. 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. Cities, counties and school districts that adopted an optional homestead exemption described in (1), above, for the 2022 tax year are prohibited from repealing or reducing the exemption through December 31, 2027. The exemption described in (2), above, may 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. Effective January 1, 2026, a person is entitled to an exemption from taxation by a taxing unit of $125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of $125,000, regardless of where the property is located in the taxing unit.

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

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

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

OTHER EXEMPT PROPERTY. . . Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property. Beginning with the 2026 tax year, intangible personal property is not taxable pursuant to the Property Tax Code.

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

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

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

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

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

Owners of certain property (being (i) commercial real and personal property, (ii) real and personal property of utilities, (iii) industrial and manufacturing real and personal property, and (iv) multifamily residential real property) with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at $62,833,169 for the 2026 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

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

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

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

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

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

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

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

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

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

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

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

"unused increment rate" means the greater of (i) zero; and (ii) the rate expressed in dollars per $100 of taxable value calculated by dividing (a) the sum of the foregone revenue amount for each of the preceding three tax years by (b) the "current total value" as defined in Section 26.012 of the Property Tax Code.

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

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

A city must annually calculate its "voter-approval tax rate" and "no-new-revenue tax rate" (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year. Furthermore, during the 89th Regular Session, the Legislature adopted Senate Bill 1851 ("SB 1851"), which is applicable in connection with the adoption of an ad valorem tax rate for tax year 2026 and thereafter. Under SB 1851, codified as Section 103.005 of the Texas Local Government Code, if the Texas Attorney General determines that a city has (a) not had its records and accounts audited and an annual financial statement prepared based on the audit or (b) failed to file its financial statements and auditor's opinion on such financial statements with the city secretary or city clerk before the 180th day after the city's fiscal year end, the city may not adopt an ad valorem tax rate that exceeds the city's no-new-revenue tax rate for (i) the tax year that begins on or after the date of the Attorney General's determination or (ii) a subsequent tax year that begins before the date the city has had an annual audit completed and financial statements prepared or filed the financial statement and auditor's opinion on such financial statement with the city secretary, as applicable.

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

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

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

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

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

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

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

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

TAX RATE LIMITATIONS. . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 of taxable assessed valuation to fund operations and to pay debt service. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of $2.50 per each $100 of taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, based on a 90% tax collection rate as calculated at the time of issuance.

STATE LEGISLATION

The Texas Legislature meets in regular session in odd numbered years for 140 days. When the Texas 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. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the City.

The Regular Session of the 90th Texas Legislature will convene on January 12, 2027 and is scheduled to conclude on May 31, 2027. The City cannot predict what legislation may be introduced during the 90th Texas Legislature or any upcoming legislative sessions and, if passed, the impact that any future legislation will or may have on the security for the Certificates.

CITY APPLICATION OF TAX CODE . . . The Denton County Tax Office collects taxes for the City. The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $75,000; the disabled are also granted an exemption of $75,000.

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

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

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

Ad valorem taxes are levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property.

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

The City does not tax freeport property.

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

The City has adopted an economic development policy.

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TABLE 1 - ASSESSED VALUATION AND EXEMPTION

2026/2027 Market Valuation Established by Denton Central Appraisal District (excluding totally exempt property)		$ 3,659,039,029
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead/Over 65 Exemptions	139,287,000	
Disabled Persons	2,400,000	
Disabled Veterans	1,304,000	
Cap Adjustment	64,271,314	
Other Exemptions	24,400,029	
Agricultural Use Reductions	3,414,237	235,076,580
2026/27 Taxable Assessed Valuation		$ 3,423,962,449
General Obligation Debt Payable from Ad Valorem Taxes (as of 11/15/2026)		$ 38,796,000
The Certificates[(1)]		10,255,000
Total General Obligation Debt Payable from Ad Valorem Taxes		$ 49,051,000
Less: Self Supporting Debt (as of 11/15/2026)		
Water and Sewer System General Obligation Debt		$ 5,660,000
Highland Village Community Development Corporation		3,685,000
The Certificates (Water and Sewer System Supported)[(1)]		10,255,000
Total Self-Supported Debt[(1)]		$ 19,600,000
Net General Obligation Debt Payable from Ad Valorem Taxes		$ 29,451,000
General Obligation Interest and Sinking Fund (as of 11/1/2026)		$ 194,168
Ratio of Total Funded Debt to Taxable Assessed Valuation		1.43%
Ratio of Net Funded Debt to Taxable Assessed Valuation		0.86%

2027 Estimated Population - 16,889
Per Capita Taxable Assessed Valuation - $202,733
Per Capita Total Funded Debt $2,904
Per Capita Net Funded Debt - $1,744

(1) Preliminary, subject to change.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2027		2026		2025	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 3,177,386,008	86.84%	$ 3,300,581,829	87.32%	$ 3,250,086,800	87.41%
Real, Residential, Multi-Family	34,911,395	0.95%	36,163,881	0.96%	39,057,590	1.05%
Real, Vacant Lots/Tracts	9,975,140	0.27%	10,878,243	0.29%	10,207,788	0.27%
Real, Acreage (Land Only)	3,431,251	0.09%	3,089,178	0.08%	1,279,226	0.03%
Real, Farm and Ranch Improvements	2,114,091	0.06%	2,112,522	0.06%	3,889,162	0.10%
Real, Commercial	351,428,257	9.60%	348,958,755	9.23%	341,441,168	9.18%
Real and Intangible Personal, Utilities	29,469,748	0.81%	27,846,759	0.74%	25,818,177	0.69%
Tangible Personal, Business	50,323,139	1.38%	50,152,370	1.33%	46,516,670	1.25%
Real Property, Inventory	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	$ 3,659,039,029	100.00%	$ 3,779,783,537	100.00%	$ 3,718,296,581	100.00%
Less: Total Exemptions/Reductions	235,076,580		261,371,872		341,737,506	
Taxable Assessed Value	$ 3,423,962,449		$ 3,518,411,665		$ 3,376,559,075	

	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2024		2023	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 2,755,674,558	86.50%	$ 1,999,103,545	84.02%
Real, Residential, Multi-Family	29,372,693	0.92%	21,318,452	0.90%
Real, Vacant Lots/Tracts	16,732,573	0.53%	14,092,802	0.59%
Real, Acreage (Land Only)	1,660,392	0.05%	1,558,032	0.07%
Real, Farm and Ranch Improvements	1,851,843	0.06%	1,734,502	0.07%
Real, Commercial	299,980,473	9.42%	283,064,598	11.90%
Real and Intangible Personal, Utilities	24,122,441	0.76%	18,114,276	0.76%
Tangible Personal, Business	48,559,796	1.52%	39,782,849	1.67%
Real Property, Inventory	7,906,855	0.25%	490,553	0.02%
Total Appraised Value Before Exemptions	$ 3,185,861,624	100.00%	$ 2,379,259,609	100.00%
Less: Total Exemptions/Reductions	130,348,077		123,864,281	
Taxable Assessed Value	$ 3,055,513,547		$ 2,255,395,328	

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

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TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated 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
2023	16,700	$ 2,255,395,328	$ 135,054	$ 24,410,000	1.08%	$ 1,462
2024	16,697	3,055,513,547	182,998	25,805,000	0.84%	1,545
2025	16,875	3,376,559,075	200,092	31,169,000	0.92%	1,847
2026	16,875	3,518,411,665	208,498	29,451,000	0.84%	1,745
2027	16,889	3,423,962,449	202,733	27,601,000 [4]	0.81% [4]	1,634 [4]

(1) Source: The City's Annual Comprehensive Financial Reports and City Staff.
(2) As reported by the Denton Central Appraisal District to the State Property Tax Board. Subject to change during the ensuing year.
(3) Does not include self-supporting debt.
(4) Projected. Includes the Certificates. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2023	$ 0.54683	$ 0.47179	$ 0.07503	$ 15,391,491	99.57%	99.71%
2024	0.50139	0.43368	0.06771	15,895,453	99.43%	99.43%
2025	0.50027	0.42473	0.07554	16,887,454	99.45%	99.45%
2026	0.50098	0.42240	0.07859	17,625,969	99.56% [1]	99.56% [1]
2027	0.52854	0.44696	0.08158	18,146,481	In Process of Collections	

(1) Collections as of September 30, 2026.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2026/27 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
MP Shops at Highland Village LLC	Shopping Center	$ 82,000,000	2.39%
Core Power Highland Village LLC	Shopping Center	42,191,341	1.23%
VP Highland TX Owner LLC	Shopping Center	38,030,502	1.11%
PS LPT Properties Investors	Real Estate	23,900,000	0.70%
Bowery Park Kobalt LLC & DE	Commercial Building	20,177,246	0.59%
ADV Highland Village Property Owner, LLC	Real Estate	15,105,485	0.44%
Wal-Mart Stores Texas LP (ID# 607715)	Retail	14,359,505	0.42%
Brixmor Holdings 12 SPE LLC	Residential Homes	12,331,043	0.36%
Atmost Energy Mid-Tex Distribution	Distribution	11,887,130	0.35%
Barnett Healthcare Prop LLC	Healthcare	9,900,000	0.29%
		$ 269,882,252	7.88%

Source: Denton Central Appraisal District.

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

TABLE 6 –-TAX ADEQUACY [(1)]

Net Principal and Interest Requirements, FY 2027	$ 2,791,266
$0.0823 Tax Rate at 99% Collection Produces	$ 2,791,437
Average Net Principal and Interest Requirements, FY 2027-2045	$ 1,986,064
$0.0586 Tax Rate at 99% Collection Produces	$ 1,986,378
Maximum Net Principal and Interest Requirements, FY 2028	$ 2,874,971
$0.0848 Tax Rate at 99% Collection Produces	$ 2,875,163

(1) Does not include self-supporting debt. Preliminary, subject to change. See Table 11 – Computation of Self-Supporting Debt.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2026/2027 Taxable Assessed Value [(1)]	2026/2027 Tax Rate [(1)]	Total Tax Supported Debt as of 11/15/2026 [(1)]	Estimated % Applicable [(1)]	City's Overlapping Tax Supported Debt as of 11/15/2026
City of Highland Village	$ 3,423,962,449	$ 0.5285	$ 49,051,000 [(2)]	100.00%	$ 49,051,000 [(2)]
Denton County	215,798,841,754	0.1834	700,610,000	1.60%	11,209,760
Lewisville ISD	61,478,041,292	1.0778	1,389,575,000	4.86%	67,533,345
Total Direct and Overlapping Tax Supported Debt					$ 127,794,105
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					3.73%
Per Capita Direct and Overlapping Tax Supported Debt					$ 7,567

(1) Source: Municipal Advisory Council of Texas.
(2) Includes self-supporting debt. Includes the Certificates. Preliminary, subject to change.

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DEBT INFORMATION

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	All Outstanding General Obligation Debt Service			The Certificates[1]			Less: Self-Supported Debt Service[2][3]	Net Total Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total			
2027	$ 3,050,000	$ 1,264,182	$ 4,314,182	$ -	$ 321,893	$ 321,893	$ 1,844,809	$ 2,791,266	
2028	3,257,000	1,137,546	4,394,546	-	512,750	512,750	2,032,325	2,874,971	
2029	2,999,000	1,014,499	4,013,499	-	512,750	512,750	1,919,064	2,607,184	
2030	2,790,000	898,830	3,688,830	55,000	511,375	566,375	1,653,106	2,602,099	
2031	2,785,000	784,059	3,569,059	55,000	508,625	563,625	1,662,081	2,470,603	30.56%
2032	2,605,000	681,856	3,286,856	55,000	505,875	560,875	1,657,106	2,190,625	
2033	2,485,000	598,831	3,083,831	60,000	503,000	563,000	1,654,006	1,992,825	
2034	2,560,000	520,806	3,080,806	65,000	499,875	564,875	1,654,831	1,990,850	
2035	1,720,000	459,031	2,179,031	425,000	487,625	912,625	1,123,981	1,967,675	
2036	1,760,000	414,781	2,174,781	445,000	465,875	910,875	1,121,456	1,964,200	55.39%
2037	1,805,000	369,906	2,174,906	470,000	443,000	913,000	1,122,531	1,965,375	
2038	1,855,000	323,653	2,178,653	495,000	418,875	913,875	1,122,078	1,970,450	
2039	1,205,000	286,700	1,491,700	735,000	388,125	1,123,125	1,123,125	1,491,700	
2040	1,235,000	259,300	1,494,300	770,000	350,500	1,120,500	1,120,500	1,494,300	
2041	1,260,000	231,200	1,491,200	810,000	311,000	1,121,000	1,121,000	1,491,200	77.09%
2042	1,275,000	191,500	1,466,500	855,000	269,375	1,124,375	1,124,375	1,466,500	
2043	1,330,000	139,400	1,469,400	895,000	225,625	1,120,625	1,120,625	1,469,400	
2044	1,380,000	85,200	1,465,200	940,000	179,750	1,119,750	1,119,750	1,465,200	
2045	1,440,000	28,800	1,468,800	990,000	131,500	1,121,500	1,121,500	1,468,800	
2046	-	-	-	1,040,000	80,750	1,120,750	1,120,750	-	97.77%
2047	-	-	-	1,095,000	27,375	1,122,375	1,122,375	-	100.00%
	$ 38,796,000	$ 9,690,081	$ 48,486,081	$ 10,255,000	$ 7,655,518	$ 17,910,518	$ 28,661,377	$ 37,735,222	

(1) Preliminary, subject to change.
(2) Includes the Certificates. Preliminary; subject to change.
(3) Subject to annual appropriation by the City Council from various net resources. It is the City's current policy to pay such self-supporting debt from such revenues; this policy is subject to change in the future. 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 collect an ad valorem tax to pay such debt service.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Net Tax Supported Debt Service Requirements, Fiscal Year Ending September 30, 2027 [1]		$ 2,791,266
Interest and Sinking Fund, Fiscal Year Ended September 30, 2026 [2]	180,634	
Budgeted Fiscal Year 2027 Interest and Sinking Fund Tax Levy	2,791,266	
Budgeted Interest Income, Tax Penalty and Interest, and Delinquent Property Tax	33,291	3,005,191
Estimated Balance, Fiscal Year Ending September 30, 2027		$ 213,925

(1) Preliminary, subject to change.
(2) Unaudited.

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Amount Issued as of 11/1/2026	Unissued Balance
Street Improvements	November 7, 2017	$ 2,860,000	$ 2,800,000	$ 60,000
Park and Recreation	November 7, 2017	4,290,000	4,200,000	90,000

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

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TABLE 11 - COMPUTATION OF SELF-SUPPORTING DEBT

Water and Sewer System General Obligation Debt

	FY 2027 Outstanding Principal[1]	FY 2027 Debt Service (P+I)
General Obligation Refunding Bonds, Series 2017	$ 1,145,000	$ 431,385
Combination Tax and Revenue Certificates of Obligation, Series 2018	2,120,000	209,156
General Obligation Refunding Bonds, Series 2021	2,395,000	348,475
Combination Tax and Revenue Certificates of Obligation, Series 2026[2]	10,255,000	321,893
TOTAL	$ 15,915,000	$ 1,310,909

Waterworks and Sewer System Revenue Available for Debt Service, FYE 2025	$ 1,692,009
Less: Water and Sewer System Revenue Bonds Debt Service	-
Net Revenue Available for Waterworks and Sewer GO Bonds[3]	$ 1,692,009

Highland Village Community Development Corporation General Obligation Debt

	FY 2027 Outstanding Principal[1]	FY 2027 Debt Service (P+I)
General Obligation Refunding Bonds, Series 2021	$ 3,685,000	$ 533,900
TOTAL	$ 3,685,000	$ 533,900

Highland Village Community Development Corporation Sales Tax Revenue, FYE 2025[4]	$ 1,022,143

(1) Principal outstanding at the beginning of the Fiscal Year.
(2) Preliminary; subject to change.
(3) The City considers the general obligation debt listed above to be self-supporting; however, the System revenues described above are not (except to the extent of certain limited pledges of certain of such revenues in amounts of up to $2,500 in connection with prior certificates of obligation issues, which may or may not have been fully satisfied) pledged to the payment of such general obligation debt. The transfers of such revenues to make debt service payments on such general obligation debt is discretionary and may be discontinued by the City, in whole or in part, at any time. In the event the City chooses to discontinue such transfer of System revenues or such System revenues are not otherwise available to pay debt service on such general obligation debt, the City will be required to levy ad valorem taxes or to appropriate other lawfully available funds of the City in amounts sufficient to pay the debt service on such general obligation debt.
(4) The City considers the general obligation debt listed above to be self-supporting and has historically used sales tax revenue transferred from the Highland Village Community Development Corporation to the City to pay debt service on such general obligation debt. However, the sales tax is not pledged to the payment of such general obligation debt and if the Highland Village Community Development Corporation ceases to transfer such sales tax revenue to the City, then the City will be required to levy and collect ad valorem taxes or to appropriate other lawfully available funds of the City in amounts sufficient to pay the debt service on such general obligation debt.

TABLE 12 - OTHER OBLIGATIONS

Lease Payable

The City has entered into multiple 48-month and 60-month leases as lessee both for the right to the use of vehicles through Enterprise. The City is required to make fixed monthly payments ranging between $654 and $2,066.

In addition, the City has entered into a 60-month lease for the right to the use of cameras through Axon. The City is required to make annual payments ranging between $95,799 and $99,225.

A summary of the City's long-term lease payable as of September 30, 2025, is as follows:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Lease Liability	Interest Current Year	Amounts Outstanding 9/30/2025
Governmental Activities					
Multifunctional printers	0.29%	2022	$ 9,236	$ 1	$ -
Fire Department Medical Equipment	0.74%	2021	249,768	932	84,265
Camera	3.45%	2024	711,660	20,415	540,874
Animal Shelter Building	2.51%	2022	365,356	8,376	326,972
Vehicles	2.23-8.37%	2023	2,604,378	93,364	1,871,592
Totals				$ 123,088	$ 2,823,703
Business-Type Activities					
Vehicles	2.27-8.28%	2023	$ 610,311	$ 45,326	$ 456,405
Totals				$ 45,326	$ 456,405

Annual lease payments to maturity are as follows:

	Governmental Activities		
Year Ending September 30	Principal	Interest	Total Requirements
2026	$ 662,032	$ 134,027	$ 796,059
2027	765,520	96,060	861,580
2028	525,930	56,860	582,790
2029	329,929	30,244	360,173
2030	176,770	15,313	192,083
2031-2035	170,282	32,335	202,617
2036-2040	80,560	19,410	99,970
2041-2045	91,334	8,636	99,970
2046-2047	21,346	314	21,660
Totals	$ 2,823,703	$ 393,199	$ 3,216,902

	Business-Type Activities		
Year Ending September 30	Principal	Interest	Total Requirements
2026	$ 123,578	$ 29,491	$ 153,069
2027	138,644	20,133	158,777
2028	91,091	11,223	102,314
2029	72,697	4,830	77,527
2030	28,341	1,126	29,467
2031-2035	2,054	12	2,066
Totals	$ 456,405	$ 66,815	$ 523,220

SBITA Payable

The City has entered into multiple subscriptions for the use of various software. As of September 30, 2025, the value of the subscription liability is $791,490. The City is required to make fixed annual payments ranging between $495 and $58,082 with interest rates ranging from 2.310% to 3.461%.

A summary of the City's long-term SBITA payable as of September 30, 2025, is as follows:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Lease Liability	Interest Current Year	Amounts Outstanding 9/30/2025
Governmental Activities					
Right to Use:					
Various software	2.31%	2023	$ 583,313	$ 7,254	$ 204,345
Totals				$ 7,254	$ 204,345
Business-type Activities					
Right to Use:					
Meter reading software	3.46%	2023	$ 846,310	$ 22,410	$ 587,145
Totals				$ 22,410	$ 587,145

Annual SBITA payments to maturity are as follows:

	Governmental Activities		
Year Ending September 30	Principal	Interest	Total Requirements
2026	$ 89,190	$ 5,873	$ 95,063
2027	91,725	3,337	95,062
2028	11,536	728	12,264
2029	11,894	370	12,264
2030	-	-	-
2031-2034	-	-	-
Totals	$ 204,345	$ 10,308	$ 214,653

	Business-Type Activities		
Year Ending September 30	Principal	Interest	Total Requirements
2026	$ 88,948	$ 19,596	$ 108,544
2027	91,854	16,691	108,545
2028	94,854	13,690	108,544
2029	97,953	10,591	108,544
2030	50,691	7,390	58,081
2031-2034	162,845	11,400	174,245
Totals	$ 587,145	$ 79,358	$ 666,503

RETIREMENT PLAN. . . The City participates as one of more than 942 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System ("TMRS"). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at tmrs.com.

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

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

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

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

For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the Annual Comprehensive Financial Report".

NET PENSION LIABILITY . . . The City's Net Pension Liability was measured as of December 31, 2024, and the Total Pension Liability 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	2.5% per year
Overall payroll growth	2.75% per year
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Salary increases are assumed to occur once a year on January 1 so that the pay used for the period year following the valuation is equal to the reported pay for the prior year. Salaries are assumed to increase on a graduated service ‑ based scale.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018, to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rate (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 by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The target allocation and best estimates of the expected return for each major asset class in fiscal year 2025 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.10%
Core Fixed Income	6.0%	5.00%
Non-Core Fixed Income	6.0%	6.80%
Hedge Funds	5.0%	6.40%
Private Equity	13.0%	8.50%
Private Debt	13.0%	8.20%
Real Estate	12.0%	6.70%
Infrastructure	6.0%	6.00%
Other Private Markets	4.0%	7.30%
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.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2023	$ 63,154,643	$ 57,821,250	$ 5,333,393
Changes for the year:			
Service cost	2,329,915	-	2,329,915
Interest	4,281,017	-	4,281,017
Difference between expected and actual experience	117	-	117
Changes in assumptions	-	-	-
Contributions - employer	-	1,764,369	(1,764,369)
Contributions - employee	-	872,832	(872,832)
Net investment income	-	6,018,551	(6,018,551)
Benefit payments, including refunds of employee contributions	(1,794,261)	(1,794,261)	-
Administrative expenses	-	(38,531)	38,531
Other changes	-	(901)	901
Net changes	4,816,788	6,822,059	(2,005,271)
Balance at 12/31/2024	$ 67,971,431	$ 64,643,309	$ 3,328,122

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 13,383,567	$ 3,328,122	$ (4,870,999)

PENSION PLAN FIDUCIARY NET POSITION . . . Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at www.tmrs.com.

