

OFFICIAL STATEMENT


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

June 15, 2026

Ratings:
S&P: “AA”
See “OTHER INFORMATION – Ratings” 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, including the alternative minimum tax on certain corporations (see “TAX MATTERS” for a discussion of the opinion of Bond Counsel).

**THE CERTIFICATES HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS”
FOR FINANCIAL INSTITUTIONS**



\$5,865,000
CITY OF FATE, TEXAS
(Rockwall County)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2026

Dated Date: June 15, 2026

Due: August 15, as shown on page 2

Interest to accrue from Date of Delivery

PAYMENT TERMS. . . Interest on the \$5,865,000 City of Fate, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026 (the “Certificates”), will accrue from the Date of Delivery (defined below), will be payable February 15 and August 15 of each year, commencing February 15, 2027, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See “THE CERTIFICATES - Book-Entry-Only System” herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see “THE CERTIFICATES - Paying Agent/Registrar”).

AUTHORITY FOR ISSUANCE. . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and constitute direct obligations of the City of Fate, Texas (the “City”), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of \$1,000 of the surplus net revenues of the City’s Waterworks and Sewer System, as provided in the Ordinance authorizing the Certificates (the “Ordinance”) (see “THE CERTIFICATES – Security and Source of Payment”).

PURPOSE. . . Proceeds from the sale of the Certificates will be used for (i) constructing, improving and equipping municipal parks and recreation facilities that are generally accessible to the public and are part of the City park system and (ii) paying legal, fiscal and engineering fees in connection with such projects including paying the costs of issuance of the Certificates.

CUSIP PREFIX: 311893
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 (defined herein) and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, “Form of Bond Counsel’s Opinion”).

DELIVERY. . . It is expected that the Certificates will be available for delivery through DTC on July 15, 2026 (the “Date of Delivery”).

MATURITY SCHEDULE

<u>Amount</u>	<u>Maturity (Aug. 15)</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>	<u>Amount</u>	<u>Maturity (Aug. 15)</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 165,000	2027	5.000%	2.700%	HB0	\$ 295,000	2037	4.000%	3.400% ⁽¹⁾	HM6
195,000	2028	5.000%	2.700%	HC8	310,000	2038	4.000%	3.500% ⁽¹⁾	HN4
205,000	2029	5.000%	2.800%	HD6	320,000	2039	4.000%	3.600% ⁽¹⁾	HP9
215,000	2030	5.000%	2.900%	HE4	335,000	2040	4.000%	3.700% ⁽¹⁾	HQ7
225,000	2031	5.000%	2.950%	HF1	350,000	2041	4.000%	3.750% ⁽¹⁾	HR5
235,000	2032	5.000%	3.050%	HG9	360,000	2042	4.000%	3.800% ⁽¹⁾	HS3
245,000	2033	5.000%	3.100%	HH7	375,000	2043	4.000%	3.850% ⁽¹⁾	HT1
260,000	2034	5.000%	3.150%	HJ3	390,000	2044	4.000%	3.900% ⁽¹⁾	HU8
270,000	2035	5.000%	3.250%	HK0	405,000	2045	4.000%	3.950% ⁽¹⁾	HV6
285,000	2036	4.000%	3.350% ⁽¹⁾	HL8	425,000	2046	4.000%	4.000%	HW4

(Interest to accrue from the Date of Delivery)

-
- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Municipal Advisor, shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (2) Yield shown to first call date of August 15, 2035.

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

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

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

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

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

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE 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.

NOTE OF THE CITY, ITS MUNICIPAL ADVISOR, OR THE INITIAL PURCHASER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

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 INFORMATION AND EXPRESSIONS OF OPINION CONTAINED HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY OR OTHER MATTERS DESCRIBED HEREIN. SEE "CONTINUING DISCLOSURE OF INFORMATION" FOR A DESCRIPTION OF THE CITY'S UNDERTAKING TO PROVIDE CERTAIN INFORMATION ON A CONTINUING BASIS.

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

TABLE OF CONTENTS

OFFICIAL STATEMENT SUMMARY.....	4	CONTINUING DISCLOSURE OF INFORMATION.....	35
CITY OFFICIALS, STAFF AND CONSULTANTS.....	6	ANNUAL REPORTS.....	35
ELECTED OFFICIALS.....	6	EVENT NOTICES	35
SELECTED ADMINISTRATIVE STAFF	6	AVAILABILITY OF INFORMATIONS	36
CONSULTANTS AND ADVISORS	6	LIMITATIONS AND AMENDMENTS.....	36
INTRODUCTION.....	7	COMPLIANCE WITH PRIOR UNDERTAKINGS.....	36
THE CERTIFICATES.....	7	OTHER INFORMATION	36
TAX INFORMATION.....	13	RATINGS.....	36
TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL		LITIGATION	36
OBLIGATION DEBT	17	REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR	
TABLE 2 - TAXABLE ASSESSED VALUATIONS BY		SALE	36
CATEGORY	18	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC	
TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT		FUNDS IN TEXAS	37
HISTORY.....	19	LEGAL MATTERS.....	37
TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY ..	19	MUNICIPAL ADVISOR	37
TABLE 5 - TEN LARGEST TAXPAYERS	19	INITIAL PURCHASER	38
TABLE 6 - TAX ADEQUACY	20	FORWARD-LOOKING STATEMENTS DISCLAIMER	38
TABLE 7 - ESTIMATED OVERLAPPING DEBT.....	20	MISCELLANEOUS.....	38
DEBT INFORMATION	21	APPENDICES	
TABLE 8 - GENERAL OBLIGATION DEBT SERVICE		GENERAL INFORMATION REGARDING THE CITY	A
REQUIREMENTS	21	EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT	B
TABLE 9 - INTEREST AND SINKING FUND BUDGET		FORM OF BOND COUNSEL'S OPINION	C
PROJECTION.....	22		
TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL			
OBLIGATION BONDS.....	22		
TABLE 11 - OTHER OBLIGATIONS.....	22		
FINANCIAL INFORMATION.....	28		
TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURE			
HISTORY.....	28		
TABLE 12A - CHANGE IN NET ASSETS.....	29		
TABLE 13 - MUNICIPAL SALES TAX HISTORY	30		
TABLE 14 - CURRENT INVESTMENTS.....	32		
TAX MATTERS.....	33		

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

OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Fate, Texas (the “City”), is a political subdivision and home-rule municipal corporation of the State of Texas (the “State”), located in Rockwall County, Texas. The City covers approximately 12.06 square miles (see “INTRODUCTION - Description of the City”).
- THE CERTIFICATES** The \$5,865,000 City of Fate, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026 are issued as serial Certificates maturing on August 15 in each of the years 2027 through 2046(see “THE CERTIFICATES - Description of the Certificates”).
- PAYMENT OF INTEREST** Interest on the Certificates accrues from the date of initial delivery of the Certificates to the Initial Purchaser, and is payable February 15, 2027, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE CERTIFICATES - Description of the Certificates”).
- AUTHORITY FOR ISSUANCE** The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), and the ordinance (the “Ordinance”) authorizing the issuance of the Certificates adopted by the City Council of the City (see “THE CERTIFICATES – Authority for Issuance”).
- SECURITY FOR THE CERTIFICATES** The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City and (ii) a limited pledge of \$1,000 of the surplus revenues of the City’s waterworks and sewer system (the “System”), as provided in the Ordinance.
- QUALIFIED TAX-EXEMPT OBLIGATIONS** The City **has** designated the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions.
- REDEMPTION PROVISIONS**..... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES - Optional Redemption”).
- TAX EXEMPTION**..... In the opinion of Bond Counsel, 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, including the alternative minimum tax on certain corporations (see “TAX MATTERS” for a discussion of the opinion of Bond Counsel).
- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used for (i) constructing, improving and equipping municipal parks and recreation facilities that are generally accessible to the public and are part of the City park system and (ii) paying legal, fiscal and engineering fees in connection with such projects including paying the costs of issuance of the Certificates.
- RATINGS** The Certificates and the presently outstanding tax supported debt of the City are rated “AA” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”), without regard to credit enhancement (see “OTHER INFORMATION - Ratings”).
- BOOK-ENTRY-ONLY SYSTEM** The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES - Book-Entry-Only System”).
- PAYMENT RECORD** The City has never defaulted in payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Net General Obligation (G.O.) Tax Debt ⁽³⁾	Per Capita G. O. Tax Debt	Ratio G.O. Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2022	21,700	\$ 1,789,029,621	\$ 82,444	\$ 7,305,000	337	0.41%	99.70%
2023	23,000	2,354,279,922	102,360	19,530,000	849	0.83%	100.08%
2024	26,500	2,827,368,265	106,693	18,395,000	694	0.65%	100.75%
2025	30,500	3,260,880,347	106,914	37,095,000	1,216	1.14%	101.98%
2026	32,000	3,600,505,112	112,516	35,795,000 ⁽⁴⁾	1,119 ⁽⁴⁾	0.99% ⁽⁴⁾	99.00% ⁽⁵⁾