PENSION EXPENSE AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO PENSIONS . . . For the year ended September 30, 2025, the City recognized pension expense of $1,670,750. As of September 30, 2025, the City reported deferred outflows and inflows related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 81	$ 68,187
Changes in actuarial assumptions	-	179,008
Difference between projected and actual investment earnings	-	707,590
Contributions subsequent to the measurement date	1,395,560	-
Totals	$ 1,395,641	$ 954,785

$1,395,560 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	
2026	$ (138,411)
2027	526,187
2028	(919,356)
2029	(423,123)

DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN – TMRS SUPPLEMENTAL DEATH BENEFITS FUND. . . The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The Plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. SDBF includes coverage for both active and retired members, and assets are commingled for the payment of such benefits. Therefore, there are no assets accumulated in an OPEB Trust in accordance with paragraph 4 of GASB Statement No. 75.

The SDBF provides group-term life insurance to City employees who are active members in TMRS, including retirees. The City Council opted into this program via an ordinance, and 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.

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post-employment benefit and is a fixed amount of $7,500.

For more detailed information concerning the defined other post-employment benefit plans and the City's total OPEB liability, see Appendix B, "Excerpts from the Annual Comprehensive Financial Report" - Note 2.J.

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FINANCIAL INFORMATION

TABLE 13 - GENERAL FUND REVENUE AND EXPENDITURE HISTORY

	Fiscal Years Ended September 30,				
	2025	2024	2023	2022	2021
Revenues:					
Taxes	$ 19,584,953	$ 19,050,626	$ 18,711,187	$ 17,304,942	$ 16,266,155
Licenses, Permits and Fees	690,292	726,531	775,436	707,602	686,001
Fines and Forfeitures	135,764	147,984	126,346	96,291	76,646
Intergovernmental	24,864	4,933	30,277	5,880	9,579
Charges for Services	859,049	682,379	860,254	565,353	510,796
Investment Earnings	661,178	887,948	585,642	120,052	30,683
Miscellaneous	145,105	107,560	236,647	85,064	82,090
Total Revenues	$ 22,101,205	$ 21,607,961	$ 21,325,789	$ 18,885,184	$ 17,661,950
Expenditures:					
General Government	$ 6,378,560	$ 6,004,816	$ 6,488,874	$ 6,047,650	$ 5,482,839
Police Department	6,148,579	5,767,173	5,158,304	5,056,489	4,884,450
Fire Department	3,905,086	3,675,989	3,153,534	3,587,639	3,104,538
Community Services	432,396	409,500	421,399	415,221	469,944
Streets and Drainage	1,644,497	1,403,733	1,360,150	1,248,522	1,168,016
Parks and Recreation	2,887,375	2,784,271	2,697,901	2,638,068	2,339,931
Debt Service	818,990	653,356	250,689	117,595	-
Capital Outlay	1,420,927	2,139,594	1,361,567	826,716	458,025
Total Expenditures	$ 23,636,410	$ 22,838,432	$ 20,892,418	$ 19,937,900	$ 17,907,743
Excess (Deficiency) of Revenues Over Expenditures	$ (1,535,205)	$ (1,230,471)	$ 433,371	$ (1,052,716)	$ (245,793)
Transfers In	533,202	532,758	532,307	532,257	598,180
Proceeds From Capital Leases	847,675	1,733,396	734,968	480,023	-
Proceeds from SBITA's	85,921	25,500	471,892	-	-
Proceeds From Sale of Capital Assets	363,612	179,220	37,385	16,165	-
Transfers Out	(16,000)	(16,000)	(16,000)	(16,000)	(36,000)
Total Other Financing Sources and Uses	$ 1,814,410	$ 2,454,874	$ 1,760,552	$ 1,012,445	$ 562,180
Net Increase/Decrease	$ 279,205	$ 1,224,403	$ 2,193,923	$ (40,271)	$ 316,387
Beginning Fund Balance	11,647,042	10,422,639	8,228,716	8,268,987	7,952,600
Ending Fund Balance	$ 11,926,247	$ 11,647,042	$ 10,422,639	$ 8,228,716	$ 8,268,987

TABLE 14 - MUNICIPAL SALES TAX HISTORY

The City imposes and levies a one percent (1%) local sales and use tax within the City pursuant to the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the State Comptroller of Public Accounts, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	1.5% Total Collected[1][2]	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2023	$ 3,557,078	23.11%	$ 0.1577	$ 213.00
2024	3,669,678	23.09%	0.1201	219.78
2025	3,635,246	21.53%	0.1077	215.42
2026	3,677,537	20.86%	0.1045	217.93
2027	613,754 [3]	3.38%	0.0179	36.34

(1) Does not include the 0.5% sales tax collected for the benefit of the Highland Village Community Development Corporation, which is not available for the City's general use.
(2) As reported by the Texas Comptroller of Public Accounts.
(3) As of November 2026. The amount shown reflects sales tax receipts received by the City through November 2026 and, accordingly, is not comparable to the full fiscal year amounts shown for fiscal years 2023 through 2026. No representation is made as to the amount of sales tax revenues that will be received by the City for the full fiscal year ending September 30, 2027.

FINANCIAL POLICIES

Basis of Accounting . . . The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred. Interest on long term debt is recorded when due.

Ad valorem and sales tax revenues are recognized under the susceptible to accrual concept. Licenses and permits, franchise taxes, charges for services, fines and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned because they are measurable and available.

The accrual basis of accounting is utilized by proprietary funds.

Budgetary Procedures . . . The Council follows these procedures in establishing budgetary data reflected in the financial statements:

(1) Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

(2) Public Hearings are conducted to obtain taxpayer comments.

(3) Prior to September 30, the budget is legally enacted through passage of an ordinance.

(4) The City Manager is authorized to transfer budgeted amounts within a category in a department. Transfers between categories or between departments require Council approval.

(5) Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Fund and Debt Service Fund. Budgetary control is maintained at the function level.

(6) Budgets for the General, Special Revenue, and Debt Service Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

(7) Budgetary data for the Capital Projects Funds are not presented in combined financial statements of the City as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration

of the Capital Projects Funds is not employed and comparison of actual results of operations to budgetary data for such fund is not presented.

Fund Investments . . . The City's investment policy parallels the State laws which govern the investment of public funds. The City generally restricts investments to direct obligations of the United States Government, governmental agencies, and to insured or collateralized bank certificates of deposit.

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 obligations meeting the requirements of the Texas Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (the "PFIA"), which may include: (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 include 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 fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio and (6) yield.

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 15 - CURRENT INVESTMENTS

As of September 30, 2026, the City's investable funds were invested in the following categories:

Type of Investment	% of Investments	Market Value	Book Value
Investment Pools/MMA/NOW	55.31%	$ 23,458,508	$ 23,458,508
Securities/CDs	44.69%	18,953,308	18,953,308
	100.00%	$ 42,411,816	$ 42,411,816

TAX MATTERS

TAX EXEMPTIONS

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

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

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

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

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

Existing law may change to reduce or eliminate the benefit to Certificate holders of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could

also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B, which is the City's annual audited financial report. The City will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2026 and, if not submitted as part of such annual financial information, the City will provide audited financial statements within 12 months after the end of each fiscal year ending in and after 2026, if available. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when

and if the audit report on such statements becomes available. 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 City's current fiscal year end is September 30. Accordingly, the City must provide updated information included in the above-referenced tables by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

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

NOTICE OF CERTAIN EVENTS…The City will also provide notice of any of the following events with respect to the Certificates, in a timely manner not in excess of ten (10) business days after the occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 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) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (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; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, 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 or operating data 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 described events (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. The City intends the words used in events (15) and (16) and the definition of financial obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018 (the "2018 Release") and any further guidance provided by the SEC and its staff with respect to the amendment to the Rule effected by the 2018 Release.

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

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

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

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

OTHER INFORMATION

RATING

The Certificates have been rated "AAA" with a 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 S&P. The rating reflects only the views of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price 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, if decided adversely to the City, would have a material adverse financial impact upon the City or its operations.

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 other 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 PFIA requires that the Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency (see "OTHER INFORMATION - Rating" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

No representation is made that the Certificates will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Certificates for such purposes.

LEGAL OPINIONS

The City will furnish the Initial Purchaser a transcript of certain proceedings incident to the authorization and issuance of the Certificates. Such transcript will include a copy of the approving opinion of the Attorney General of the State of Texas to the effect that the Certificates are valid and legally binding obligations of the City. The City will also furnish the approving legal opinion of Bond Counsel to the effect that (i), based upon an examination of such transcript, the Certificates are valid and legally binding obligations of the City under the Constitution and the laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Certificates may be limited by laws relating to governmental immunity, bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City and (ii) the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. See "APPENDIX C – Form of Bond Counsel's Opinion." Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form 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 fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on or attached to the Certificates in the event of discontinuance of the Book-Entry-Only System. Additionally, certain legal matters will be passed upon for the City by Norton Rose Fulbright US LLP, Dallas, Texas, Disclosure Counsel to the City. The legal fees to be paid Disclosure Counsel for services rendered in connection with the issuance of the Certificates are contingent upon the sale and delivery of the Certificates.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

MUNICIPAL ADVISOR

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

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

INITIAL CERTIFICATE PURCHASER

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Preliminary Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Preliminary Official Statement are based on information available to the City on the date hereof, and

the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

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

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by a proper officer, acting in his or her 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 its 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 September 30, 2025, the date of the last audited financial statements of the City appearing in the Official Statement.

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

Mayor
City of Highland Village, Texas

ATTEST:

City Secretary
City of Highland Village, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

The City of Highland Village (the "City"), incorporated in 1963, is located in the southeastern portion of Denton County on Highway 407, west of Lewisville, 20 miles north of Dallas, 34 miles northeast of Fort Worth, 15 miles southeast of Denton and 8 miles north of Dallas-Fort Worth International Airport.

The City is experiencing a stable sustained growth as part of the Dallas-Fort Worth Metroplex. The close proximity of the Dallas-Fort Worth International Airport and both the cities of Dallas and Fort Worth cause increasing residential development. The City's 2020 population was 15,899 according to the U.S. Census Bureau. The City estimates its 2027 population to be 16,889.

ECONOMY

The City, located in Denton County, one of the fastest growing counties in Texas, has committed to the development of a quality community with a top-ranked educational system, upper-income family-oriented environment, and the planned preservation of open space throughout a lakefront community.

The rapidly expanding population of the City and surrounding cities, the key location minutes north of the Dallas/Fort Worth Metroplex and the appealing demographic base make the City a prime location for retail development.

The leaders of the City are very aggressive in the recruitment of quality retail that meets the needs of the community. In addition to business recruitment, the City works with existing businesses to ensure sustained economic growth.

EMPLOYMENT/LABOR FORCE [1]

Employment figures for Denton County are as follows:

	Average Annual				
	2026 [1]	2025	2024	2023	2022
Civilian Labor Force	614,643	607,941	594,996	581,563	556,405
Total Employed	590,412	585,073	572,903	560,655	538,019
Total Unemployed	24,231	22,868	22,093	20,908	18,386
Unemployment Rate	3.9%	3.8%	3.7%	3.6%	3.3%

_____
Source: Texas Employment Commission.
(1) As of September 2026.

TRANSPORTATION

The City is served by State Highway 121, Farm-to-Market Road 407 and Interstate Highway 35-E, a six lane, limited access expressway. The Texas Department of Transportation has approved construction of a freeway along State Highway 121 that will stretch from McKinney (Collin County) through Lewisville (Denton County) to the Dallas-Fort Worth International Airport (Tarrant County). The freeway will be four to six lanes wide and will cover approximately 27.4 miles.

Commercial bus service is provided for the City's residents and visitors in Lewisville by Greyhound/Trailways Bus Lines and Oklahoma Transit.

The City is geographically located near the hub of a ten-county metropolitan area which is served by the Dallas-Fort Worth International Airport. This facility began operations in January, 1974. It represents an investment in excess of $2,000,000,000, and is the second busiest airport in the United States.

EDUCATION

The City is located in the Lewisville Independent School District (the "District"). The District presently has twenty-one elementary schools, seven middle schools and three high schools. Enrollment of the District's schools is increasing rapidly.

RECREATION

The City has a variety of special use, regional, community, neighborhood, and mini parks for recreational use. Copperas Branch Park is a 75-acre regional park including amenities such as a boat ramp, boat dock, soccer and baseball/softball practice fields, a swimming area, and picnic areas. Pilot Knoll Park is a 123-acre regional park including amenities such as a boat ramp, boat dock, RV campsites, picnic areas, pavilions and a playground. Unity Park is the City's community park, a 38-acre park including amenities such as soccer and baseball/softball lighted game fields, fishing pier, pavilion, picnic areas, fishing ponds, tennis courts, dog park and a playground. This park also includes the award winning Kids Kastle, a community playground built by over 4500 volunteers. Doubletree Ranch

Park was recently opened – a 38 acre park in a pristine setting that includes a natural wildlife habitat, splash pad, trails, soccer fields (with lighting), pavilion, barn with concessions, and a grand lawn.

In the surrounding area, the primary recreational facility available to the residents of Highland Village is Lewisville Lake Park on Garza-Little Elm Reservoir (Lewisville Lake). This 570-acre park contains boat storage, boat rental and supplies, boat launching ramp, fishing barge with 24-hour service including a cafe, fishing bait and supplies, snack bar, drinking water, sanitary facilities, picnic facilities, camping area, trailer area and a 3,000 square foot covered pavilion. Maintained at the park by the City of Lewisville are several baseball and softball diamonds, soccer fields, football fields and a public 18-hole golf course.

Lake Grapevine, located twelve miles southwest of the City is open to the public for its recreational use.

DEMOGRAPHICS

The City's estimated population for 2027 is 16,889 and the City is located halfway between the cities of Denton and Dallas. The City's Blue Ribbon schools and the topography of rolling hills, extensive trees and open space make it a desirable place to raise a family. Almost half of the households (44.8%) have children under the age of 18.

Statistics:

- Average age – 41 yrs.
- 71.0% over 18 yrs. of age
- 12.3% 65 yrs. or older
- 58.6% between 20-64 yrs. of age
- Average family size - 3.07

The City is bordered on the north by Lake Lewisville, with many lakefront homes and homes with lake views. The average value of a home in the Highland Village market is $362,323. The majority of the homes in Highland Village are new and custom built; even the earliest homes are custom resort or lakefront.

Highland Village residents can easily walk anywhere within the City on the Inland Trail System. The Inland Trail main spine is a 9.83-mile multi-use trail network connecting virtually all areas of the City. The trail is designed for walking, jogging, bicycling and meanders throughout the City connecting neighborhoods to parks, schools, retail centers and City offices.

The City's population is educated and informed. Over 85% of the population has some college level education and over 59% hold a post-secondary degree or higher. Technology is a priority in the City. Nearly 95% of the homes in the City connect to the Internet, with over 90% of the population on-line several times a week. The City utilizes the interest in technology to communicate quickly with residents through Aixle E-Watch, an on-line version of Neighborhood Watch, and Notify Me, an e-mail service for residents to receive city information on topics of interest to them. Highland Village also connects with residents through social media using Facebook, Twitter, Nextdoor and YouTube.

Commercial development at the FM 407 and FM 2499 intersection makes the City a regional shopping destination. Located at the northwest corner is The Shops at Highland Village, a lifestyle center with over 385,000 square feet of upscale retail and restaurants. Included in the development is an AMC IMAX Theater, Barnes and Noble, Whole Foods Market, as well as LOFT and White House | Black Market to name a few. The northeast corner has a compatible development, The Marketplace at Highland Village, featuring a Walmart Supercenter designed specifically for the City as the anchor tenant. The retail center includes tenants such as LA Fitness, TJ Maxx, and Home Goods, with approximately 280,000 square feet of retail, restaurants, and office/professional space.

APPENDIX B

EXCERPTS FROM THE

CITY OF HIGHLAND VILLAGE, TEXAS

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2025

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

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CITY OF HIGHLAND VILLAGE, TEXAS

Annual Comprehensive Financial Report for Fiscal Year Ending September 30, 2025

Cover Photo by Camille Stoeberl

CITY OF
HIGHLAND VILLAGE, TEXAS

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2025

Prepared by:

The Finance Department

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CITY OF HIGHLAND VILLAGE, TEXAS

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2025

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INTRODUCTORY SECTION

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FINANCE
1000 Highland Village Road
Highland Village, TX 75077
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www.highlandvillage.org

March 24, 2026

City of Highland Village
Highland Village, Texas 75077

To the Honorable Mayor Wilcox, Members of the City Council and Citizens of the City of Highland Village:

The Finance Department of the City of Highland Village is pleased to submit the Annual Comprehensive Financial Report of the City of Highland Village, Texas, for the fiscal year ended September 30, 2025.

The report is published to provide the City Council, management staff, our citizens and other interested parties with detailed information concerning the financial condition and performance of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Highland Village. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The financial statements included in this report were prepared in accordance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB), the National Council on Governmental Accounting (NCGA) and the American Institute of Certified Public Accountants (AICPA). To demonstrate further public accountability, the independent accounting firm of Certified Public Accountants, Pattillo, Brown & Hill, L.L.P. whose report is included herein, has audited the City's financial statements.

Pattillo, Brown & Hill, L.L.P., Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Highland Village's financial statements for the year ended September 30, 2025. The independent auditor's report is located at the front of the financial section of this report.

In addition, a Management's Discussion and Analysis (MD&A) section, immediately following the independent auditor's report includes a narrative introduction, overview, and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Highland Village, incorporated in 1963, is located in the southeastern portion of Denton County along Highway 407, west of Lewisville. The City is approximately 20 miles north of Dallas, 34 miles northeast of Fort Worth, 15 miles southeast of Denton, and 8 miles north of Dallas/Fort Worth International Airport. Highland Village is primarily a residential community.

The City's estimated population in 2025 is 16,875, representing a modest 6% increase over the past decade. After years of sustained growth, Highland Village is approaching full development, as reflected in the declining number of new single-family residential permits. The City is currently approximately 96% built out, with an estimated 200 single-family homes remaining to be constructed on both platted and unplatted parcels. Full build-out is projected by 2030. Through fiscal year 2023, the City averaged 45 single-family residential permits annually; however, three permits have been issued annually the last two years. The average assessed value of existing single-family homes on the 2024 tax roll was $567,521.

Highland Village operates under a council-manager form of government. Policy-making and legislative authority are vested in the City Council, which consists of a mayor and six council members elected at large. The Council appoints the City Manager, who is responsible for appointing department heads. All council members serve two-year terms.

This report encompasses all funds and account groups of the City. Highland Village provides a full range of municipal services, including police and fire protection, street and infrastructure construction and maintenance, recreational facilities, and cultural events. In addition to general administrative services, the City operates water, sewer, and sanitation services. The City is also financially accountable for a legally separate component unit—the Highland Village Community Development Corporation—which is reported as a blended component unit in the City's financial statements.

The City Council is required to adopt a final budget no later than September 30, marking the close of the fiscal year. This annual budget serves as the foundation for the City's financial planning and control. It is prepared by fund, category (personnel, services and supplies, and capital), and department (e.g., police, fire, and human resources). Departments may reallocate resources within a category; however, transfers between categories or departments require City Council approval.

Local Economy

With supply chain disruptions largely resolved and the housing market remaining strong—though moderating due to higher mortgage rates—the North Texas economy has demonstrated notable resilience. Retail sales continue to perform well, albeit with more modest growth compared to FY 2023. Demand for housing still exceeds available supply, supporting stable home values. Job creation across Texas remains robust, though somewhat constrained by ongoing labor shortages. Continued corporate relocations to the region are expected to sustain housing demand, although limited inventory may restrict growth.

The City's proximity to Dallas/Fort Worth International Airport, as well as to Dallas and Fort Worth, continues to enhance its attractiveness for residential development. However, new construction has slowed significantly, with only three single-family residential permits issued in FY 2023 and FY 2024, compared to a historical annual average of 45 prior to FY 2023. The City currently maintains 5,746 water connections, of which 5,382 are residential. Given that the residential tax base constitutes a significant portion of the City's revenue, these trends directly impact its capacity to fund services and support future growth.

Commercial development has remained steady over the past five years, though at reduced levels as the City nears full build-out. The retail sector, in particular, has played a key role in strengthening the City's economic outlook. Over the past three decades, Highland Village has experienced gradual economic expansion, beginning with the completion of the Highland Village Town Center in 1995, followed by a second phase in 1997. While Kroger originally anchored the center, the space has since transitioned to new tenants, including Painted Tree and Planet Fitness.

Additional commercial growth in the late 1990s included the development of Valley Ridge Center along FM 407 and the establishment of United Community Bank, whose facility is now occupied by SouthState Bank following a merger with Independent Financial. In 1999, the City Council implemented an overlay ordinance requiring a residential-style design for nonresidential development, reinforcing the City's commitment to high-quality and cohesive aesthetics.

Infrastructure improvements have further supported economic activity. The extension of FM 2499 by Texas Department of Transportation has enhanced regional connectivity, particularly by providing an alternate route to DFW Airport. This has increased the commercial viability of properties near the intersection of FM 407 and FM 2499.

Retail and mixed-use developments expanded significantly in the early 2000s. Notable projects include Village Creek Center, Tartan Village Retail Center, and Tartan Square. The Barnett Center evolved into a multi-use development featuring childcare, veterinary services, and senior living facilities. Additionally, a former banquet hall known as Celebrations was transformed into Hidden Pines Chapel and is now home to Delhi 6 Indian Scratch Kitchen and Bar.

As available commercial land has diminished—primarily concentrated along FM 407 and FM 2499—the City has prioritized high-quality, compatible development through additional overlay zoning. This strategy aims to maximize land use while preserving the City's character and quality of life.