- (1) Source: City Officials.
- (2) As reported by the Rockwall Central Appraisal District on the City’s annual State Property Tax Reports; subject to change during the ensuing year.
- (3) Excludes self-supporting debt.
- (4) Projected. Excludes the Certificates as the Certificates are self-supporting.
- (5) Collections as of February 28, 2026.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
Beginning Balance	\$ 8,321,772	\$ 6,443,777	\$ 5,649,861	\$ 3,943,239	\$ 5,545,567
Total Revenue	15,966,541	15,307,737	11,956,728	11,209,892	9,353,267
Total Expenditures	15,321,751	15,320,494	11,468,479	11,003,048	10,065,869
Other Sources (Uses)	(879,931)	1,890,752	305,667	1,499,778	(889,726)
Prior Period Adjustments	-	-	-	-	-
Ending Balance	<u>\$ 8,086,631</u>	<u>\$ 8,321,772</u>	<u>\$ 6,443,777</u>	<u>\$ 5,649,861</u>	<u>\$ 3,943,239</u>

For additional information regarding the City, please contact:

Michael Kovacs City Manager City of Fate 1900 C.D. Boren Parkway Fate, Texas 75087 (972) 771-4601	Or	Nick Bulaich Andre Ayala Hilltop Securities Inc. 777 Main Street, Suite 1525 Fort Worth, Texas 76102 (817) 332-9710
--	----	--

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Andrew Greenberg Mayor	1 Year	May 2028	Professor
Vacant Councilmember, Place 1	NA	NA	NA
Ashley Rains Councilmember, Place 2	Newly elected	May 2029	Financial Underwriting
Allen Robbins Councilmember, Place 3	Newly elected	May 2029	Business Owner
Rick Maneval Mayor Pro Tem, Place 4	1 Year	May 2028	Retired
Mark Hatley Councilmember, Place 5	2 Years	May 2027	VP of OPS
Martha Huffman Deputy Mayor Pro Tem, Place 6	1 Year	May 2028	Paralegal

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>
Michael W. Kovacs	City Manager	12 Years
Steven Downs	Assistant City Manager	2 Years
Denise Armstrong	Director of Finance	1 Month
Vickey Raduechel	City Secretary	13 Years
Jennifer Richie	City Attorney	1 Year

CONSULTANTS AND ADVISORS

AuditorsForvis Mazars
Dallas, Texas

Bond CounselMcCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Municipal AdvisorHilltop Securities Inc.
Fort Worth, Texas

OFFICIAL STATEMENT

RELATING TO

\$5,865,000

CITY OF FATE, TEXAS

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$5,865,000 City of Fate, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined herein) except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City of Fate, 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., Dallas, Texas.

DESCRIPTION OF THE CITY. . . The City is a Home Rule municipality, duly organized and existing under the laws of the State of Texas (the "State"). The City was incorporated in 1900. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is two years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety protection (police, fire and first responder medical), water and wastewater utilities, contracted sanitation services, maintenance of streets and infrastructure, community development, parks, and planning/building safety. The 2010 Census population for the City was 6,357, while the estimated 2026 population is 32,000. The City covers approximately 12.06 square miles, see "Appendix A - General Information Regarding the City."

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES. . . The Certificates are dated June 15, 2026. The Certificates mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Certificates will accrue from the date of initial delivery of the Certificates to the Initial Purchaser of the Certificates (the "Initial Purchaser"), and will be payable on February 15 and August 15 of each year, commencing February 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" herein.

AUTHORITY FOR ISSUANCE. . . The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the ordinance adopted by the City Council of the City which authorized the issuance of the Certificates (the "Ordinance").

SECURITY AND SOURCE OF PAYMENT. . . Payment of debt service on the Certificates, when due, is secured by a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates, on all taxable property located in the City. The Certificates are additionally secured by a lien on and limited pledge of \$1,000 of the revenues of the City's waterworks and sewer system (the "System") remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or part of said revenues, as provided in the Ordinance (see "THE CERTIFICATES - Tax Rate Limitation").

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

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

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

With respect to any optional redemption of the Certificates, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption 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, 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, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the beneficial owners. Any such selection of Certificates 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 selected for redemption (see "THE CERTIFICATES - Book-Entry-Only System").

DEFEASANCE. . . The Ordinance provides for the defeasance of the Certificates when the payment of the principal and premium, if any, on the Certificates, plus interest on the Certificates to the due date thereof is provided by irrevocably depositing with the Paying Agent/Registrar or another authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The City additionally has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally

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

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

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

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

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

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

DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

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

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

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

PAYING AGENT/REGISTRAR. . . The initial Paying Agent/Registrar for the Certificates is 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 for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

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

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

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

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

CERTIFICATEHOLDERS' REMEDIES. . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Certificates, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus is controlled by equitable principles, and thus rests within the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Certificateholders 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 Certificateholders.