The remaining principal area for retail development, at the intersection of FM 407 and FM 2499, saw substantial activity beginning in 2006. At the northeast corner of this intersection - the Marketplace at Highland Village, a 66-acre retail mixed-use development anchored by a 205,000 square foot Wal-Mart Super center, also including approximately 280,000 square feet of retail, office, and restaurants, saw some of its businesses open in October 2006, with the Wal-Mart store opening in November 2007. The Wal-Mart store is truly one-of-a-kind, with preservation of a 125 year-old pecan tree incorporated into the front entrance of the store.

On the northwest corner of the intersection, The Shops at Highland Village, a 45-acre development opened in September 2007. Cheesecake Factory and an AMC Theater currently anchor the 380,000 square foot center, with upscale retail stores including Banana Republic, Victoria's Secret, as well as a variety of restaurants. The Shops at Highland Village is a pedestrian friendly, lifestyle shopping experience featuring fountains, outside dining areas, and pedestrian walkways – also connecting to the City's Inland Trail system. And the addition of Whole Foods in September 2014, further cements the vitality of this development. Some of the retail stores that open during the year include Bluemercury, Drybar, Lululemon, the Aspen Gift House, and Woof Gang Bakery and Grooming.

Just east of the Marketplace, The District of Highland Village represents another key mixed-use development. Initially approved in 2007, the project faced delays due to the economic downturn and subsequent legal disputes. Following collaboration between City officials and developers, a revised plan was approved in 2012. Construction began in 2014 and has since resulted in a 320,000-square-foot development comprising residential lofts, retail, and office space across nineteen buildings.
Highland Village remains predominantly residential, with a relatively small commercial base. Residential construction has slowed considerably as the City approaches full build-out, with approximately 200 remaining lots—primarily located in the western portion of the City—supporting only limited future growth.

To ensure optimal use of remaining undeveloped land, the City completed an update to its comprehensive plan in February 2023. This effort reflects a strategic focus on maximizing land use while maintaining community standards.

The surrounding region offers a diverse economic base, including major retail centers, wholesale distributors, and industrial suppliers. A strong labor market supports local businesses, with Denton County reporting an unemployment rate of approximately 4% as of September 2025.

Long Term Financial Planning

Economic development—particularly retail development—remains a primary objective for the City of Highland Village, although opportunities are increasingly limited due to the scarcity of remaining developable land. Expanding the City's retail base not only enhances convenience and amenities for residents, but also serves as a critical strategy to diversify revenues currently heavily reliant on property taxes. This need is especially important as the City approaches residential build-out and experiences slower growth in assessed property valuations.

The City Council has maintained a stated goal of preserving the current tax rate. However, recent legislation enacted by the Texas Legislature imposing revenue caps has effectively required reductions in the tax rate. When combined with declining additions to the tax roll, these constraints create ongoing challenges in sustaining the City's high level of service. Accordingly, a key focus in the coming years will be maintaining current staffing levels through full build-out while identifying operational efficiencies that do not compromise service quality.

Water supply, pumping capacity, and wastewater treatment remain critical infrastructure priorities as the City approaches build-out. Highland Village has secured a contract with the Upper Trinity Regional Water District (UTRWD) for three million gallons per day (MGD) of treated surface water, supplementing the City's four groundwater wells. The utility rate structure has been updated to reflect a 70/30 blend of surface and groundwater sources. Additionally, the rate model has been restructured to rely more heavily on base charges rather than seasonal consumption, creating a more stable and predictable revenue stream while distributing costs more equitably among residents.

For wastewater treatment, the City entered into a long-term agreement in 1995 with UTRWD's Lakeview Wastewater Reclamation Project, initially securing 1.8 MGD of treatment capacity. Developer-funded impact fees historically covered a significant portion of these costs, minimizing the burden on existing ratepayers. The City's current utilized capacity stands at 1.65 MGD, with the option to increase back to 1.8 MGD if needed. Existing water and wastewater capacity is expected to meet demand through full build-out.

A municipal drainage utility was established at the end of FY 2006 to fund stormwater management and comply with Phase II MS4 regulations administered by the Texas Commission on Environmental Quality. The drainage fee, initially set at $1.20 per 1,000 square feet of impervious surface, has been adjusted over time to $1.80 as of FY 2025. For most residents, this equates to a monthly charge of approximately $5 to $7. The drainage utility, staffed by five employees, has successfully completed numerous drainage projects in-house, generating cost savings while improving infrastructure. Additionally, the City implemented an ongoing mosquito abatement program in FY 2013 in response to increased cases of West Nile Virus.

The City continues to invest in parks and recreation to meet evolving community needs. Park Development Fees, first established in 1991 and expanded in 1997, fund improvements to community parks, neighborhood parks, and the inland trail system. Early investments included the development of Unity Park, with Phase I completed in 1996 and Phase II in 1997, supported by general obligation bonds. Subsequent enhancements, including parking and facilities, were completed in 2012.

Expansion of the City's park system continued with the completion of Village Park in 2005 and the development of an extensive trail network. The initial 9.83-mile trail spine was funded in part by a federal TEA-21 grant and completed in 2006. Voter approval of a dedicated 4B sales tax in 2004 provided a long-term funding source for trail expansion and recreational amenities. Today, a continuous trail segment spans the length of the City, with a long-term goal of 28 miles outlined in the Trail Master Plan.

Significant park investments include the acquisition and development of Doubletree Ranch Park, a 36-acre site funded through certificates of obligation and supplemented by mitigation funds from the Texas Department of Transportation. Opened in 2016, the park features open space, trails, athletic fields, and recreational amenities. Lakeside Community Park, completed in 2015 along Lake Lewisville, provides waterfront access, trails, and scenic pavilions.

The City's commitment to parks was further reinforced by a $7.1 million bond issuance in 2018, following voter approval in 2017. Key projects included enhancements to Unity Park, highlighted by the reconstruction of the Kids Kastle playground into a modern, all-inclusive facility completed in FY 2020. This amenity remains a significant point of community pride.

Taking advantage of favorable interest rates and expiring debt, the City issued $6.4 million in bonds in 2022 to address park infrastructure and improvements to Pilot Knoll Park, alongside $8.85 million for street projects. Additional financing includes $2.805 million in tax notes issued in 2024 for equipment replacement through 2029, and $7.13 million in certificates of obligation issued in FY 2025 to reconstruct major thoroughfares, including Highland Shores Boulevard and Highland Village Road. Denton County will fund 50% of these roadway improvements through its bond program.

Major Initiatives

The City's staff, following specific directives of the City Council and City Manager, has been involved in a variety of projects throughout the year. These projects reflect the City's commitment to ensuring that its citizens are able to live and work in an enviable environment. The following are initiatives and programs relating to general governmental functions:

- Implement Skilled Trades Services policy to facilitate procurement process.
- Review and update Financial Policies as needed.
- Complete transition of Bank Depository to Independent Financial.
- Implement system to receive utility and court payments via phone.
- Complete a data conversion of Municipal Court software to the current version.
- Reconfigure Accounts Payable work-flow process to accommodate necessary approval and documentation with implemented Tyler Content Manager software.
- Add Compliance Dismissals to the menu of online court forms available for public use.
- Transition the document repository for manual journal entries from Laserfiche to Tyler Content Manager.
- Create a work-flow process for cash collection documentation.
- Partner with Police and Fire departments to organize a safety day, fostering a culture of safety and preparedness.
- Streamline onboarding and Family Medical Leave (FML) processes by implementing document workflow and digital signatures.
- Conduct a market city and incentive pay review to maintain competitive and equitable compensation structures.
- Launch an employee experience survey through Lattice for onboarding and off boarding to identify and enhance the employee experience.
- Roll out a new Personnel Policies and Procedures Manual updates.

- Deliver targeted training on HR policies and practices with a focus on enhancing employee engagement and retention.
- Audit all systems to ensure that information is up to date with no errors.
- Collaborate with NeoGov to leverage analytics for improving recruitment efficiency and outcomes.
- Prepare for future turnover and succession in various departments.
- Increase familiarity of City staff and requestors on availability and use of the City's online system to process public information requests.
- Provide timely access to public documents, such as meeting minutes, monthly reports, and Code of Ordinances via the City's website.
- Continue to enhance our database to include comprehensive reporting features relating to vacancies, appointments, terms and training of board and commission members.
- Recruit citizen volunteers to serve on City boards and commissions.
- Provide an annual Orientation and Training Workshop for newly appointed board and commission members.
- Process applications submitted by nonprofit organizations for Council's presentation of grants for services to residents of the City.
- Improve and encourage dialogue on City communication channels with the public and respond to inquiries in a timely manner.
- Design and print 2025 Legislative Priorities document for Council and staff to provide to legislators during Denton County Days.
- Develop style guide for consistent use of City logo, facility names, and landmarks. Work with Human Resources and City Secretary's Office to create customer service expectation communication.
- Create communication to residents providing answers and updates to issues mentioned in the resident survey verbatims.
- Provide Council action updates to residents and inform of opportunities to engage with Council during public meetings.
- Review social media, website, and digital newsletter analytics to determine future goals and changes needed to improve communication and engagement with residents.
- Upgrade all Police Department servers to ensure reliability and improved performance.
- Enhance network security measures.
- Replace outdated switch hardware with modern equipment.
- Update Microsoft Office software for all desktop users.
- Transition to a new cloud-based phone system.
- Expand online capabilities to include all permit types.
- Test and launch an online inspection scheduling system for public use.
- Adoption of the 2021 International Building Codes.
- Continue adding permits for the availability to initiate online.
- Study the possibilities of a rental inspection program.
- Hire a firm to assist staff with consolidation of all PDs, update Zoning Ordinances to current State laws and review and revise current City codes to provide clear definitions and direction to code enforcement officers.
- Replace water fountains at City Hall, Police Dept. & Public Works to hands free devices.
- Replace standby generator located at City Hall on the east side of the building
- Upgrade electrical services at City Hall to current standards.
- Study the foundation failure on the police side of the Municipal Complex.
- Address various office and common areas painting throughout facilities.
- Accommodate Window replacements.
- Auction old equipment taken out of service.
- Review O&M plans for each of the four sites and develop a maintenance plan for each site.

- Design and install a standby generator system at the Municipal Service Center site.
- Cost out and purchase yellow fleet replacements as identified in the Tax Note issue.
- Manage and modify the concrete panel replacement program.
- Manage the Street Sweeping Program and modify as needed.
- Update the Highland Village Training program to include courses that crosswalk for college credit in the field of pavement management.
- Update the sign registry and inventory condition index.
- Maintain pavement striping, school zone flashers, and signage.
- Continue to utilize and improve City Works and GIS, including the development of a pavement life cycle cost analysis.
- Update the pavement condition index of streets in Highland Village using the standard manual survey method.
- Continue to work with LISD to improve the Street Department Internship program focusing on the ADA sidewalk inventory, and updating the PCI.
- Construct the 2024 Asphalt Overlay Project.
- Design and construct the 2025 Asphalt Overlay Project.
- Design the Highland Shores Reconstruction Section 2 Project.
- Design the Highland Village Rd. Reconstruction Project.
- Replace the Wayside Horn systems at 1 of the 2 RXR crossings.
- Continue the storm water education campaign.
- Continue study of all drainage creeks within City Limits that are located within easements or on private property.
- Construct the Quail Cove / Walmart retention pond dredging Project.
- Complete the Unity Park pond bank stabilization Project.
- Monitor for West Nile Virus May, 2025 through September, 2025.
- Complete the City's renewal of the MS4 Permit.
- Complete design and construct the Lake Vista Well Upgrade Project.
- Complete the design of the water line plans to serve the northwest portion of the City (Brooks Ct.), obtain a USACE and TxDOT permits to construct the Project.
- Continue designing the replacement water line and sanitary aerobic system for Pilot Knoll Park.
- Continue sanitary sewer line cleaning.
- Construct the remaining erosion repair project for the remaining 27" sewer trunk main along the lakeshore.
- Construct the 2024 WL Replacements Gayle, Merriman, Oak St, and Cedar water line replacement project.
- Construct a drainage/erosion control project in the Clearwater subdivision.
- Construct the Lift Station #2 & #7 force main replacements.
- Paint Lake Vista Ground Storage Reservoir.
- Finalize Oak Street Ground Storage Tank painting project.
- Re-Negotiate Shops Contract – The Shops at Highland Village contract expires at the end of 2024 and our goal is to re-negotiate and continue this mutually beneficial community partnership. This contract funds two Police Officer positions, at no cost to the City, and provides for a Police Substation. The program has been very successful in keeping crime low and increasing positive officer interaction with our local business community. This contract has been in effect since 2015.
- Handgun Replacements with Red Dot Sights – The department will replace its existing handguns with new ones outfitted with red dot sights. These sights allow for improved safety, quicker target acquisition, increased accuracy and better field of view. These were approved in the FY 2024 budget but were not fully available until this fiscal year.
- FBI National Academy - Lt McCally is scheduled to attend the FBI National Academy in Quantico Virginia in early 2025. This advanced command training will prepare him for increased future leadership responsibilities.

- Recruitment and Retention Planning - Police recruitment continues to be a challenge both in Texas and across the country. Many agencies are experiencing losses and struggling to recruit and retain officers. This past fiscal year we hired four (4) Police Officers and three (3) Communications Officers. We will continue to work closely with Human Resources to make recruitment and retention a high priority.
- Trikke Program – Incorporate third trikke into our community policing model. Officers will be trained on each shift in order to fully utilize them at events, inland trail and patrol operations.
- Increase max staffing for each shift from 6 to 7 personnel.
- Update Uniform Fire Code from current 2015 to 2024.
- Become early adopters of TFCA Best Practices new platform, Vector Solutions.
- Review and update department policies to comply with Texas Fire Chiefs Association Best Practices.
- Replace four Thermal Imaging Cameras.
- Add and/or replace Knox key systems on all apparatus.
- Conduct multi-jurisdictional training with Flower Mound and Lewisville fire departments.
- Review events for opportunities to improve the community attendee experience.
- Increase Camp Highland Village summer camp enrollment.
- Complete Unity Park improvement projects.
- Complete Village Park improvements to include pier renovation.
- Complete the electrical upgrade project at Doubletree Ranch Park.
- Complete the project to replace the Gatehouse at Pilot Knoll Park.
- Start the process for redesigning the Robert and Lee DuVall Center entrance and administrative areas to better meet patrons and staffs workflow and safety needs.
- Plant 12 trees along Briarhill Rd at Unity Park as part of the reforestation initiative.
- Build a new basketball court at Unity Park.
- Renovation of Village Park fishing pier.
- Complete the design for the Pilot Knoll boat ramp area improvements.
- Install additional dome posts at Copperas Branch Park to better control parking areas.
- Continue working with the Parks Foundation with wildflower and tree planting programs.

Completed Projects - Parks

- Unity
    - Renovated the baseball and softball fields, including laser grading, new irrigation, and new infield sod.
    - Installed a new outdoor basketball court.
    - Planted 12 new trees at Unity Park along Briarhill Road.

- Doubletree Ranch
    - Installed 12 new 50-amp receptacles and two new 20-amp receptacles to support events in the area between the barn and the pavilion.
    - Installed six new vertical features at the splash pad.

- Pilot Knoll
    - Renovated a portion of the asphalt road and loop in the RV area of the park.
    - Entered into an agreement with a Construction Manager At Risk to help with the construction cost estimating and eventually the construction of city council-approved projects.
    - Conducted a community engagement meeting on the boat ramp area project.

- Village Park
    - Completed the renovation of the fishing pier.

- Other
    - Added park inspections to the City work order system.
    - Initiated an amenity station beautification project at 2499 in the round bed on City Trail.
    - Added new technology: a robotic mower and athletic field painter, which provided skilled employees to focus on more critical and technical work tasks.

- Community Volunteer Help for Projects and Events
    - Coordinated the Arbor Day tree planting at Unity Park with the Friends of Highland Village Parks Foundation.
    - Events
        - Hosted the Easter Egg Hunt event.
        - Hosted the Celebrate Highland Village community event.
        - Hosted the TXFallenPD/Concert in the Park event.
        - Coordinated the Tri-Town Amazing Race event.
        - Hosted the Christmas at The Ranch event.
        - Organized a teen event.
        - Coordinated the Wichita Forest Volunteer Clean-up Day event.

Completed, New, and Ongoing Events - Recreation

- Main Events
    - Hosted the Father Daughter Dance event.
    - Hosted the Easter Egg Hunt event.
    - Provided two community paper shredding events.
    - Hosted Movies in the Park events.
    - Hosted the Celebrate Highland Village community event.
    - Coordinated two Concerts in The Park events.
    - Expanded the TXFallenPD/Concert in the Park event.
    - Coordinated the Tri-Town Amazing Race event.
    - Hosted the Wine Down With The Grinch event.
    - Hosted the Christmas at The Ranch event.
    - Coordinated the Unite HV Employee Day event.
    - Organized a new teen event.

- Senior All-Star Programming
    - Offered MOVE classes every Wednesday.
    - Hosted the Highland Village Book Club on first Wednesdays.
    - Provided Music with Mark programming on second Wednesdays.
    - Offered cooking classes once a month.
    - Provided Zumba Gold classes every Tuesday.
    - Hosted a bridge group every Thursday.
    - Hosted a mahjong group every Wednesday.
    - Expanded pickleball programming to every Monday, Tuesday, Wednesday, Thursday, and Friday.
    - Coordinated Meals on Wheels service on first and third Thursdays.
    - Offered Tai Chi classes every Monday and Thursday.
    - Hosted the All-Star Stitchers Club every Wednesday.
    - Provided Lunch & Learns twice a month.
    - Coordinated trips at least twice a month.

- Other Programming
  - Offered Explore Outdoors nature classes.
  - Offered Grounding Yoga and Forest Bathing programming.
  - Provided Aquabeats kayaking programs.
  - Offered Shotakan Karate classes.
  - Offered Hatha Yoga classes.
  - Provided Situational Awareness training.
  - Hosted Fit for Mom fitness programming.
  - Hosted Camp Gladiator fitness programming.
  - Offered children's cooking camps.
  - Hosted Red Cross CPR/Babysitting camps.
  - Coordinated geocaching programs.
  - Hosted Kidventure summer camp.
  - Conducted a survey with pickleball players at the Robert and Lee DuVall Center.

Relevant financial policies

The City of Highland Village maintains comprehensive financial policies governing its accounting practices and fiscal operations, with particular emphasis on asset management, operating reserves, and fund balance levels. These policies are designed to ensure long-term financial stability and responsible stewardship of public resources.

The City has established a target to maintain a General Fund balance equivalent to at least 20% of annual expenditures. In practice, fund balance levels have consistently exceeded this minimum threshold. Over the past several years, ending fund balances have been as follows: 45% in FY 2020, 46% in FY 2021, 41% in FY 2022, 49% in FY 2023, 51% in FY 2024, and 50% in FY 2025.

City financial policies further stipulate that one-time or non-recurring revenues are not to be used to support ongoing operational expenditures. Instead, such revenues are reserved for one-time uses, such as long-lived capital investments, and are explicitly prohibited from being used for budget balancing purposes.

Current fund balance levels exceed the range considered necessary for ongoing operations. As a result, the City has adopted a gradual approach to reducing fund balance levels to its policy target range of 20% to 25%. This strategy includes utilizing excess reserves to fund capital projects, thereby aligning reserve levels with policy goals while addressing infrastructure needs.

Maintaining a strong alignment between revenues and operating expenditures remains a central financial priority. The City continues to monitor its fiscal position to ensure that sufficient, sustainable revenues are available to support the high level of services expected by the community.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Highland Village for its Annual Comprehensive Financial Report for the fiscal year ended September 30, 2024. This marks the 32nd consecutive year the City has received this prestigious recognition.

To earn the Certificate of Achievement, a government must publish an annual comprehensive financial report that is not only easily readable and efficiently organized, but also fully compliant with generally accepted accounting principles and all applicable legal requirements.

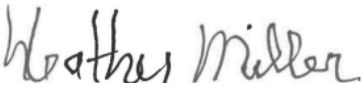
The Certificate of Achievement is valid for one year only. The City believes that its current Annual Comprehensive Financial Report continues to meet the program's rigorous standards and has submitted it to the GFOA for consideration for another award.

In addition, the City received the GFOA Distinguished Budget Presentation Award for its fiscal year 2025 budget document—its 20th consecutive year earning this honor. To qualify, the budget document must be evaluated as a comprehensive policy document, a sound financial plan, an effective operations guide, and a clear communications tool.

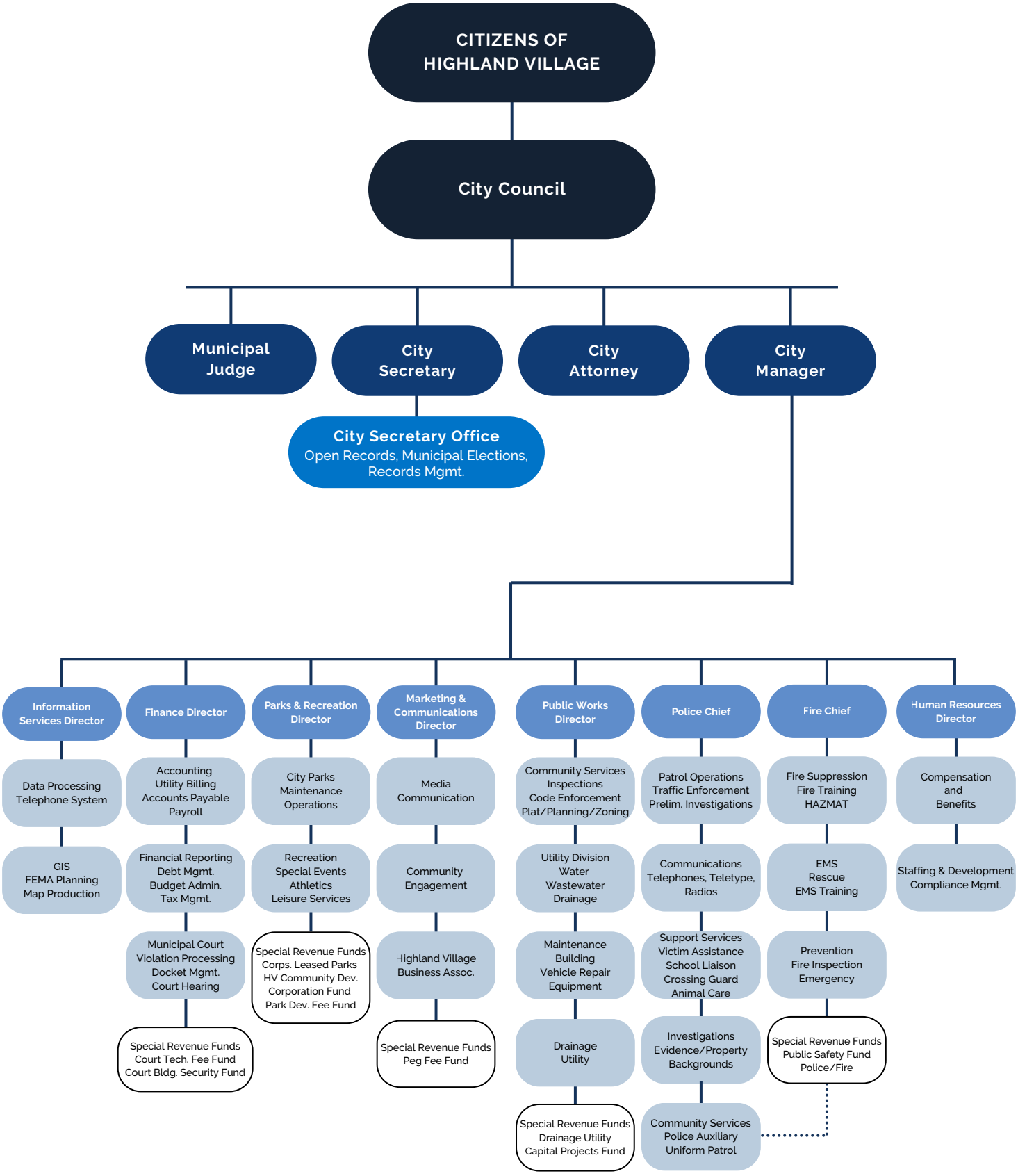
The timely preparation of this Annual Comprehensive Financial Report was made possible through the dedication and professionalism of the City's Finance Department staff. Their efforts and attention to detail are sincerely appreciated.

In closing, the preparation of this report would not have been possible without the continued leadership and support of the City Council of Highland Village.

Sincerely,



Heather Miller
Finance Director


CITIZENS OF HIGHLAND VILLAGE
City Council
Municipal Judge
City Secretary
City Attorney
City Manager
City Secretary Office
Open Records, Municipal Elections, Records Mgmt.
Information Services Director
Data Processing Telephone System
GIS FEMA Planning Map Production
Finance Director
Accounting Utility Billing Accounts Payable Payroll
Financial Reporting Debt Mgmt. Budget Admin. Tax Mgmt.
Municipal Court Violation Processing Docket Mgmt. Court Hearing
Special Revenue Funds Court Tech. Fee Fund Court Bldg. Security Fund
Parks & Recreation Director
City Parks Maintenance Operations
Recreation Special Events Athletics Leisure Services
Special Revenue Funds Corps. Leased Parks HV Community Dev. Corporation Fund Park Dev. Fee Fund
Marketing & Communications Director
Media Communication
Community Engagement
Highland Village Business Assoc.
Special Revenue Funds Peg Fee Fund
Public Works Director
Community Services Inspections Code Enforcement Plat/Planning/Zoning
Utility Division Water Wastewater Drainage
Maintenance Building Vehicle Repair Equipment
Drainage Utility
Special Revenue Funds Drainage Utility Capital Projects Fund
Police Chief
Patrol Operations Traffic Enforcement Prelim. Investigations
Communications Telephones, Teletype, Radios
Support Services Victim Assistance School Liaison Crossing Guard Animal Care
Investigations Evidence/Property Backgrounds
Community Services Police Auxiliary Uniform Patrol
Fire Chief
Fire Suppression Fire Training HAZMAT
EMS Rescue EMS Training
Prevention Fire Inspection Emergency
Special Revenue Funds Public Safety Fund Police/Fire
Human Resources Director
Compensation and Benefits
Staffing & Development Compliance Mgmt.

CITY OF HIGHLAND VILLAGE, TEXAS

ANNUAL COMPREHENSIVE FINANCIAL REPORT

SEPTEMBER 30, 2025

HOME RULE, COUNCIL-MANAGER FORM OF GOVERNMENT

MAYOR AND CITY COUNCIL

		Term Expires
Charlotte Wilcox, Mayor	Place 1	05/2026
Jon Kixmiller	Place 2	05/2026
Kevin Cox	Place 3	05/2027
Shawn Nelson	Place 4	05/2026
Rhonda Hurst	Place 5	05/2027
Robert Fiester, Deputy Mayor Pro Tem	Place 6	05/2026
Brian Fiorenza, May Pro Tem	Place 7	05/2027

ADMINISTRATIVE

Paul Stevens	City Manager
Angela Miller	City Secretary
Heather Miller	Finance Director
Scott Kriston	Director of Public Works
Doug Reim	Police Chief
Scott Green	Fire Chief
Kim Lopez	Human Resources Director
Phil Lozano	Director of Parks and Recreation
Sunny Lindsey	Information Services Director
Laurie Mullens	Director of Communications and Marketing

Prepared by:
City's Finance Department

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Highland Village Texas

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

September 30, 2024

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION

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PATTILLO, BROWN & HILL, L.L.P.
401 West State Highway 6
Waco, Texas 76710
254.772.4901 | pbhcpa.com

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
and City Council
City of Highland Village, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, 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, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in the notes to the basic financial statements, during the year ended September 30, 2025, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

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.

OFFICE LOCATIONS
TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

AICPA GAQC Member

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Summarized Comparative Information

We have previously audited the City's fiscal year 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 25, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules and capital asset schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate 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 combining and individual fund financial statements and schedules and capital asset schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Comprehensive Financial Report

Management is responsible for the other information included in the annual comprehensive financial report (ACFR). The other information comprises the introductory section and statistical section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 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 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 24, 2026

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MANAGEMENT'S
DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Highland Village, we offer readers of the City of Highland Village's financial statements this narrative overview and analysis of the financial activities of the City of Highland Village 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 resources of the City of Highland Village exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $62,536,082. Of this amount, $12,731,712 may be used to meet the government's ongoing obligations to citizens and creditors.

- The City of Highland Village's total net position decreased by $25,963, with a $315,374 increase in net position related to governmental activities and a decrease of $341,337 in net position in business-type activities.

- As of September 30, 2025, the City of Highland Village's governmental funds reported combined ending fund balances of $36,051,362, an increase of $6,074,304 in comparison with the prior year. Approximately 24 percent of this total amount, $8,621,948, is available for spending at the government's discretion (unassigned fund balance).

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $8,621,948 or 36 percent of total General Fund expenditures.

- The City of Highland Village's total debt increased by $4,254,000 during the current fiscal year. This is attributed to certificates of obligation issued for $7,130,000, net with debt payments of $2,876,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis are intended to serve as an introduction to the City of Highland Village's basic financial statements. The City of Highland Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents information on all of the City of Highland Village's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Highland Village is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement 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 the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in the governmental fund financial statements.

In the Statement of Net Position and the Statement of Activities, the City is divided between two kinds of activities:

Governmental activities. Most of the City's basic services are reported here, including the police, fire, community development, public works, information services, park services, municipal court, and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.

Business-type activities. The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer utilities are reported here.

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. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City Council also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City of Highland Village can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

The City of Highland Village maintains 11 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, and Capital Projects Fund, all of which are considered to be major funds. Data from the other 8 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's Enterprise Fund (a component of proprietary funds) is identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

The City of Highland Village maintains an Enterprise Fund to account for water and sewer services provided to the City's retail and wholesale customers. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, 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.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Highland Village's budgetary comparison schedules and its progress in funding its obligation to provide pension benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was $62,536,082 as of September 30, 2025. Analyzing the net position of governmental and business-type activities separately, governmental activities' net position was $47,795,777 and business-type activities' net position was $14,740,305. This analysis focuses on the net position (Table 1), and the changes in net position (Table 2).

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

TABLE 1

CITY OF HIGHLAND VILLAGE'S NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Current and other assets	$ 41,416,643	$ 35,228,353	$ 9,706,150	$ 10,681,893	$ 51,122,793	$ 45,910,246
Capital assets	57,755,230	58,622,860	15,560,035	14,867,758	73,315,265	73,490,618
Total assets	99,171,873	93,851,213	25,266,185	25,549,651	124,438,058	119,400,864
Deferred outflows of resources	1,429,306	2,520,523	179,412	304,464	1,608,718	2,824,987
Long-term liabilities	46,797,642	42,726,722	8,674,590	9,440,522	55,472,232	52,167,244
Other liabilities	2,663,511	2,567,692	1,911,890	1,104,312	4,575,401	3,672,004
Total liabilities	49,461,153	45,294,414	10,586,480	10,544,834	60,047,633	55,839,248
Deferred inflows of resources	3,344,249	3,045,309	118,812	68,712	3,463,061	3,114,021
Net position:						
Net investment in capital assets	37,124,862	37,418,194	7,103,088	6,023,518	44,227,950	43,441,712
Restricted	3,872,385	3,664,933	1,704,035	1,768,698	5,576,420	5,433,631
Unrestricted	6,798,530	6,948,886	5,933,182	7,448,353	12,731,712	14,397,239
Total net position	$ 47,795,777	$ 48,032,013	$ 14,740,305	$ 15,240,569	$ 62,536,082	$ 63,272,582

During the current year, the City adopted new accounting standards for compensated absences with the adoption of GASB Statement No. 101, Compensated Absences. The information above for 2025 has been restated to reflect this change, but, in accordance with GASB pronouncements, 2024 was not adjusted. See note 1.D. to the financial statements for more information.

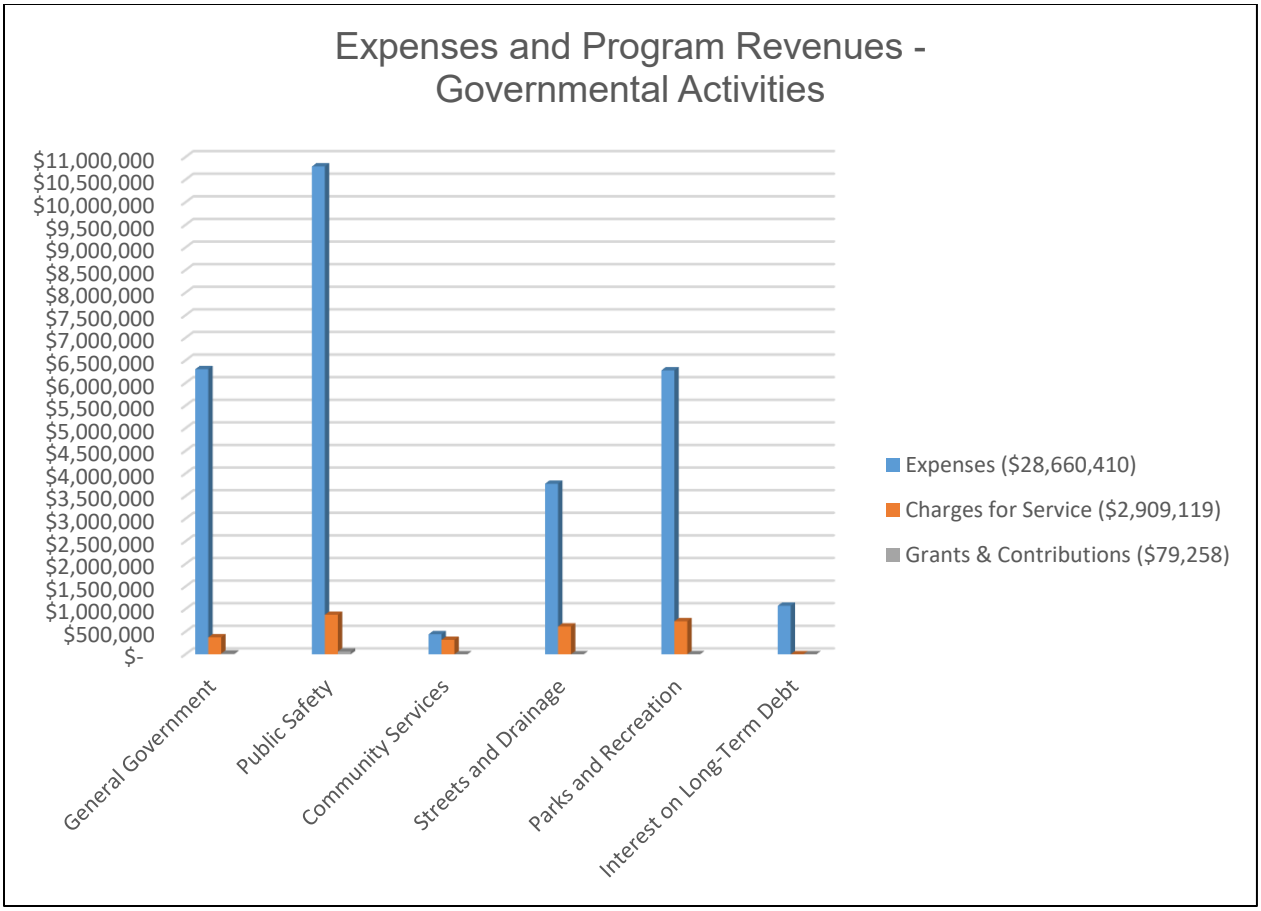
The following table (Table 2) provides a summary of the City's operations for the year ended September 30, 2025. Governmental activities increased the City's net position by $315,374 and business-type activities decreased the City's net position by $341,337, resulting in a net $25,963 increase in total net position.

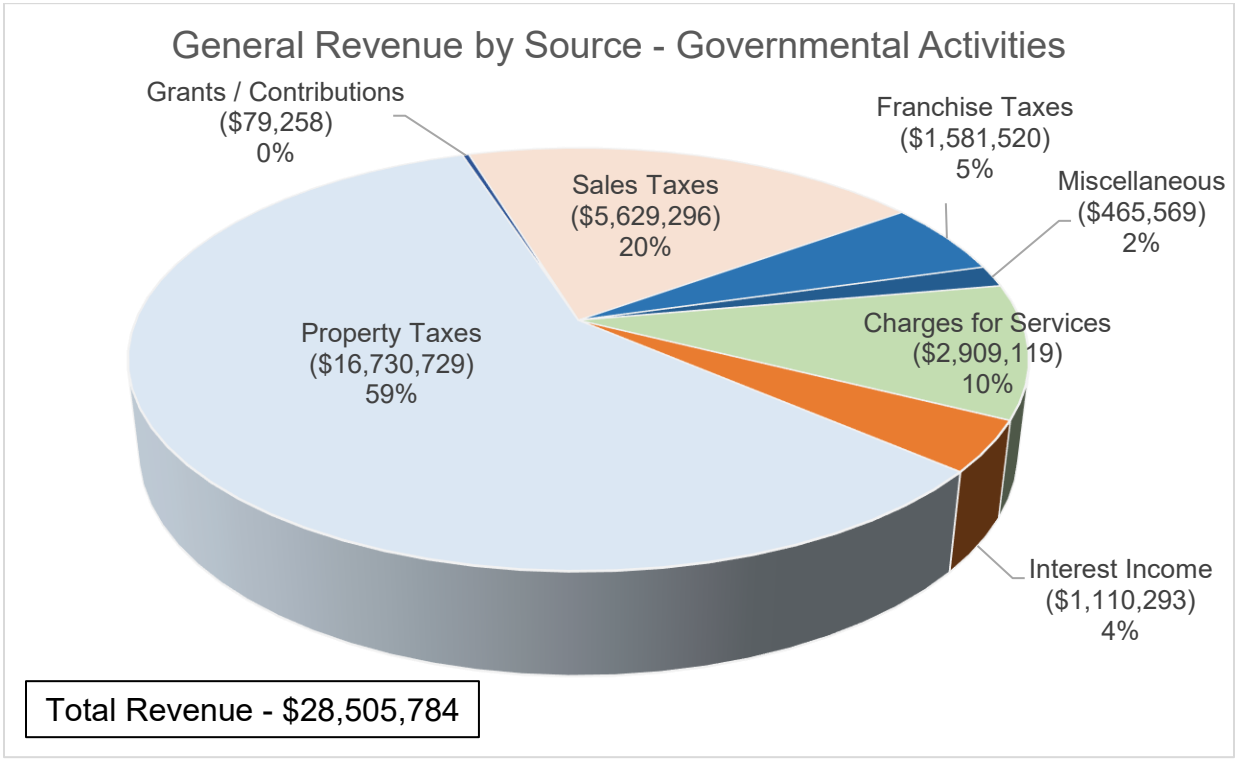
TABLE 2

CITY OF HIGHLAND VILLAGE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	$ 2,909,119	$ 2,776,651	$ 10,175,801	$ 10,273,938	$ 13,084,920	$ 13,050,589
Operating grants and contributions	76,258	114,839	-	966,580	76,258	1,081,419
Capital grants and contributions	3,000	132,247	25,803	9,507	28,803	141,754
General revenues:						
Property taxes	16,730,729	15,869,314	-	-	16,730,729	15,869,314
Sales taxes	5,629,296	5,622,168	-	-	5,629,296	5,622,168
Franchise fees	1,581,520	1,563,746	-	-	1,581,520	1,563,746
Interest income	1,110,293	1,307,651	361,104	315,089	1,471,397	1,622,740
Miscellaneous	465,569	107,560	-	-	465,569	107,560
Total revenues	28,505,784	27,494,176	10,562,708	11,565,114	39,068,492	39,059,290
Expenses:						
General government	6,304,516	6,243,098	-	-	6,304,516	6,243,098
Public safety	10,790,272	10,093,477	-	-	10,790,272	10,093,477
Community services	442,109	423,751	-	-	442,109	423,751
Streets and drainage	3,771,368	3,997,479	-	-	3,771,368	3,997,479
Parks and recreation	6,280,036	5,613,243	-	-	6,280,036	5,613,243
Interest on long-term debt	1,072,109	874,264	-	-	1,072,109	874,264
Water and wastewater	-	-	10,434,045	9,994,342	10,434,045	9,994,342
Total expenses	28,660,410	27,245,312	10,434,045	9,994,342	39,094,455	37,239,654
Change in net position before transfers	(154,626)	248,864	128,663	1,570,772	(25,963)	1,819,636
Transfers	470,000	470,000	(470,000)	(470,000)	-	-
Change in net position	315,374	718,864	(341,337)	1,100,772	(25,963)	1,819,636
Net position, beginning	48,032,013	47,313,149	15,240,569	14,139,797	63,272,582	61,452,946
Restatement	(551,610)	-	(158,927)	-	(710,537)	-
Net position, ending	$ 47,795,777	$ 48,032,013	$ 14,740,305	$ 15,240,569	$ 62,536,082	$ 63,272,582

Governmental activities. The City's expenses for governmental activities are detailed below – with associated program revenues.





Net position associated with governmental activities increased $315,374 in FY 2025 – this compared to a $718,864 increase in net position in FY 2024.

- FY 2025 revenues increased by $1,011,608 compared to the previous year. Key elements contributing to this increase are summarized below:

    - Charges for services increased by $132,468. This increase was primarily driven by higher revenues in Public Safety ($141,574), largely related to LISD participation in funding school resource officers, and Streets and Drainage ($99,654), mainly due to the increase in the drainage fee from $1.40 to $1.80 per impervious foot. These increases were partially offset by a decrease in Parks and Recreation fees of $122,947, resulting from the temporary closure of several campsites during an asphalt overlay project.

    - Operating grants and contributions decreased by $167,828, primarily due to the DCTA TRiP (Transportation Investment Program) fund revenues received in FY 2024. This program distributes 15% of DCTA's net available fund balance from the prior fiscal year among member cities—Denton, Lewisville, and Highland Village—based on each city's proportional share of sales and use tax receipts from the previous fiscal year.

    - Property tax revenues increased by $861,415 during the year. The majority of this increase resulted from a 5.9% increase in the taxable assessed value of property, partially offset by a reduction in the property tax rate.

    - Sales tax revenue increased modestly by $7,128. Sales tax collections have remained relatively flat over the past two fiscal years.

    - Investment earnings decreased by $197,358, primarily due to lower investment yields.

- FY 2025 expenses increased by $1,415,098 compared to FY 2024, primarily due to inflationary pressures and increased service demand. Total expenses of $28,660,410 exceeded total revenues, resulting in a $154,626 decrease in net position before transfers. This represents a decline compared to FY 2024, which reported an increase in net position of $248,864.

    - General government expenses increased by $61,418. This change is largely attributable to $230,716 in costs related to fire apparatus and vac-con repairs, as well as maintenance and structural foundation assessments at a City facility. These increases were partially offset by a $189,952 reduction in personnel costs, primarily due to staff turnover.

    - Public safety expenses increased by $696,795. The majority of this increase is due to a $767,595 rise in personnel costs, driven by a 6% market adjustment aimed at recruiting and retaining public safety staff and add a firefighter/paramedic position. This was partially offset by a $118,397 decrease in the City's proportional share of costs associated with constructing a regional fire training facility.

    - Streets and drainage expenses decreased by $226,111. This reduction is mainly due to a $375,642 decrease in street maintenance costs following the completion of the Highland Shores Asphalt Overlay project in FY 2024 and the 2024 and 2025 Asphalt Overlay Projects in FY 2025. The decrease was partially offset by a $97,294 increase in personnel costs related to the 6% market adjustment.

    - Parks and recreation expenses increased by $666,793. This increase includes $298,011 for overlay projects at Pilot Knoll and Copperas Branch parks, $86,240 in professional fees for the FM 407 trail alignment assessment, $126,787 for splash pad upgrades, and $99,694 for electrical improvements at Doubletree Ranch Park. Additionally, the Celebrate Highland Village event, which was canceled in FY 2024 due to inclement weather, resulted in $69,765 higher expenses in FY 2025.

    - Interest on long-term debt increased $197,845.

Business-type activities: Business-type activities reported a $341,337 decrease in the City's net position in FY 2025, compared to an increase of $1,100,772 in FY 2024. Overall, expenses and transfers exceeded revenues for the year.

- Charges for services decreased by $98,137 from the prior year total of $10,273,938. This decline is attributable to reduced consumption, with water usage decreasing by 5.6 million gallons and sewer usage decreasing by 4.0 million gallons compared to FY 2024.

- Operating and capital grants and contributions decreased by $950,284. In FY 2024, the City expended $966,580 in Coronavirus State and Local Fiscal Recovery Funds, which did not recur in FY 2025. Impact fee collections totaled $25,803, representing an increase of $16,296 over the prior year.

- Interest income increased by $46,015 compared to FY 2024.

- Expenses increased by $439,703 year over year, primarily due to higher maintenance costs. FY 2025 included $267,485 in emergency sanitary sewer manhole and bypass system repairs. In addition, the Oak Street ground storage tank repainting project was completed at a cost of $153,328.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $36,051,362 an increase of $6,074,304 in comparison with the prior year. Approximately 24 percent of this total amount, or $8,621,948, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for spending because it has already been restricted - $24,029,996, committed - $95,119, assigned - $3,256,847, or non-spendable - $47,452.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $8,621,948, while total fund balance was $11,926,247. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 36 percent of total General Fund expenditures, while total fund balance represents 50 percent of that same amount.

The original FY 2025 budget anticipated a $1,138,908 drawdown of the projected fund balance of $10,422,216. This planned use of fund balance was primarily intended to support a 6% overall salary increase, the addition of a firefighter/paramedic position, and facility maintenance needs including roof replacement and structural foundation assessment of City facilities, while still maintaining adequate reserve levels. Actual ending fund balance for FY 2025 was $11,647,042.

For FY 2025, revenues totaled $21,101,205, falling short of the budget by $837,255. Expenditures totaled $23,636,410, which were $842,006 below the budgeted amount. Additionally, $847,675 of expenditures were offset by lease financing, along with $85,921 related to subscription-based information technology arrangements (SBITAs). These combined variances resulted in an overall increase in fund balance of $279,205.

Key factors affecting fund balance are as follows:

- Total General Fund revenues of $22,101,205 increased by $493,244 compared to FY 2024.
    - Taxes increased by $534,327:
        - Property tax revenue rose by $522,178, primarily due to a 5.9% increase in assessed valuation, partially offset by a reduction in the tax rate.
        - Sales tax revenue decreased slightly by $5,625.
        - Franchise fees increased by $17,774.
    - Licenses, permits, and fees decreased by $36,239, reflecting reduced commercial building activity and recreation program participation.
    - Investment earnings decreased by $226,770 due to lower yields.
    - Charges for Services revenues experienced a $176,670 increase, related to LISD participation for funding of school resources officers.

- Miscellaneous revenue increased by $37,545 largely due a renewal incentive from the City's health insurance provider.

- Total General Fund expenditures of $23,636,410 increased by $797,978 from FY 2024.

  - Personnel expenditures totaling $16,037,576, an increase of $970,954, driven primarily by the 6% salary adjustment.

  - Services and supplies totaled $5,355,811, increased by $377,052. Key drivers include:

    - Completion of the 2024 and 2025 Street Asphalt Overlay projects totaling $354,421.
    - Repairs to fire apparatus and vac-con equipment totaling $141,268.
    - Structural foundation assessment of City facilities totaling $51,220.
    - Increased event costs of $69,765 due the cancellation of the Celebrate Highland Village event in FY 2024.

  - Capital outlay totaled $1,420,927, a decrease of $718,667. This decline is primarily due to a $832,343 reduction in lease-financed acquisitions, partially offset by a $60,421 increase in subscription-based information technology arrangements (SBITAs).

- Total other financing sources (uses) were $1,814,410, representing a decrease of $640,464 from FY 2024. This includes transfers in of $470,000 from the Utility Fund, $28,000 from the Highland Village Economic Development Corporation, $16,000 from the Drainage Utility Fund, and $19,202 from the Public Safety Fund for Child Safety Fees. These were partially offset by a $16,000 transfer to the Drainage Utility Fund for drainage fees. Additional sources include $847,675 in lease proceeds, $85,921 from SBITAs, and $363,612 from the sale of capital assets.

The Capital Projects Fund ended FY 2025 with a fund balance of $20,073,810, an increase of $5,585,577 from FY 2024. This increase is primarily attributable to the ongoing implementation of projects funded by the $15.3 million 2021 Certificates of Obligation and equipment acquisitions supported by the $2.805 million 2024 Tax Note, combined with proceeds from the $7.13 million Certificates of Obligation issued in FY 2025.

Remaining governmental funds reported a combined ending fund balance of $4,051,305, representing an increase of $209,522 from the prior year.

- Collective revenues for these funds totaled $5,762,621, an increase of $354,243 compared to FY 2024. This growth is largely due to a $390,962 increase in property tax revenues, driven by a 5.9% increase in assessed taxable property values.

- Combined expenditures totaled $5,505,897, an increase of $845,910 from the previous year. This increase is primarily related to higher debt service costs of $371,044. Additional contributing factors include increased parks and recreation expenditures in the Corps Leased Parks Fund ($284,499) and the Highland Village Community Development Corporation Fund ($182,980).

- Total other financing sources (uses) reflected a net outflow of $47,202, relatively consistent with FY 2024 (a decrease of $444). The Highland Village Community Development Corporation (HVCDC) continued its practice of transferring its portion of debt service to the Debt Service Fund, with transfers totaling $539,165 in FY 2025.

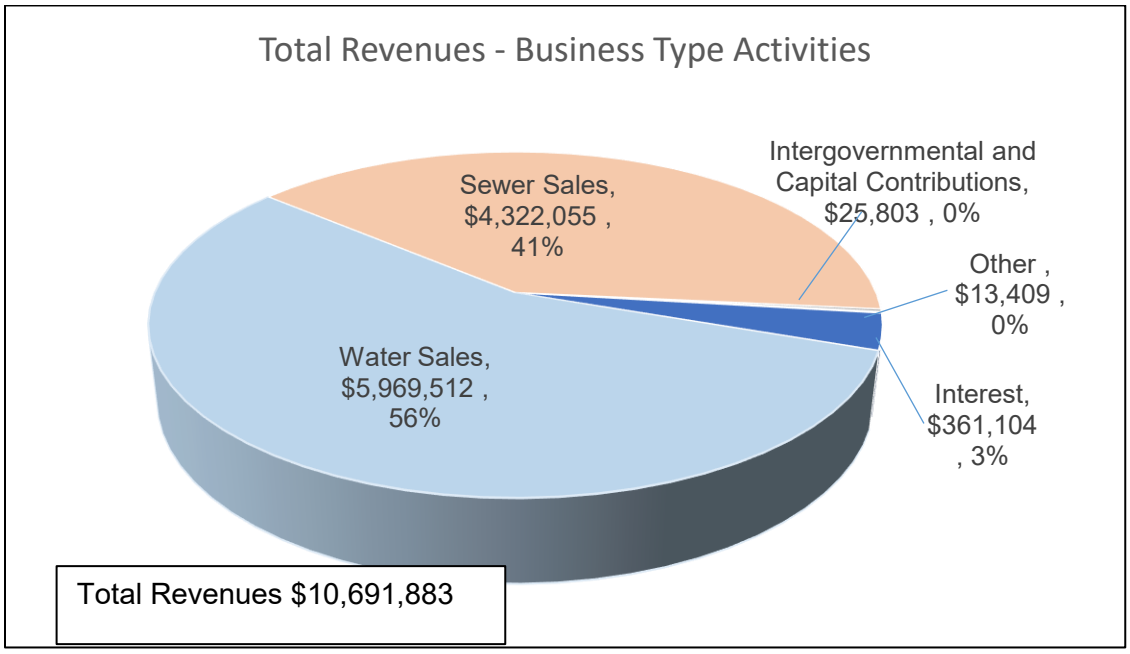
Proprietary funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net position in the Enterprise Fund totaled $14,740,305 at the end of FY 2025, representing a decrease of $500,264, or 3.3%, from the prior year. Of this amount, $1,131,003 is restricted for capital projects and $573,032 is restricted for debt service, while $5,933,182 is classified as unrestricted net position. The remaining balance of $7,103,088 represents net investment in capital assets.

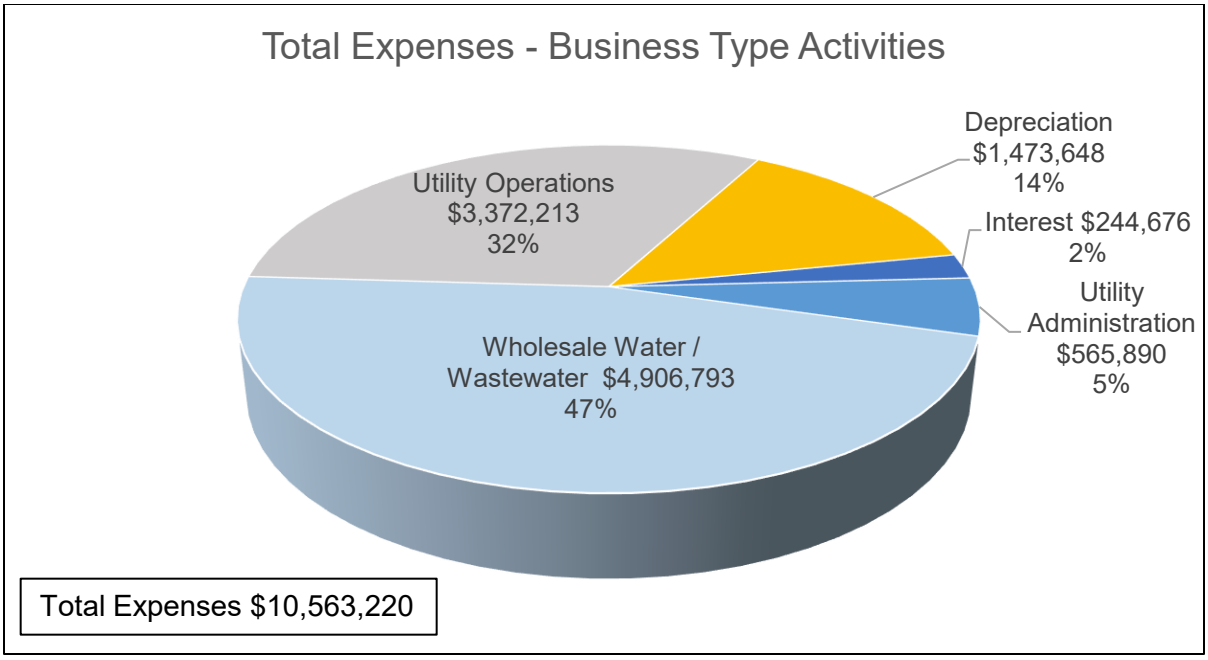
- Utility operating revenues totaled $10,175,801 in FY 2025, reflecting a decrease of $98,137, or 1.0%.

  - Water sales increased slightly by $5,053.

- Sewer sales decreased by $107,300.
- Other fees increased by $4,110.



- Utility operating expenses totaled $10,318,544 in FY 2025, representing an increase of $526,737, or 5.4%, compared to the prior year.
  - Administration expenses increased by $65,258.
  - Maintenance and operations expenses increased by $402,577. Key components of this change include:
    - Wholesale water and sewer treatment costs decreased $78,851.
    - Personnel expenses increased by $169,782.
    - Services and supplies increased by $311,646, driven by the following:
      - Utilities costs decreased by $77,687.
      - Well lot maintenance increased by $52,884, primarily due to a fence replacement at the Lake Vista pump station.
      - Sewer line maintenance increased by $342,766 largely attributable to emergency sanitary manhole and sanitary bypass system repairs resulting from lake flooding and lift station failure.
      - Lift station maintenance decreased by $114,460 due to pump replacements completed in FY 2024.
      - Water storage tank maintenance increased by $153,328 due to the Oak Street Ground Storage Tank painting project.
      - Water meter maintenance decreased by $73,604.
  - Depreciation expense increased by $58,902 in FY 2025.



GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2024–2025, the City Council of the City of Highland Village amended the General Fund budget on three occasions, resulting in a net decrease in budgeted expenditures of $297,350. These amendments primarily reflect actions taken to fund unbudgeted items and to release appropriations for items that did not occur during the fiscal year.

Staff reviewed each supplemental appropriation throughout the year and determined that revenues and available fund balance were sufficient to support the recommended changes. All approved budget amendments included either offsetting reductions or adequate available reserves.

For FY 2025, actual expenditures on a budgetary basis totaled $23,636,410. This amount was $1,139,356 below the original budget of $24,775,766 and $842,006 below the final amended budget. The budget amendments approved during the year are summarized as follows:

- Personnel expenditures decreased by a net total of $9,000, including reductions in Finance ($25,000) and Fire ($10,000), offset by increases in Marketing and Communications ($12,500) and Parks and Recreation ($13,500). These changes were driven by mid-year adjustments, staff turnover, personnel changes, and insurance coverage elections.

- Services and supplies expenditures increased in $197,150, consisting of the following amendments:
  - Finance – Increase of $2,000 due to higher bank fees.
  - Fire – Increase of $5,200 for installation of "Stop the Bleed" cabinets and the purchase of an additional Automated External Defibrillator (AED).
  - Streets and Drainage – Increased of $193,500 for sign and barrier replacement, additional streetlight electricity costs, and costs associated with the 2025 street asphalt overlay project.
  - Parks and recreation – Net decrease of $3,550, reflecting an $18,450 increase to utilize fireworks contracted for the Celebrate Highland Village event canceled in FY 2024, offset by a subsequent $22,000 budget reduction.

- Capital outlay expenditures decreased by $485,500. This includes a $10,000 increase due to higher-than-expected costs for a rugged terrain vehicle and $119,500 related to the receipt of a dump truck ordered in the prior year, offset by a $615,000 reduction for electrical upgrades and generator acquisition deferred to FY 2026.

Actual revenues on a budgetary basis totaled $22,101,205, compared to the original budget of $22,938,460, resulting in a negative variance of $837,255. Tax revenues were $715,437 below budget, primarily due to lower-than-anticipated property tax and sales tax collections. Investment earnings were $274,610 below budget, reflecting decreased yields. These shortfalls were partially offset by miscellaneous revenues exceeding budget by $65,105, primarily due to a renewal incentive from the City's health insurance provider.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets, for its governmental and business-type activities as of September 30, 2025, amounted to $73,315,265 (net of accumulated depreciation). This investment in capital assets includes land, building, park facilities, roads, bridges, water and sewer lines, machinery, equipment, and right-to-use assets.

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

Project	Amount
Right to Use 16 Vehicles	$1,367,099
Replace Force Mains Water Wastewater Lift Stations 2 & 7	1,019,718
Gradall D172	338,671
Gayle, Merriman, Oak Cedar Waterlines	287,557
Brush Truck Ford F-550	248,170
Highland Shores Blvd Reconstruction	231,640
Brooks Court & Pilot Knoll Water Lines	225,840
Wastewater System Restoration Slope Protection	200,825
PC138 Excavator	192,591
2025 Ford F750 Super Dump Truck	119,230
Pilot Knoll Park Improvements	107,584
LP SDT Vacuum Excavator	90,943
Unity Park Backstop Fence	86,800
SBITA – ESRI Software	85,921
Unity Park Renovations/Irrigation	85,709
John Deere 5075M Tractor, Loader, & Attachment	77,442
Concrete Mixing Trailer	62,735
Komatsu PCS35MR-5	56,665
BC10000XL Brush Chipper	55,853
Pilot Knoll Boat Ramp Improvements	55,498
John Deere 4052R Tractor	53,963
Highland Village Rd. Reconstruction	53,320
Pickleball Court Renovation – Fencing	52,959
Ball Field Groomer	49,339
HAMM HD10NN Tandem Roller	48,404
GPS Paint Robot	47,675
Highland Shores Blvd. Crosswalk	40,400
All Terrain Utility Vehicle	34,184
HP 40 Trailer	33,592
Sullair 185 Portable Air Compressor	28,714

TABLE 3

CITY OF HIGHLAND VILLAGE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Land	$ 17,183,848	$ 17,183,848	$ 75,713	$ 75,713	$ 17,259,561	$ 17,259,561
Land improvements	13,251,865	13,756,731	-	-	13,251,865	13,756,731
Buildings and improvements	3,137,919	3,649,533	430,259	502,180	3,568,178	4,151,713
Distribution system	-	-	11,083,224	11,052,362	11,083,224	11,052,362
Equipment and machinery	2,762,522	1,817,582	556,081	587,683	3,318,603	2,405,265
Infrastructure	16,396,896	16,462,407	6,759	6,759	16,403,655	16,469,166
Intangibles	87,327	97,376	-	-	87,327	97,376
Right to use equipment	2,623,066	2,271,636	522,949	329,722	3,146,015	2,601,358
Right to use building	315,479	330,442	-	-	315,479	330,442
SBITA	243,229	285,313	581,683	669,892	824,912	955,205
Construction in progress	1,753,079	2,767,992	2,303,367	1,643,447	4,056,446	4,411,439
Total capital assets	$ 57,755,230	$ 58,622,860	$ 15,560,035	$ 14,867,758	$ 73,315,265	$ 73,490,618

Additional information on the City's capital assets can be found in Note E on pages 42-43 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonds outstanding of $41,659,000. Of this amount, $35,224,000 is tax-supported debt. The remainder of the City of Highland Village's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

TABLE 4

CITY OF HIGHLAND VILLAGE'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
General obligations	$ 12,120,000	$ 13,520,000	$ 4,175,000	$ 4,795,000	$ 16,295,000	$ 18,315,000
Combination tax and revenue certificates of obligation	20,770,000	13,890,000	2,260,000	2,395,000	23,030,000	16,285,000
Tax notes	2,334,000	2,805,000	-	-	2,334,000	2,805,000
	$ 35,224,000	$ 30,215,000	$ 6,435,000	$ 7,190,000	$ 41,659,000	$ 37,405,000

The City's total debt increased by $4,254,000 during the current fiscal year. A key factor in this increase is the issuance of Certificates of Obligation of $7,130,000, netted with debt payments of $2,876,000.

The City's tax supported debt is rated "AAA" by Standards & Poor's. The current ratio of tax-supported debt to assessed value of all taxable property is 1.04 percent.

Additional information on the City's outstanding debt can be found in Note G and H on page 44-48 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2025-2026 budget was adopted by ordinance on September 16, 2025. The following summarizes the significant factors that were considered in adopting the budget.

General fund revenues are budgeted to increase by 0.2% over the FY 2025 budget with property taxes making up 65% of the general fund budgeted revenues. The property tax taxable values increased by 4.2%. Council approved the voter approved tax rate of $.500984 per $100 valuation, an increase from the previous $0.500273 tax rate. The updated tax rate comprises $0.422397 apportioned to maintenance and operation expenses and $0.078587 apportioned to pay interest and principal maturities on outstanding debt. Sales tax represents 17% of the budget general fund revenues. Sales tax collections are expected to decrease 7.8% over the FY 2025 budgeted amount.

General fund expenditures are budgeted to increase by 5.8% over the FY 2025 original budget.

- Personnel costs represent the largest component of general fund expenditures at 67%. These costs are budgeted to increase by $955,583 (6%)**,** driven by:
    - A 3.5% salary adjustment to remain competitive in the labor market.
    - Increased health insurance premiums.
    - Salary adjustments due to employee turnover.
    - Addition of one part-time Recreation position to support growing program demand.
- Supplies and services expenditures account for 28% of general fund expenditures and are budgeted to remain relatively flat, decreasing by $7,150 or 0.1%. Key changes include:
    - A reduction in professional services of $91,253 – engagement of a structural engineer in FY 2025 to assess the foundation of City facilities, costing $70,000.
    - Supplies and equipment will increase $38,758 – largely attributed to supplement requests to fund rifle-rated ballistic shields ($18,418), wildland fire gear ($27,231), and brush removal at Village Park ($72,000).
    - Other expenditures will increase $60,438. The significant factors for this increase include:
        - Concrete panels purchases budgeted in FY 2025, delayed to FY 2026 ($100,000)
        - Additional recreation program – Teen Bonfire ($10,000)
        - Public safety Blue Voice AI program ($6,000).
    - Capital outlay expenditures represent 5% of the budgeted general fund expenditures. Capital expenditures are budgeted at $1,307,522 - a $484,422 increase from the FY 2025 original budget. Major investments include:
        - Electrical upgrades and replacement of a generator at City Hall ($750,000)
        - Core storage replacement ($140,000)
        - Two workman vehicles ($56,700)
        - Street sander ($21,000)
        - Copier ($9,700)
        - Supplemental requests totaling $330,122 include a pothole truck ($234,654), outdoor warning sirens ($85,847), and fitness equipment ($9,621),

Water sales are budgeted at $6,590,410, representing a 6.5% increase over the FY 2025 budget. Projections are based on normalized usage determined by the past several years' history – applied to the projected home count. Wastewater sales are budgeted at $4,332,213, representing a 3.4% decrease from FY 2025.

Water and wastewater expenses are budgeted at $10,728,930 representing a $703,122 or 7% increase compared to FY 2025 budget. Various elements accounted for the increase:

- Personnel increased $179,047 resulting in 3.5% overall salary adjustments and increased health insurance premium costs.
- UTRWD Charges (Volume / Demand costs for purchase of wholesale water and processing of sanitary sewer) increased by $252,374.
- System maintenance increased $357,669, primarily for water storage tank painting.
- Capital decreased $66,000. The purchase of a John Deere gator ($18,000) was appropriated in the FY 2026 budget.

Information on commitments and contingencies is detailed in Note K on pages 54-55 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Highland Village, Finance Department, 1000 Highland Village Road, Highland Village, TX, 75077.

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BASIC
FINANCIAL STATEMENTS

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2025

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 36,957,717	$ 5,742,374	$ 42,700,091
Receivables (net of allowances for uncollectibles)			
Taxes	1,508,706	-	1,508,706
Accounts	328,832	1,791,742	2,120,574
Leases	2,531,471	-	2,531,471
Other	15,686	4,557	20,243
Due from other governments	-	-	-
Inventories and prepaid items	74,231	365,912	440,143
Restricted cash and investments:			
Reserved bond debt service	-	573,032	573,032
Construction	-	1,131,003	1,131,003
Customer deposits	-	97,530	97,530
Capital assets:			
Nondepreciable	18,936,927	2,379,080	21,316,007
Depreciable, net	38,818,303	13,180,955	51,999,258
Total capital assets	57,755,230	15,560,035	73,315,265
Total assets	99,171,873	25,266,185	124,438,058
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	133,423	32,862	166,285
Related to pensions	1,253,845	141,796	1,395,641
Related to OPEB	42,038	4,754	46,792
Total deferred outflows of resources	1,429,306	179,412	1,608,718

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

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2025

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Accounts payable	$ 1,768,787	$ 1,572,461	$ 3,341,248
Accrued liabilities	709,134	126,722	835,856
Retainage payable	-	62,646	62,646
Unearned revenue	69,437	-	69,437
Accrued interest	116,153	52,531	168,684
Customer deposits	-	97,530	97,530
Noncurrent liabilities:			
Due within one year:			
Other long-term liabilities	1,133,901	826,992	1,960,893
Long-term debt	3,059,150	311,281	3,370,431
Total OPEB liability	7,839	887	8,726
Due in more than one year:			
Other long-term liabilities	476,187	1,055,521	1,531,708
Arbitrage liability	1,037,684	-	1,037,684
Long-term debt	37,744,267	6,102,346	43,846,613
Net pension liability	2,989,985	338,137	3,328,122
Total OPEB liability	348,629	39,426	388,055
Total liabilities	49,461,153	10,586,480	60,047,633
DEFERRED INFLOWS OF RESOURCES			
Related to leases	2,352,992	-	2,352,992
Deferred gain on refunding	-	6,711	6,711
Related to pensions	857,779	97,006	954,785
Related to OPEB	133,478	15,095	148,573
Total deferred inflows of resources	3,344,249	118,812	3,463,061
NET POSITION			
Net investment in capital assets	37,124,862	7,103,088	44,227,950
Restricted for:			
Debt service	26,348	573,032	599,380
Community development	2,465,779	-	2,465,779
Public safety	133,619	-	133,619
Utility drainage	86,175	-	86,175
Public broadcasting	194,294	-	194,294
Capital projects	-	1,131,003	1,131,003
Park development and maintenance	966,170	-	966,170
Unrestricted	6,798,530	5,933,182	12,731,712
Total net position	$ 47,795,777	$ 14,740,305	$ 62,536,082

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2025

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 6,304,516	$ 373,314	$ 15,801	$ -
Public safety	10,790,272	872,325	60,457	-
Community services	442,109	318,534	-	-
Streets and drainage	3,771,368	614,346	-	-
Parks and recreation	6,280,036	730,600	-	3,000
Interest on long-term debt	1,072,109	-	-	-
Total governmental activities	28,660,410	2,909,119	76,258	3,000
Business-type activities:				
Water and wastewater	10,434,045	10,175,801	-	25,803
Total business-type activities	10,434,045	10,175,801	-	25,803
Total primary government	$ 39,094,455	$ 13,084,920	$ 76,258	$ 28,803

General revenues:
Taxes:
Property taxes, levied for general purposes
Property taxes, levied for debt service
Franchise
Sales
Unrestricted investment earnings
Miscellaneous
Transfers
Total general revenues and transfers

Change in net position

Net position - beginning

Restatement - change in accounting principle

Net position - beginning, restated

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
$ (5,915,401)	$ -	$ (5,915,401)
(9,857,490)	-	(9,857,490)
(123,575)	-	(123,575)
(3,157,022)	-	(3,157,022)
(5,546,436)	-	(5,546,436)
(1,072,109)	-	(1,072,109)
(25,672,033)	-	(25,672,033)
-	(232,441)	(232,441)
-	(232,441)	(232,441)
(25,672,033)	(232,441)	(25,904,474)
14,202,669	-	14,202,669
2,528,060	-	2,528,060
1,581,520	-	1,581,520
5,629,296	-	5,629,296
1,110,293	361,104	1,471,397
465,569	-	465,569
470,000	(470,000)	-
25,987,407	(108,896)	25,878,511
315,374	(341,337)	(25,963)
48,032,013	15,240,569	63,272,582
(551,610)	(158,927)	(710,537)
47,480,403	15,081,642	62,562,045
$ 47,795,777	$ 14,740,305	$ 62,536,082

CITY OF HIGHLAND VILLAGE, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2025

	General	Capital Projects
ASSETS		
Cash and investments	$ 12,318,575	$ 20,572,582
Receivables, net		
Taxes	1,188,970	-
Accounts	328,832	-
Leases	2,531,471	-
Other	-	-
Due from other governments	-	-
Prepaid items	21,006	-
Inventories	26,446	-
Total assets	16,415,300	20,572,582
LIABILITIES		
Accounts payable	1,030,635	498,772
Accrued liabilities	660,957	-
Unearned revenue	11,890	-
Total liabilities	1,703,482	498,772
DEFERRED INFLOWS OF RESOURCES		
Related to leases	2,352,992	-
Unavailable revenue:		
Property taxes	188,125	-
Municipal court fines	94,143	-
Ambulance	150,311	-
Grants	-	-
Total deferred inflows of resources	2,785,571	-
FUND BALANCES		
Nonspendable:		
Prepaid items	21,006	-
Inventories	26,446	-
Restricted for:		
Debt service	-	-
Public parks, recreation, and related projects	-	-
Public safety - law enforcement operations	-	-
Utility drainage operations	-	-
Capital projects	-	20,073,810
Public broadcasting	-	-
Park development and maintenance	-	-
Committed - park development and maintenance	-	-
Assigned for:		
Subsequent year's budget - appropriation of fund balance	2,609,126	-
Finance - professional services	40,500	-
Information services - professional services	105,284	-
Public safety - police - services and supplies	3,067	-
Streets - maintenance and professional services	229,394	-
Maintenance - fleet and building maintenance	222,410	-
Parks - maintenance and supplies	16,978	-
Recreation - services	30,088	-
Unassigned	8,621,948	-
Total fund balances	11,926,247	20,073,810
Total liabilities, deferred inflows of resources, and fund balances	$ 16,415,300	$ 20,572,582

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

Other Governmental	Total Governmental Funds
$ 4,066,560	$ 36,957,717
319,736	1,508,706
-	328,832
-	2,531,471
15,686	15,686
-	-
-	21,006
26,779	53,225
4,428,761	41,416,643
239,380	1,768,787
48,177	709,134
57,547	69,437
345,104	2,547,358
-	2,352,992
32,352	220,477
-	94,143
-	150,311
-	-
32,352	2,817,923
-	21,006
-	26,446
110,149	110,149
2,465,779	2,465,779
133,619	133,619
86,175	86,175
-	20,073,810
194,294	194,294
966,170	966,170
95,119	95,119
-	2,609,126
-	40,500
-	105,284
-	3,067
-	229,394
-	222,410
-	16,978
-	30,088
-	8,621,948
4,051,305	36,051,362
$ 4,428,761	$ 41,416,643

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CITY OF HIGHLAND VILLAGE, TEXAS

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

SEPTEMBER 30, 2025

Total fund balance, governmental funds		$ 36,051,362
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		57,755,230
Uncollected revenues are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.		
Property taxes	$ 220,477	
Ambulance fees	150,311	
Court fines	94,143	
		464,931
Long-term liabilities, including bonds and tax notes payable, are not due and payable in the current period and are therefore not reported in the funds. Also, the loss on refunding of bonds and premium on issuance of bonds are not included in the funds. The details of these differences are as follows:		
Bonds payable	(32,890,000)	
Tax notes	(2,334,000)	
Leases	(2,823,702)	
SBITA's	(204,345)	
Deferred amount on refunding	133,423	
Issuance premium	(2,551,370)	
Arbitrage	(1,037,684)	
Accrued interest	(116,153)	
Compensated absences	(1,610,088)	
		(43,433,919)
Included in the items related to long-term liabilities is the recognition of the City's net pension liability and deferred outflow and inflow of resources related to pensions.		
Deferred outflow related to pensions	1,253,845	
Deferred inflow related to pensions	(857,779)	
Deferred outflow related to post employment benefits	42,038	
Deferred inflow related to post employment benefits	(133,478)	
Total OPEB liability	(356,468)	
Net pension liability	(2,989,985)	
		(3,041,827)
Net position of governmental activities in the statement of net position		$ 47,795,777

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

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General	Capital Projects
REVENUES		
Taxes	$ 19,584,953	$ -
Fines and forfeitures	135,764	-
Licenses, permits and fees	690,292	-
Intergovernmental	24,864	-
Charges for services	859,049	-
Investment earnings	661,178	639,817
Miscellaneous	145,105	-
Total revenues	22,101,205	639,817
EXPENDITURES		
Current:		
General government:		
City manager	614,007	-
Finance	1,508,166	-
Marketing and communication	505,865	-
Human resources	540,100	-
City secretary	375,841	-
Maintenance	1,514,299	-
Information services	1,320,282	-
Public safety:		
Police	6,148,579	-
Fire	3,905,086	-
Community services	432,396	-
Streets and drainage	1,644,497	45,820
Parks and recreation	2,887,375	-
Debt service:		
Principal	677,093	-
Interest and other	141,897	169,065
Capital outlay	1,420,927	2,085,402
Total expenditures	23,636,410	2,300,287
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,535,205)	(1,660,470)
OTHER FINANCING SOURCES (USES)		
Transfers in	533,202	-
Transfers out	(16,000)	-
Issuance of bonds	-	7,130,000
Premium on issuance of bonds	-	116,047
Issuance of leases	847,675	-
Issuance of SBITA's	85,921	-
Sale of capital assets	363,612	-
Total other financing sources and uses	1,814,410	7,246,047
NET CHANGE IN FUND BALANCES	279,205	5,585,577
FUND BALANCES, BEGINNING	11,647,042	14,488,233
FUND BALANCES, ENDING	$ 11,926,247	$ 20,073,810

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

Other Governmental	Total Governmental Funds
$ 4,344,386	$ 23,929,339
-	135,764
1,195,336	1,885,628
54,394	79,258
-	859,049
168,505	1,469,500
-	145,105
5,762,621	28,503,643
-	614,007
7,081	1,515,247
-	505,865
-	540,100
-	375,841
-	1,514,299
-	1,320,282
51,790	6,200,369
2,277	3,907,363
-	432,396
642,593	2,332,910
1,658,776	4,546,151
2,121,000	2,798,093
965,755	1,276,717
56,625	3,562,954
5,505,897	31,442,594
256,724	(2,938,951)
552,025	1,085,227
(599,227)	(615,227)
-	7,130,000
-	116,047
-	847,675
-	85,921
-	363,612
(47,202)	9,013,255
209,522	6,074,304
3,841,783	29,977,058
$ 4,051,305	$ 36,051,362

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CITY OF HIGHLAND VILLAGE, 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

Net change in fund balances - total governmental funds:		$ 6,074,304
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the assets' estimated useful lives as depreciation expense.		
Capital outlay	$ 3,436,751	
Retainage payable related to capital outlay	138,903	
Depreciation expense	(4,261,233)	
		(685,579)
In the statements of activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets disposed.		(43,148)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The details of these differences are as follows:		
Property taxes	12,206	
Ambulance fees	(10,035)	
Court fines	38,713	
		40,884
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while issuing debt increases long-term liabilities in the statement of net position. The repayment of the principal portion of bonds, leases and tax notes is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
Issuance of bonds	(7,246,047)	
Issuance of leases	(847,675)	
Issuance of SBITAs	(85,921)	
Payments on bonds	2,121,000	
Payments on leases	557,441	
Payments on SBITAs	119,652	
		(5,381,550)
Certain pension and other postemployment benefits expenditures are not expended in the government-wide financial statements and recorded as deferred resource outflows. This item relates to contributions made after the measurement date. Additionally, a portion of the City's unrecognized deferred resource outflows and inflows related to the pension and other post employment benefits liability were amortized.		262,636
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	202,426	
Arbitrage	(359,207)	
Accrued interest	(765)	
Amortization of deferred loss of refunding bonds	(14,555)	
Amortization of premium on bond issuances	219,928	
		47,827
Change in net position of governmental activities		$ 315,374

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

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF NET POSITION
ENTERPRISE - WATER AND WASTEWATER FUND

SEPTEMBER 30, 2025
(With Comparative Totals as of September 30, 2024)

	2025	2024
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,742,374	$ 6,559,526
Accounts receivable, net	1,791,742	1,947,812
Other receivables	4,557	4,557
Inventories	361,347	305,965
Prepaid items	4,565	4,565
Restricted cash and investments:		
Reserve bond debt service	573,032	564,369
Construction	1,131,003	1,204,329
Customer deposits	97,530	90,770
Total current assets	9,706,150	10,681,893
Non-current assets:		
Capital assets:		
Nondepreciable capital assets	2,379,080	1,719,160
Depreciable capital assets, net of accumulated depreciation	13,180,955	13,148,598
Total capital assets	15,560,035	14,867,758
Total non-current assets	15,560,035	14,867,758
Total assets	25,266,185	25,549,651
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	32,862	36,447
Related to pensions	141,796	260,580
Related to other postemployment benefits	4,754	7,437
Total deferred outflows of resources	179,412	304,464

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

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF NET POSITION
ENTERPRISE - WATER AND WASTEWATER FUND

SEPTEMBER 30, 2025
(With Comparative Totals as of September 30, 2024)

	2025	2024
LIABILITIES		
Current liabilities:		
Accounts payable	$ 1,572,461	$ 802,832
Accrued expenses	126,722	113,103
Accrued interest	52,531	47,247
Retainage payable	62,646	50,360
Customer deposits	97,530	90,770
Current portion of long-term debt	826,992	806,992
Current portion of other long-term liabilities	311,281	274,736
Total OPEB Liability	887	1,171
Total current liabilities	3,051,050	2,187,211
Noncurrent liabilities:		
Net pension liability	338,137	541,339
Total OPEB liability	39,426	38,762
Noncurrent portion of long-term debt	6,102,346	6,929,338
Noncurrent portion of other long-term liabilities	1,055,521	848,184
Total noncurrent liabilities	7,535,430	8,357,623
Total liabilities	10,586,480	10,544,834
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	6,711	8,675
Related to pensions	97,006	42,008
Related to other postemployment benefits	15,095	18,029
Total deferred inflows of resources	118,812	68,712
NET POSITION		
Net investment in capital assets	7,103,088	6,023,518
Restricted for debt service	573,032	564,369
Restricted for capital projects	1,131,003	1,204,329
Unrestricted	5,933,182	7,448,353
Total net position	$ 14,740,305	$ 15,240,569

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CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2025
(With Comparative Totals For the Year Ended September 30, 2024)

	2025	2024
REVENUES		
Charges for services	$ 10,175,801	$ 10,273,938
Total operating revenues	10,175,801	10,273,938
OPERATING EXPENSES		
Administration	565,890	500,632
Maintenance and operations	8,279,006	7,876,429
Depreciation	1,473,648	1,414,746
Total operating expenses	10,318,544	9,791,807
OPERATING INCOME (LOSS)	(142,743)	482,131
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	361,104	315,089
Gain on disposal of capital assets	129,175	42,389
Intergovernmental grant revenue	-	966,580
Interest expense	(244,676)	(244,924)
Total non-operating revenues (expenses)	245,603	1,079,134
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	102,860	1,561,265
Capital contributions - impact fees	25,803	9,507
Transfers out	(470,000)	(470,000)
CHANGE IN NET POSITION	(341,337)	1,100,772
TOTAL NET POSITION, BEGINNING	15,240,569	14,139,797
RESTATEMENT, CHANGE IN ACCOUNTING PRINCIPLE	(158,927)	-
TOTAL NET POSITION, BEGINNING, RESTATED	15,081,642	14,139,797
TOTAL NET POSITION, ENDING	$ 14,740,305	$ 15,240,569

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

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF CASH FLOWS
ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2025
(With Comparative Totals For the Year Ended September 30, 2024)

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	$ 10,338,631	$ 10,412,374
Cash paid to suppliers for goods and services	(6,431,271)	(7,175,708)
Cash paid to employees for services	(1,944,938)	(1,498,367)
Net cash provided by operating activities	1,962,422	1,738,299
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(470,000)	(470,000)
Net cash provided (used) by noncapital financing activities	(470,000)	(470,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	129,175	42,389
Acquisition and construction of capital assets	(1,660,507)	(1,418,589)
Principal paid on bonds	(755,000)	(750,000)
Principal paid on leases	(104,990)	(48,918)
Principal paid on SBITA's	(86,135)	(83,411)
Capital contributions	25,803	9,507
Interest and other charges paid on debt	(276,927)	(294,306)
Net cash provided (used) by capital and related financing activities	(2,728,581)	(2,543,328)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	361,104	315,089
Net cash provided by investing activities	361,104	315,089
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(875,055)	(959,940)
CASH AND CASH EQUIVALENTS, BEGINNING	8,418,994	9,378,934
CASH AND CASH EQUIVALENTS, ENDING	$ 7,543,939	$ 8,418,994
(Including $5,742,374 and $1,801,565 reported as restricted cash and investments)		

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

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF CASH FLOWS
ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2025
(With Comparative Totals For the Year Ended September 30, 2024)

	2025	2024
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$(142,743)	$ 482,131
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,473,648	1,414,746
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Decrease (increase) in assets and deferred outflows:		
Customer receivable	156,070	142,486
Inventories	(55,382)	(72,792)
Deferred outflow related to pensions	118,784	261,028
Deferred outflow related to OPEB	2,683	2,167
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable	534,343	(171,827)
Accrued liabilities	13,619	9,729
Customer deposits	6,760	(4,050)
Compensated absences	5,398	(16,437)
Other post employment benefits	380	902
Net pension liability	(203,202)	(335,250)
Deferred inflow related to pensions	54,998	31,773
Deferred inflow related to OPEB	(2,934)	(6,307)
Net cash provided by operating activities	$ 1,962,422	$ 1,738,299
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Equipment acquired through leases	$ 257,846	$ 300,545

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Highland Village adopted a Home Rule Charter in April 1985 and operates under a Council-Manager form of government. All powers of the City are vested in an elected Council, which enacts local legislation, adopts budgets, determines policies and appoints the City Manager. The City Manager is responsible for executing the laws and administering the government of the City. The City Council consists of seven members, a mayor and six Councilpersons elected by the City's residents.

The City's Annual Comprehensive Financial Report presents the financial position, changes in financial position and cash flows where applicable of the City. The reporting entity is the primary government and those component units for which the primary government is financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

City of Highland Village voters, in November 2004, approved, in a special election, the creation of the Highland Village Community Development Corporation. The Corporation was formed for the purpose of funding public parks, recreation, and projects from revenues derived from a one-half cent sales tax within the City of Highland Village. The City Council appoints a board and board members are removable by the City Council, for cause or at will. Four out of seven board members are on City Council. In the event of dissolution title of all the assets transfer to the City. The operational responsibility of the Community Development Corporation is managed essentially the same manner as other City programs and activities. The Community Development Corporation is reported as a Special Revenue Fund. Financial statement information can be obtained by contacting the Highland Village Community Development Corporation, 1000 Highland Village Rd., Highland Village, Texas 75077.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on 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 and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The City reports the following major governmental funds:

General Fund – is the operating fund of the City. It is utilized to account for all financial resources except those required to be accounted for in other funds.

Capital Projects Fund – is used typically funded from serial bond proceeds, legally authorized debt instruments issued for specific projects, or funds from settlements or assessments that correspond to capital projects.

The City reports the following major proprietary fund:

Enterprise – Water and Wastewater Fund – is used to account for the water and wastewater operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City is that costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

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 and other charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include administration, maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Deferred Inflows/Outflows of Resources, Liabilities, and Net Position or Fund Balance

Cash and Investments

For the purposes of the statement of cash flows, cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less.

Investments in government pools are recorded at amortized cost. All other investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current traction between willing parties.

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined financial statements as cash and investments or restricted cash and investments. The City's cash and investments are considered as cash equivalents as they can be readily converted to cash at their carrying value.

Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All trade receivables are shown net of allowance for uncollectible accounts based on an analysis of historical trends.

Property Taxes

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of levy, on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available. Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City's availability period is 60 days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

Current taxes are due on October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. On January 1 of each year, a tax lien attaches to property to secure all taxes, penalties and interest ultimately imposed.

Unbilled Services

Utility operating revenues (water, sewer and refuse collection) are billed on monthly cycles. Customers are billed for periods ending the 15th of each month on the last day of the month. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year.

Inventories and Prepaid Items

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

Restricted Assets

Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "reserve bond debt service" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments. The "construction funds" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction.

Impact fees collected from developers to cover, in whole or in part, the anticipated costs of improvements that will be necessary as a result of the development are set aside in the "capital improvements" account.

Deposits collected from utility customers are set aside until repayment.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets within an initial, individual cost threshold by asset class and an estimated useful life in excess of four years. Such assets are recorded at historical cost or an estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation expense is calculated principally on the straight-line method. Depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. Estimated useful lives and capitalization thresholds of capital asset classes are as follows:

Capital Asset Class	Capitalization Threshold	Useful Life (Years)
Land	$ 50,000	Indefinite
Infrastructure	250,000	20
Buildings and Improvements	100,000	30
Land Improvements	50,000	20
Machinery and equipment	5,000	5 - 10
Intangibles	5,000	5 - 10
Right to use equipment	5,000	5 - 10
Right to use building	5,000	30
Right to use software	5,000	2 - 5

Accrued Vacation and Sick Leave

It is the City's policy to grant employees vacation leave earned at the rate of 10 days a year for at least one but less than 5 years continuous service, 15 days for at least 5 but less than 10 years continuous service, and 20 days for at least 10 years continuous service. Upon termination, the employee shall be paid at the hourly rate of pay such employee was earning on the effective date of termination.

The City also grants employees sick leave earned at the rate of 12 days a year. Upon termination, employees are paid for one-half of the actual number of days earned up to a maximum of 45 days.

The City recognizes a liability for leave that is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid or settled. Based on historical experience and management's evaluation, a portion of accumulated leave is considered more likely than not to be used or paid; therefore, a liability for such leave (including applicable payroll-related costs) has been recorded.

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Leases

The City has entered into various lease agreements as either lessee and lessor. Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate, if available. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

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

Lessee. The City is a lessee for noncancellable leases of equipment and buildings. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. Lease assets are reported with other capital assets and lease liabilities are reported with long- term debt on the statement of net position.

Lessor. The City is a lessor in an arrangement allowing the placement of cellular towers on City property. In both the government-wide financial statements and the governmental fund financial statements, the City initially measures the lease receivable and a deferred inflow of resources for the present value of payments expected to be made during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is recognized as revenue on a systematic basis over the life of the lease.

Subscription-Based Information Technology Arrangements

The City is a lessee for subscription-based IT arrangements (SBITAs). The City recognizes liability and an intangible right-to-use asset in the government-wide financial statements.

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

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

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

- The agreement term includes the noncancellable period of the SBITA.

- The agreed upon payments included in the measurement of the liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure the asset and liability if certain changes occur that are expected to significantly affect the amount of the liability. These right to use assets are reported with other capital assets and liabilities are reported with long- term debt on the statement of net position.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from 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.

Other Post-Employment Benefits

Supplemental Death Benefit. For purposes of measuring the total Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF) OPEB liability, related deferred outflows and inflows of resources, and expense, City specific information about its total TMRS SDBF liability and additions to/deductions from the City's total TMRS SDBF liability have been determined on the same basis as they are reported by TMRS. The TMRS SDBF expense and deferred (inflows)/outflows of resources related to TMRS SDBF, primarily result from changes in the components of the total TMRS SDBF liability. Most changes in the total TMRS SDBF liability will be included in TMRS SDBF expense in the period of the change. For example, changes in the total TMRS SDBF liability resulting from current-period service cost, interest on the total OPEB liability, and changes of benefit terms are required to be included in TMRS SDBF expense immediately. Changes in the total TMRS SDBF liability that have not been included in TMRS SDBF expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to TMRS SDBF.

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 City has the following items that qualify for reporting in this category.

- Deferred charges on refunding – 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.

- Pension and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

- Changes in economic and demographic actuarial assumptions or of other inputs included in determining the pension and other post-employment benefit liability – these effects on the total pension liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active or inactive employees).

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 or resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, municipal court fines, ambulance, and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has several types of these items that are recorded under the full accrual basis of accounting as follows:

- Deferred loss on refunding – This 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.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.

- Difference in expected and actual pension and OPEB experience - This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

- Changes in actuarial assumptions and other inputs – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

- Deferred inflows related to leases for its lessor transactions. These amounts offset the receivable related to the lease and will be recognized systematically in future years over the life of the lease.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) are legally or contractually required to be maintained intact. Non-spendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by Ordinance of the City Council, the City's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed.

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council, as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of debt related to capital assets and accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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.

Comparative Data and Reclassifications

Comparative total data for the prior year is presented only for the Enterprise Fund in the fund financial statements in order to provide an understanding of changes in the financial position and operations of this fund. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Change in Accounting Principle

During fiscal year 2025, the City adopted GASB Statement No. 101, *Compensated Absences*. This statement enhances the relevance of financial reporting by refining the recognition and measurement guidance for compensated absences under a unified approach and updating related disclosure requirements. The cumulative effect of implementing this standard resulted in a restatement of beginning net position as of September 30, 2025, decreasing governmental activities by $551,610 and business-type activities by $158,927.

2. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Deposits and investments are made in accordance with the provisions of the bank depository agreement or in any negotiable instrument the Council has authorized under the City's approved investment policy and the provisions of the Public Funds Investment Act of 1987, as amended.

Investments held at year-end are as follows:

	Carrying Value	Weighted Average Maturity (Days)
TexPool	$ 9,319,181	42
TexStar	13,388,428	50
Total investments	$ 22,707,609	

Cash and investments are reported as restricted assets as required by debt issues and City ordinance. The monies in government investment pools represent investments in TexPool and TexStar, investment pools for state and local governments in Texas. The State Comptroller of Public Accounts exercises oversight responsibilities 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.

The Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "Act"), provide for the creation of public funds investment pools, such as Texas Short-term Reserve Fund ("TexStar"), and TexPool, through which political subdivisions and other entities may invest public funds.

J.P. Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexStar under an agreement with the TexStar board of directors. JPMFAM provides investment service and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by J.P. Morgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. TexStar bylaws provide for a five-member board of directors consisting of three representatives of participants and one member designated by each of the co-administrators.

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

Both TexPool and TexStar are rated AAAm by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investments are with TexPool and TexStar with maturities of less than one year.

Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All investment pools' policies require a rating of AA or better from a nationally recognized rating agency.

Concentration of Credit Risk. The City's investments are issued or explicitly guaranteed by external investment pools, which are not considered to provide a concentration of credit risk.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local government entities by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least the bank balances less FDIC insurance at all times. The City's cash deposits in the bank on September 30, 2025, were covered by federal depository insurance or by collateral held by the City's agent in the City's name.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor governmental funds, including the applicable allowance for estimated uncollectible accounts, are as follows:

	General	Capital Projects	Nonmajor Governmental	Enterprise	Total
Receivables:					
Taxes	$ 1,188,970	$ -	$ 319,736	$ -	$ 1,508,706
Accounts	956,958	-	-	1,293,894	2,250,852
Unbilled accounts	-	-	-	569,009	569,009
Leases	2,531,471		-	-	2,531,471
Other	-	-	15,686	4,557	20,243
Gross receivables	4,677,399	-	335,422	1,867,460	6,880,281
Less: allowance for uncollectibles	(628,126)	-	-	(71,161)	(699,287)
Net total receivables	$ 4,049,273	$ -	$ 335,422	$ 1,796,299	$ 6,180,994

Lease Receivable

In prior years, the City entered into multiple leases as lessor for the placement of cellular antennas on City property and use of City land by multiple telecommunications companies. The lessees are required to make annual payments ranging from $36,215 to $40,858 for the antenna facilities, and monthly payments ranging from $2,150 to $2,624 for the use of land.

A summary of the City's lease receivables as of September 30, 2025, is as follows:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Lease Receivable	Interest Current Year	Reductions Current Year	Amounts Receivable 9/30/25
Right to Use:						
Antenna facilities	.74%-.99%	2007	$ 479,598	$ 3,833	$ 74,623	$ 193,995
Land	1.24%-1.72%	2018	2,516,813	42,984	49,055	2,337,476
Totals				$ 46,817	$ 123,678	$ 2,531,471

C. Unearned Revenue

Unearned revenue generally relates to cash received in advance of performance obligations being completed by the City. At the end of the current fiscal year, the various components of unearned revenue reported in the governmental funds were as follows:

General fund:	
Franchise taxes	$ 6,692
Park fees	5,198
Total general fund	11,890
Nonmajor governmental fund:	
Parks fees	57,547
Total nonmajor governmental fund	57,547
Total governmental funds	$ 69,437

D. Interfund Transfers

The following is a summary of transfers for the current fiscal year:

	Transfers in		
Transfers out	General	Nonmajor Governmental	Total
General	$ -	$ 16,000	$ 16,000
Nonmajor governmental	63,202	536,025	599,227
Water and wastewater	470,000	-	470,000
	$ 533,202	$ 552,025	$ 1,085,227

The purpose of transfers is as follows:

- The transfer from the General Fund to the Nonmajor Governmental Funds was for a drainage fee associated with impermeable square footage of public buildings.
- The transfer between the Nonmajor Governmental Funds represents debt service payments made on behalf of the HVCDC into the Debt Service Fund.
- The transfer from Nonmajor Governmental Fund to the General Fund is for support services.
- The transfer from the Water and Wastewater Fund to the General Fund represents a payment in lieu of taxes.

E. Capital Assets

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

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 17,183,848	$ -	$ -	$ 17,183,848
Construction in progress	2,767,992	728,230	(1,743,143)	1,753,079
Total assets not being depreciated	19,951,840	728,230	(1,743,143)	18,936,927
Capital assets, being depreciated:				
Land improvements	28,851,308	77,582	739,908	29,668,798
Buildings and improvements	16,109,709	-	-	16,109,709
Equipment	10,264,905	1,514,097	(959,123)	10,819,879
Infrastructure	47,374,952	-	1,003,236	48,378,188
Intangibles	638,179	-	-	638,179
Right to use equipment	2,867,653	1,030,921	(9,237)	3,889,337
Right to use building	365,356	-	-	365,356
SBITA	539,393	85,921	(93,994)	531,320
Total capital assets being depreciated	107,011,455	2,708,521	680,790	110,400,766
Less accumulated depreciation:				
Land improvements	15,094,577	1,322,356	-	16,416,933
Buildings and improvements	12,460,176	511,614	-	12,971,790
Equipment	8,447,323	526,008	(915,974)	8,057,357
Infrastructure	30,912,545	1,068,747	-	31,981,292
Intangibles	540,803	10,049	-	550,852
Right to use equipment	596,017	679,491	(9,237)	1,266,271
Right to use building	34,914	14,963	-	49,877
SBITA	254,080	128,005	(93,994)	288,091
Total accumulated depreciation	68,340,435	4,261,233	(1,019,205)	71,582,463
Total capital assets being depreciated, net	38,671,020	(1,552,712)	1,699,995	38,818,303
Governmental activities capital assets, net	$ 58,622,860	$ (824,482)	$ (43,148)	$ 57,755,230

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 75,713	$ -	$ -	$ 75,713
Construction in progress	1,643,447	1,773,084	(1,113,164)	2,303,367
Total assets not being depreciated	1,719,160	1,773,084	(1,113,164)	2,379,080
Capital assets, being depreciated:				
Buildings	1,469,618	-	-	1,469,618
Improvements other than buildings	37,975,566	-	1,113,164	39,088,730
Equipment	2,286,571	56,665	(275,352)	2,067,884
Infrastructure	617,553	-	-	617,553
Intangibles	81,737	-	-	81,737
Right to use equipment	388,019	336,176	-	724,195
SBITA	846,310	-	-	846,310
Total capital assets being depreciated	43,665,374	392,841	837,812	44,896,027
Less accumulated depreciation:				
Buildings	967,438	71,921	-	1,039,359
Improvements other than buildings	26,923,204	1,081,072	-	28,004,276
Equipment	1,698,888	88,267	(275,352)	1,511,803
Infrastructure	610,794	1,230	-	612,024
Intangibles	81,737	-	-	81,737
Right to use equipment	58,297	142,949	-	201,246
SBITA	176,418	88,209	-	264,627
Total accumulated depreciation	30,516,776	1,473,648	(275,352)	31,715,072
Total capital assets being depreciated, net	13,148,598	(1,080,807)	1,113,164	13,180,955
Business-type activities capital assets, net	$ 14,867,758	$ 692,277	$ -	$ 15,560,035

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
City Manager	$ 991
Finance/Court	31,957
Human Resources	14,975
City Secretary	2,839
Information Services	90,860
Marketing and Communications	18,404
Police	383,629
Fire	426,720
Community Services	18,242
Streets and Drainage	1,307,127
Maintenance	82,117
Utility Drainage	132,387
Park and recreation	1,750,985
Total depreciation expense - governmental activities	$ 4,261,233
Business-type activities:	
Water and wastewater	$ 1,473,648
Total depreciation expense - business-type activities	$ 1,473,648

F. Construction Commitments

The City has active construction projects as of September 30, 2025. At year-end the City's commitments with contractors are as follows:

Projects	Spent to Date	Remaining Commitment
Governmental activities:		
Street Reconstruction Highland Shores Blvd	$ 387,840	$ 415,160
2022 Street Improvements Phase III	94,948	17,210
Quail Cove / Walmart Detention / Retension	46,120	406,234
Highland Village Rd Reconstruction	132,920	94,580
Unity Park Detention / Retention	42,565	5,685
Pilot Knoll Improvements	222,238	90,617
Highland Shores Blvd Asphalt Overlay	659,348	16,943
Unity Park, Brazos Park, Tennis Center Improvements	178,169	10,331
Pilot Knoll Boat Ramp Improvements	55,498	9,847
Unity Park Basketball Court	5,681	230,746
Highland Shores Blvd. Underdrain	8,094	56,806
Business-type activities:		
12" Water Line Northwest of City	$ 113,251	$ 30,110
Lake Vista Well Lot and Facilities	164,216	41,884
Wastewater System Restoration Slope Protection	214,010	68,571
Sandero, Bexar, Victoria, Malibu, Wtr Lns	1,108,562	6,725
Replace Force Mains WW Lift Stations 2 & 7	1,127,878	19,140
Gayle, Merriman, Oat Cedar Waterline	388,707	1,694,948
Brooks Ct & Pilot Knoll Park Waterlines	239,810	178,390
Copperas Branch Lake Lift Station	19,640	298,360

G. Long-term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds are payable and pledged from the levy and collection of a direct and continuing annual ad valorem tax. General obligation bonds currently outstanding are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
GO refunding & improvement bonds	3.00 - 4.00	2018	2038	$ 6,905,000	$ 5,115,000
GO refunding & improvement bonds	3.00 - 5.00	2021	2034	10,300,000	7,005,000
Total governmental activities					12,120,000
Business-type activities:					
GO refunding bonds - Direct Placement	2.28	2017	2029	4,050,000	1,540,000
GO refunding & improvement bonds	3.00 - 5.00	2021	2034	2,915,000	2,635,000
Total business-type activities					4,175,000
Total general obligation bonds outstanding					$ 16,295,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

General Obligation Bonds

Year Ending	Governmental Activities		Business-type Activities	
September 30,	Principal	Interest	Principal	Interest
2026	$ 1,465,000	$ 434,525	$ 240,000	$ 105,850
2027	1,535,000	366,125	255,000	93,475
2028	1,280,000	302,550	270,000	80,350
2029	970,000	253,300	275,000	66,725
2030	1,015,000	210,925	290,000	52,600
2031-2035	4,490,000	506,150	1,305,000	82,825
2036-2040	1,365,000	62,325	-	-
Total	$ 12,120,000	$ 2,135,900	$ 2,635,000	$ 481,825

General Obligation Bonds - Direct Placement

Year Ending	Business-type Activities	
September 30,	Principal	Interest
2026	$ 395,000	$ 30,542
2027	410,000	21,385
2028	420,000	11,944
2029	315,000	3,583
Total	$ 1,540,000	$ 67,454

Combination Tax and Revenue Certificates of Obligation (CO) Bonds

The City also issues bonds where the government pledges a combination of the levy and collection of a direct and continuing annual ad valorem tax plus a limited pledge ($2,500) of the net revenues from the Water and Sewer System to pay debt service. During the year, the City issued Series 2025 Combination Tax and Revenue Certificates of Obligation for $7,130,000, which bears interest of 4.00% to 5.00% and will be fully paid off by February 2045. Combination tax and revenue certificates of obligation have been issued for both governmental and business-type activities.

Combination tax and revenue certificates of obligation outstanding at year-end are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
Combination tax and revenue CO's	2.00 - 4.00	2021	2041	$ 14,240,000	$ 13,640,000
Combination tax and revenue CO's	4.00 - 5.00	2025	2045	7,130,000	7,130,000
Total governmental activities					20,770,000
Business-type activities:					
Combination tax and revenue CO's	3.00 - 4.00	2018	2028	2,715,000	2,260,000
Total business-type activities					2,260,000
Total certificates of obligation outstanding					$ 23,030,000

Combination tax and revenue certificates of obligation debt service requirements to maturity are as follows:

Certificates of Obligation

Year Ending	Governmental Activities		Business-type Activities	
September 30,	Principal	Interest	Principal	Interest
2026	$ 250,000	$ 637,478	$ 140,000	$ 69,856
2027	300,000	658,900	145,000	64,156
2028	630,000	639,900	150,000	58,256
2029	895,000	608,725	160,000	52,856
2030	930,000	571,250	165,000	47,981
2031-2035	5,185,000	2,289,375	900,000	161,531
2036-2040	5,895,000	1,563,700	600,000	28,316
2041-2045	6,685,000	676,100	-	-
Total	$ 20,770,000	$ 7,645,428	$ 2,260,000	$ 482,952

Tax Notes

The City issues tax notes bonds to provide short-term funds for the acquisition of various pieces of capital equipment. Tax notes currently outstanding are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
Tax notes	3.42	2024	2031	2,805,000	2,334,000
Total governmental activities					$ 2,334,000

Tax note debt service requirements to maturity are as follows:

Tax Notes

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2026	$ 373,000	$ 73,445
2027	405,000	60,141
2028	507,000	44,546
2029	384,000	29,309
2030	390,000	16,074
2031	275,000	4,704
Total	$ 2,334,000	$ 228,218

Defeased Debt

The City defeased certain outstanding revenue bonds by placing proceeds of new bonds in irrevocable trust to provide for all future debt service payments. Accordingly, the respective trust accounts and liability for the defeased bond are not included in the City's financial statements. As of September 30, 2025, the City does not have bonds considered defeased and outstanding.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of September 30, 2025, a liability for arbitrage rebate existed in the amount of $1,037,684.

H. Changes in Long-term Debt

Long-term debt activity for the year ended September 30, 2025, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligations	$ 13,520,000	$ -	$ 1,400,000	$ 12,120,000	$ 1,465,000
Combination tax and revenue CO	13,890,000	7,130,000	250,000	20,770,000	250,000
Issuance premium	2,655,251	116,047	219,928	2,551,370	219,928
Tax note	2,805,000	-	471,000	2,334,000	373,000
Total bonds payable	32,870,251	7,246,047	2,340,928	37,775,370	2,307,928
Compensated absences	1,812,514	-	202,427	1,610,087	1,133,901
Leases	2,533,468	847,674	557,439	2,823,703	662,032
SBITAs	238,076	85,921	119,652	204,345	89,190
Governmental activities long-term debt	$ 37,454,309	$ 8,179,642	$ 3,220,446	$ 42,413,505	$ 4,193,051

The General Fund has historically been used to liquidate the net pension liability and total OPEB liability related to governmental activities. Additions and reductions in compensated absences are presented on a net basis in the table above.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 4,795,000	$ -	$ 620,000	$ 4,175,000	$ 635,000
Combination tax and revenue CO	2,395,000	-	135,000	2,260,000	140,000
Issuance premium	546,330	-	51,992	494,338	51,992
Total bonds payable	7,736,330	-	806,992	6,929,338	826,992
Compensated absences	305,020	111,417	93,185	323,252	98,755
Leases	303,549	257,846	104,990	456,405	123,578
SBITAs	673,280	-	86,135	587,145	88,948
Business-type activities long-term debt	$ 9,018,179	$ 369,263	$ 1,091,302	$ 8,296,140	$ 1,138,273

Additionally, certain obligations that were marketed as direct placements have been separately identified; however, the terms of these obligations are not significantly different than other obligations and do not have substantive acceleration clauses. Should the City default on these bonds, any registered owner of the obligations is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make payment.

Lease Payable

During the current year, the City entered into multiple 48-month and 60-month leases as lessee both for the right to use of vehicles through Enterprise. The City is required to make fixed monthly payments ranging between $654 and $2,066.

A summary of the City's long-term lease payable as of September 30, 2025, is as follows:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Lease Liability	Interest Current Year	Amounts Outstanding 9/30/25
Governmental Activities					
Multifunctional printers	0.29%	2022	$ 9,236	$ 1	$ -
Fire Department Medical Equipment	0.74%	2021	249,768	932	84,265
Camera	3.45%	2024	711,660	20,415	540,874
Animal Shelter Building	2.51%	2022	365,356	8,376	326,972
Vehicles	2.23-8.37%	2023	2,604,378	93,364	1,871,592
Totals				$ 123,088	$ 2,823,703
Business-type Activities					
Vehicles	2.27-8.28%	2023	$ 610,311	$ 45,326	$ 456,405
Totals				$ 45,326	$ 456,405

Annual lease payments to maturity are as follows:

	Governmental Activities		
Year Ending September 30,	Principal	Interest	Total Requirements
2026	$ 662,032	$ 134,027	$ 796,059
2027	765,520	96,060	861,580
2028	525,930	56,860	582,790
2029	329,929	30,244	360,173
2030	176,770	15,313	192,083
2031 - 2035	170,282	32,335	202,617
2036 - 2040	80,560	19,410	99,970
2041 - 2045	91,334	8,636	99,970
2046 - 2047	21,346	314	21,660
Totals	$ 2,823,703	$ 393,199	$ 3,216,902

Year Ending September 30,	Business-Type Activities Principal	Interest	Total Requirements
2026	$ 123,578	$ 29,491	$ 153,069
2027	138,644	20,133	158,777
2028	91,091	11,223	102,314
2029	72,697	4,830	77,527
2030	28,341	1,126	29,467
2031 - 2035	2,054	12	2,066
Totals	$ 456,405	$ 66,815	$ 523,220

SBITA Payable

During the fiscal year, the City paid for multiple subscriptions for the use of various software. As of September 30, 2025, the value of the subscription liability is $791,491. The City is required to make fixed annual payments ranging between $495 and $58,082 with interest rates ranging from 2.310% to 3.461%.

A summary of the City's long-term SBITA payable as of September 30, 2025, is as follows:

Purpose of SBITA	Interest Rate	Initial Year of SBITA	Amount of Initial SBITA Liability	Interest Current Year	Amounts Outstanding 9/30/25
Governmental Activities					
Right to Use:					
Various software	2.31%	2023	$ 583,313	$ 7,254	$ 204,345
Totals				$ 7,254	$ 204,345
Business-Type Activities					
Right to Use:					
Meter reading software	3.46%	2023	$ 846,310	$ 22,410	$ 587,145
Totals				$ 22,410	$ 587,145

Annual SBITA payments to maturity are as follows:

Year Ending September 30,	Governmental Activities Principal	Interest	Total Requirements	Business-Type Activities Principal	Interest	Total Requirements
2026	$ 89,190	$ 5,873	$ 95,063	$ 88,948	$ 19,596	$ 108,544
2027	91,725	3,337	95,062	91,854	16,691	108,545
2028	11,536	728	12,264	94,854	13,690	108,544
2029	11,894	370	12,264	97,953	10,591	108,544
2030	-	-	-	50,691	7,390	58,081
2031-2034	-	-	-	162,845	11,400	174,245
Totals	$ 204,345	$ 10,308	$ 214,653	$ 587,145	$ 79,358	$ 666,503

I. Retirement Plan – TMRS Pension

Plan Descriptions. The City participates as one of 942 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at *tmrs.com*.

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

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

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

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

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

Member Contribution Rate	7%
Matching ratio (City to member)	2 to 1
Years required for vesting	5 years
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated Service Credit	100% repeating transfers
Annuity increase to retirees	70% of CPI repeating

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

Inactive employees or beneficiaries currently receiving benefits	111
Inactive employees entitled to but not yet receiving benefits	152
Active employees	155
	418

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.42% and 14.93% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the years ended September 30, 2024, and September 30, 2025, were $1,691,932 and $1,897,627, respectively, and were equal to the required contributions.

Net Pension Liability. The City's Net Pension Liability was measured as of December 31, 2024, and the Total Pension Liability 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	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for active, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disable 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 is applied, for males and females respectively, to reflect the impairment for younger members who become disables. The rates are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018, to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income 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 by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The target allocation and best estimates of the expected return for each major asset class in fiscal year 2025 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.10%
Core Fixed Income	6.0%	5.00%
Non-Core Fixed Income	6.0%	6.80%
Hedge Funds	5.0%	6.40%
Private Equity	13.0%	8.50%
Private Debt	13.0%	8.20%
Real Estate	12.0%	6.70%
Infrastructure	6.0%	6.00%
Other Private Markets	4.0%	7.30%
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 statue. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2023	$ 63,154,643	$ 57,821,250	$ 5,333,393
Changes for the year:			
Service cost	2,329,915	-	2,329,915
Interest	4,281,017	-	4,281,017
Difference between expected and actual experience	117	-	117
Changes in assumptions	-	-	-
Contributions - employer	-	1,764,369	(1,764,369)
Contributions - employee	-	872,832	(872,832)
Net investment income	-	6,018,551	(6,018,551)
Benefit payments, including refunds of employee contributions	(1,794,261)	(1,794,261)	-
Administrative expense	-	(38,531)	38,531
Other changes	-	(901)	901
Net changes	4,816,788	6,822,059	(2,005,271)
Balance at 12/31/2024	$ 67,971,431	$ 64,643,309	$ 3,328,122

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 13,383,567	$ 3,328,122	$(4,870,999)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at tmrs.com.

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions. For the year ended September 30, 2025, the City recognized pension expense of $1,670,750. As of September 30, 2025, the City reported deferred outflows and inflows related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 81	$ 68,187
Changes in actuarial assumptions	-	179,008
Difference between projected and actual investment earnings	-	707,590
Contributions subsequent to the measurement date	1,395,560	-
Totals	$ 1,395,641	$ 954,785

$1,395,560 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	
2026	$ (138,411)
2027	526,187
2028	(919,356)
2029	(423,123)

J. Defined Other Post-Employment Benefit Plan – TMRS Supplemental Death Benefits Fund

Plan Description. The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The Plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. SDBF includes coverage for both active and retired members, and assets are commingled for the payment of such benefits. Therefore, there are no assets accumulated in an OPEB Trust in accordance with paragraph 4 of GASB Statement No. 75.

Benefits Provided. The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and 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.

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other employment benefit and is a fixed amount of $7,500.

The number of employees currently covered by the benefit terms is as follows:

Inactive employees or beneficiaries currently receiving benefits	63
Inactive employees entitled to but not yet receiving benefits	24
Active employees	155
Total	242

Contributions. The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.27% for 2024 and 0.25% for 2025, of which 0.07% and 0.08%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2024, and September 30, 2025, were $9,285 and $10,089, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Total OPEB Liability. The City's total OPEB liability was measured as of December 31, 2024, and was determined by an actuarial valuation as of that date.

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

Inflation rate	2.50% per annum
Salary increases	3.60% to 11.85% including inflation
Discount rate	4.08%
Retirees' share of benefit-related costs	$0

Administrative expenses for the SDBF are paid through the TMRS Pension Trust Fund and are wholly accounted for under the provisions of GASB Statement No. 68.

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

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

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 4.08% was used to measure the total OPEB liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The discount rate was based on the Bond Buyer "20-Bond GO Index" rate closest to, but later than December 31, 2024.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (4.08%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (3.08%)	Discount Rate (4.08%)	1% Increase in Discount Rate (5.08%)
Total OPEB Liability	$ 472,554	$ 396,781	$ 336,977

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2023	$ 393,425
Changes for the year:	
Service cost	21,192
Interest	15,067
Difference between expected and actual experience	(2,581)
Changes of assumptions	(21,596)
Benefit payments	(8,726)
Net changes	3,356
Balance at 12/31/2024	$ 396,781

Changes in assumptions and other inputs reflect a change in the discount rate from 3.77% to 4.08%.

OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEB. For the year ended September 30, 2025, the City recognized OPEB expense of $11,179. There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

As of September 30, 2025, the City reported deferred outflows and inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 35,928
Changes in actuarial assumptions	39,187	112,645
Contributions subsequent to the measurement date	7,605	-
Totals	$ 46,792	$ 148,573

$7,605 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB Liability for the year ending September 30, 2026. Other amounts of the reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended September 30,	
2026	$ (27,024)
2027	(38,164)
2028	(39,041)
2029	(1,750)
2030	(3,406)

K. Commitments and Contingencies

Upper Trinity Regional Water District ("UTRWD")

The City of Highland Village entered into a contract with the Upper Trinity Regional Water District Lakeview Regional Water Reclamation System (sewer plant), in June 1995, to meet its long-term wastewater treatment needs. The UTRWD has issued a series of bonds to provide for capital funding for the expansion and refurbishment of the Lakeview Sewer Plant and to construct the regional sewer system with all of the said bonds to be payable from and secured by annual payments made by participating members. In the fiscal year 2025, the City's subscribed capacity in the regional system is 1.65 million gallons per day (MGD). The City paid fixed operations and maintenance costs of $473,900/MGD, $445,335 for joint facilities, and $204,870 for facilities specific to Highland Village. The volume rate for treatment (including transportation charge) is $1.37/1,000 gallons.

In the fiscal year 2025, the City has a commitment with the UTRWD to take 3 million gallons per day (MGD) of treated water. The volume charge is $1.56/1,000 gallons, with an annual demand charge of $539,435/MGD.

For the fiscal year 2026, the City's subscribed capacity in the regional system is 1.65 million gallons per day (MGD). The City is committed to paying fixed operations and maintenance costs of $490,300/MGD, facility charges of $466,425 for joint facilities, and $204,970 annually for facilities specific to Highland Village. The volume rate for treatment (including transportation charge) is $1.40/1,000 gallons.

In the fiscal year 2026, the City has a commitment with the UTRWD to take 3 million gallons per day (MGD) of treated water. The volume charge is $1.72/1,000 gallons, with an annual demand charge of $557,765/MGD.

Encumbrances and Assignments of Fund Balance

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget. At year-end, the amount of encumbrances expected to be honored in the next year were as follows:

Fund	Amount
General	$ 647,721
Other governmental	1,918,132
Total	$ 2,565,853

Additionally, in accordance with budgetary policy, the City's adopted budget for the fiscal year beginning October 1, 2025, is presented as a balanced budget, i.e., revenues and available resources equal appropriations. These appropriations exceeded estimated revenues by $2,609,126, which is presented as assigned fund balance for subsequent year's budget in the General Fund.

Lawsuits

The City has been named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's general liability and property coverage is insured by the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool. The City's only responsibility to the Fund is to pay premiums for insurance and related deductible amounts of these policies. Other risk of loss is covered by commercial insurance. Settlements of claims have not exceeded coverage in the past three years.

L. New Accounting Guidance

Significant new accounting standards and guidance issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the City include the following:

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential to their analyses for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required held for sale. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No 105, *Subsequent Events* – The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement will become effective for fiscal years beginning after June 15, 2026, and the impact has not yet been determined.

REQUIRED
SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Taxes	$ 20,300,390	$ 20,300,390	$ 19,584,953	$ (715,437)
Fines and forfeitures	132,600	132,600	135,764	3,164
Licenses, permits and fees	669,338	669,338	690,292	20,954
Intergovernmental	-	-	24,864	24,864
Charges for services	820,344	820,344	859,049	38,705
Investment earnings	935,788	935,788	661,178	(274,610)
Miscellaneous	80,000	80,000	145,105	65,105
Total revenues	22,938,460	22,938,460	22,101,205	(837,255)
EXPENDITURES				
Current:				
General government:				
City manager:				
Personnel	471,597	471,597	467,265	4,332
Services and supplies	185,363	185,363	146,742	38,621
Total city manager	656,960	656,960	614,007	42,953
Finance:				
Personnel	1,011,174	986,174	951,392	34,782
Services and supplies	570,239	572,239	556,774	15,465
Capital outlay	-	-	-	-
Total finance	1,581,413	1,558,413	1,508,166	50,247
Marketing and communication:				
Personnel	376,737	389,237	389,536	(299)
Services and supplies	122,623	122,623	116,329	6,294
Capital outlay	-	-	-	-
Total marketing and communication	499,360	511,860	505,865	5,995
Human resources:				
Personnel	449,054	449,054	373,214	75,840
Services and supplies	215,906	215,906	166,886	49,020
Total human resources	664,960	664,960	540,100	124,860
City secretary:				
Personnel	316,290	316,290	254,566	61,724
Services and supplies	194,489	194,489	121,275	73,214
Total city secretary	510,779	510,779	375,841	134,938
Information services:				
Personnel	887,464	887,464	891,555	(4,091)
Services and supplies	590,605	590,605	428,727	161,878
Capital outlay	-	-	85,921	(85,921)
Total information services	1,478,069	1,478,069	1,406,203	71,866
Maintenance:				
Personnel	475,180	475,180	438,867	36,313
Services and supplies	2,147,762	2,147,762	1,075,432	1,072,330
Capital outlay	615,000	-	-	-
Total maintenance	3,237,942	2,622,942	1,514,299	1,108,643

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Public safety:				
Police:				
Personnel	$ 5,829,367	$ 5,829,367	$ 5,650,553	$ 178,814
Services and supplies	698,189	698,189	498,026	200,163
Capital outlay	16,000	16,000	312,316	(296,316)
Total police	6,543,556	6,543,556	6,460,895	82,661
Fire:				
Personnel	3,553,893	3,543,893	3,492,342	51,551
Services and supplies	443,333	448,533	412,744	35,789
Capital outlay	25,000	35,000	34,184	816
Total fire	4,022,226	4,027,426	3,939,270	88,156
Community services:				
Personnel	414,945	414,945	396,663	18,282
Services and supplies	132,673	132,673	35,733	96,940
Total building operations	547,618	547,618	432,396	115,222
Streets and drainage:				
Personnel	923,026	923,026	895,480	27,546
Services and supplies	886,174	1,079,674	749,017	330,657
Capital outlay	21,000	140,500	402,732	(262,232)
Total streets and drainage	1,830,200	2,143,200	2,047,229	95,971
Parks and recreation:				
Personnel	1,855,642	1,869,142	1,836,251	32,891
Services and supplies	1,200,941	1,197,391	1,051,124	146,267
Capital outlay	146,100	146,100	585,774	(439,674)
Total parks and recreation	3,202,683	3,212,633	3,473,149	(260,516)
Debt service:				
Principal	-	-	677,093	(677,093)
Interest and other charges	-	-	141,897	(141,897)
Total debt service	-	-	818,990	(818,990)
Total expenditures	24,775,766	24,478,416	23,636,410	842,006
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,837,306)	(1,539,956)	(1,535,205)	4,751
OTHER FINANCING SOURCES (USES)				
Transfers in	534,000	534,000	533,202	(798)
Transfers out	(16,000)	(16,000)	(16,000)	-
Leases issued	-	-	847,675	847,675
SBITAs issued	-	-	85,921	85,921
Sale of capital assets	180,400	180,400	363,612	183,212
Total other financing sources and uses	698,400	698,400	1,814,410	1,116,010
NET CHANGE IN FUND BALANCE	(1,138,906)	(841,556)	279,205	1,120,761
FUND BALANCE, BEGINNING	11,647,042	11,647,042	11,647,042	-
FUND BALANCE, ENDING	$ 10,508,136	$ 10,805,486	$ 11,926,247	$ 1,120,761

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BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Special Revenue Funds and the Debt Service Fund. The Capital Project Funds are appropriated on a project-length basis, except for the Park Development Fund, which is appropriated annually.

The appropriated budget is prepared by fund, department and three categories – personnel, services and supplies, and capital outlay. During the fiscal year, each department is responsible to not exceed the amounts budgeted in each of the three categories. Transfers of appropriations between categories or departments require the approval of council. Category subtotals of departmental expenditures thus provide the legal level of budgetary control.

Appropriations in all budgeted funds lapse at the end of the fiscal year. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2025, expenditures exceed appropriation in the following fund, function, department and category:

Fund	Function/Department	Category	Amount
General	General Government - Marketing and Communication	Personnel	$ 299
General	General Government - Information Services	Personnel	4,091
General	General Government - Information Services	Capital Outlay	85,921
General	Public Safety - Police	Capital Outlay	296,316
General	Streets and Drainage	Capital Outlay	262,232
General	Parks and Recreation	Capital Outlay	439,674
General	Debt Service	Principal	677,093
General	Debt Service	Interest	141,897
Debt Service	Debt Service	Principal	30,000
Corps Leased Parks	Parks and Recreation	Personnel	5,658

The overage related to capital outlay, principal, and interest are related to the issuance of new leases and SBITA's, which required a noncash recognition of capital outlays and an other financing source. Other overages were covered by cost savings in other categories or with greater than anticipated revenues.

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

Measurement Date December 31,	**2015**	**2016**	**2017**
A. Total pension liability			
Service Cost	$ 1,535,928	$ 1,646,661	$ 1,710,282
Interest (on the Total Pension Liability)	2,177,527	2,307,773	2,521,112
Difference between expected and actual experience	(226,332)	(95,490)	(173,461)
Changes of assumptions	196,596	-	-
Benefit payments, including refunds of employee contributions	(665,253)	(649,521)	(810,836)
Net change in total pension liability	3,018,466	3,209,423	3,247,097
Total pension liability - beginning	30,672,196	33,690,662	36,900,085
Total pension liability - ending (a)	$ 33,690,662	$ 36,900,085	$ 40,147,182
B. Plan fiduciary net position			
Contributions - employer	$ 1,187,926	$ 1,229,404	$ 1,325,468
Contributions - employee	625,694	651,959	680,226
Net investment income	39,833	1,903,485	4,336,041
Benefit payments, including refunds of employee contributions	(665,253)	(649,521)	(810,836)
Administrative expense	(24,263)	(21,492)	(22,461)
Other	(1,197)	(1,158)	(1,139)
Net change in plan fiduciary net position	1,162,740	3,112,677	5,507,299
Plan fiduciary net position - beginning	26,995,652	28,158,392	31,271,069
Plan fiduciary net position - ending (b)	$ 28,158,392	$ 31,271,069	$ 36,778,368
C. Net pension liability - ending (a) - (b)	$ 5,532,270	$ 5,629,016	$ 3,368,814
D. Plan fiduciary net position as a percentage of total pension liability	83.58%	84.75%	91.61%
E. Covered payroll	$ 8,940,209	$ 9,313,695	$ 9,717,511
F. Net position liability as a percentage of covered payroll	61.88%	60.44%	34.67%

2018	2019	2020	2021	2022	2023	2024
$ 1,767,329	$ 1,845,710	$ 1,952,526	$ 1,934,524	$ 1,994,564	$ 2,071,317	$ 2,329,915
2,735,944	2,960,334	3,238,362	3,485,265	3,747,427	4,014,081	4,281,017
(171,841)	352,042	(150,374)	85,730	(72,746)	(121,461)	117
-	89,119	-	-	-	(395,987)	-
(996,678)	(1,095,988)	(1,267,369)	(1,479,996)	(1,823,342)	(1,691,031)	(1,794,261)
3,334,754	4,151,217	3,773,145	4,025,523	3,845,903	3,876,919	4,816,788
40,147,182	43,481,936	47,633,153	51,406,298	55,431,821	59,277,724	63,154,643
$43,481,936	$47,633,153	$51,406,298	$55,431,821	$59,277,724	$63,154,643	$ 67,971,431
$ 1,367,635	$ 1,410,431	$ 1,491,855	$ 1,473,715	$ 1,548,337	$ 1,600,000	$ 1,764,369
706,528	739,552	784,597	760,768	784,820	814,546	872,832
(1,102,494)	5,684,242	3,300,738	6,229,854	(3,997,474)	5,937,130	6,018,551
(996,678)	(1,095,988)	(1,267,369)	(1,479,996)	(1,823,342)	(1,691,031)	(1,794,261)
(21,292)	(32,086)	(21,335)	(28,787)	(34,539)	(37,698)	(38,531)
(1,111)	(963)	(832)	196	41,216	(263)	(901)
(47,412)	6,705,188	4,287,654	6,955,750	(3,480,982)	6,622,684	6,822,059
36,778,368	36,730,956	43,436,144	47,723,798	54,679,548	51,198,566	57,821,250
$36,730,956	$43,436,144	$47,723,798	$54,679,548	$51,198,566	$57,821,250	$ 64,643,309
$ 6,750,980	$ 4,197,009	$ 3,682,500	$ 752,273	$ 8,079,158	$ 5,333,393	$ 3,328,122
84.47%	91.19%	92.84%	98.64%	86.37%	91.56%	95.10%
$10,093,257	$10,565,024	$11,208,528	$10,868,111	$11,211,713	$11,532,944	$ 12,466,114
66.89%	39.73%	32.85%	6.92%	72.06%	46.24%	26.70%

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF PENSION CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

Fiscal Year Ended September 30,	**2016**	**2017**	**2018**	**2019**
Actuarial determined contribution	$ 1,258,570	$ 1,303,201	$ 1,362,529	$ 1,238,128
Contributions in relation to the actuarially determined contribution	1,258,570	1,303,201	1,362,529	1,238,128
Contribution deficiency (excess)	-	-	-	-
Covered payroll	9,517,623	9,628,107	10,031,460	9,235,981
Contributions as a percentage of covered payroll	13.22%	13.54%	13.58%	13.41%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date	Actuarially determined contribution rates are calculated as of December 31 and become effective in

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 Years (longest amortization ladder)
Asset Valuation Method	10 Year fair value; 12% soft corridor
Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with 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	There were no benefit changes during this year.

2020	2021	2022	2023	2024	2025
$ 1,427,239	$ 1,464,895	$ 1,543,894	$ 1,646,871	$ 1,691,932	$ 1,897,627
1,427,239	1,464,895	1,543,894	1,646,871	1,691,932	1,897,627
-	-	-	-	-	-
10,715,294	10,859,779	11,235,379	11,743,372	11,821,943	13,054,719
13.32%	13.49%	13.74%	14.02%	14.31%	14.54%

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFITS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2025

Measurement Date December 31,	**2017**	**2018**	**2019**
A. Total OPEB liability			
Service Cost	$ 16,520	$ 20,187	$ 17,961
Interest (on the Total OPEB Liability)	11,181	11,678	13,012
Difference between expected and actual experience	-	(3,782)	(8,636)
Changes of assumptions	29,489	(27,003)	69,216
Benefit payments, including refunds of employee contributions	(1,944)	(2,019)	(2,113)
Net change in Total OPEB liability	55,246	(939)	89,440
Total OPEB liability - beginning	288,493	343,739	342,800
Total OPEB liability - ending	$ 343,739	$ 342,800	$ 432,240
B. Covered-employee payroll	$ 9,717,511	$ 10,093,257	$ 10,565,024
C. Total OPEB liability as a percentage of covered-employee payroll	3.54%	3.40%	4.09%

Notes to Schedule:

- No assets are accumulated in a trust for the SDB plan to pay related benefits that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

- This schedule is required to have 10 years of information. As of September 30, 2025, only 8 years are included and additional years will be added in the future as the

- Changes of assumptions generally includes the annual change in the municipal bond

2020	2021	2022	2023	2024
$ 24,659	$ 29,344	$ 32,514	$ 16,146	$ 21,192
12,195	10,917	10,360	14,662	15,067
(5,753)	(33,522)	(35,262)	(4,042)	(2,581)
73,902	17,123	(190,168)	18,462	(21,596)
(2,242)	(7,608)	(8,969)	(11,533)	(8,726)
102,761	16,254	(191,525)	33,695	3,356
432,240	535,001	551,255	359,730	393,425
$ 535,001	$ 551,255	$ 359,730	$ 393,425	$ 396,781
$ 11,208,528	$ 10,868,111	$ 11,315,133	$ 11,945,362	$ 12,466,114
4.77%	5.07%	3.18%	3.29%	3.18%

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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NORTON ROSE FULBRIGHT

[_____, 2026]

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United States

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IN REGARD to the authorization and issuance of the "City of Highland Village, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026," dated December 1, 2026, in the principal amount of $[_____] (the "Certificates"), we have examined into their issuance by the City of Highland Village, Texas (the "City"), solely to express legal opinions as to the validity of the Certificates and the exclusion of the interest on the Certificates from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Certificates, or the sufficiency of the security for or the value or marketability of the Certificates.

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

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

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

1. The Certificates have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and are additionally payable from and secured by a limited pledge of the Net Revenues (as defined in the Ordinance) of the City's Water and Sewer System in the manner and to the extent provided in the Ordinance, except to the extent that the enforceability thereof may be affected by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

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

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

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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