The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificates or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the Certificateholders cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificateholders 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 would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors, including principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion.

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

Sources of Funds	
Par Amount of Certificates	\$ 5,865,000.00
Cash Premium	<u>213,877.00</u>
Total Sources	<u>\$ 6,078,877.00</u>
Uses of Funds	
Deposit to Project Construction Fund	\$ 6,000,000.00
Costs of Issuance	<u>78,877.00</u>
Total Uses	<u>\$ 6,078,877.00</u>

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

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.

Through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2025 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,160,000 (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. After the 2025 tax year, through December 31, 2026 (unless extended by the Legislature), the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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.

LOCAL OPTION HOMESTEAD EXEMPTIONS . . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the market value of the homesteads of persons 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.

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

PERSONAL PROPERTY . . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property

not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. Pursuant to voter approval at a Statewide election held on November 4, 2025, legislation passed by the Legislature and signed by the Governor during the 89th Regular Session will provide a person 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.

FREPORT EXEMPTIONS . . . Certain goods 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 to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days (“Goods-in-Transit”), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer’s retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

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

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.

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

For a discussion of how the various exemptions described above are applied by the City, see “TAX INFORMATION - City Application of Property Tax Code” herein.

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

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

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

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

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

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

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

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

A city must annually calculate its "voter-approval tax rate" and "no-new-revenue tax rate" (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year. Furthermore, beginning for tax year 2026, if the Texas Attorney General determines that a city did not have its audited annual financial statements on file with its city secretary or 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.

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

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

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

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

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

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

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

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

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

Owners of certain property with a taxable value of at least \$50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The 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 Operation Tax Rate Limitations"). The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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

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

FUTURE 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. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, elections, and other matters which could adversely affect the City and also affect the marketability or market value of the Obligations. The City can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions but intends to monitor all proposed legislation for any developments applicable to the City.

CITY APPLICATION OF PROPERTY TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$50,000; the disabled are also granted an exemption of \$50,000.)

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 below for a listing of the amounts of the exemptions described above.

The City has 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 not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and Rockwall Central Appraisal District collects taxes for the City.

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

The City does not tax freeport property.

The City does not tax goods-in-transit.

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

The City has not adopted a tax abatement policy.

The City has not established any Tax Increment Reinvestment Zones within its boundaries.

PUBLIC IMPROVEMENT DISTRICTS . . . The City has established three Public Improvement Districts (“PIDs”) as follows. The following is a summary of the currently outstanding debt for each PID.

	Currently Outstanding Debt
Williamsburg Public Improvement District #1 - Phase 1A	\$ 3,625,000
Williamsburg Public Improvement District #1 - Phase 1B	1,825,000
Williamsburg Public Improvement District #1 - Phase 1B2-1B3	4,145,000
Williamsburg Public Improvement District #1 - Phase 2B, 2C and 3A1	6,355,000
Williamsburg Public Improvement District #1 - Phase 2A and 3A2	7,304,000
Williamsburg Public Improvement District #1 - Phase 3B	7,174,000
Williamsburg Public Improvement District #2 - Phase 1C	925,000
Williamsburg East Major Improvement Area	3,371,000
Williamsburg East Improvement Area No. 1	3,912,000
Williamsburg East Improvement Area No. 2	15,921,000
Monterra Public Improvement District Improvement Area #1	10,955,000
Monterra Public Improvement District Improvement Area #2	14,106,000

The currently outstanding debt of each PID is not a direct obligation of the City. Such debt is secured and payable solely from the assessments on real property located inside each PID.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2025/2026 Market Valuation Established by Rockwall Central Appraisal District (excludes totally exempt property)	\$ 3,888,312,407
Less Exemptions/Reductions at 100% Market Value:	
Homestead Cap Adjustment	\$ 33,004,438
Over 65	52,706,440
Disabled Persons	125,107,011
Disabled Veterans Exemptions	2,539,905
Circuit Breaker Limitation	18,966,171
First Responders Surviving Spouse	351,043
Pollution Control	133,895
Member of Armed Services Surviving Spouse	429,135
Prorated Absolutes	348,986
Solar	290,902
Productivity Loss	53,929,369
	<u>287,807,295</u>
2025/2026 Taxable Assessed Valuation	<u>\$ 3,600,505,112</u>
General Obligation Debt Payable from Ad Valorem Taxes (as of 4/1/2026) The Certificates	\$ 45,130,000 <u>5,865,000</u>
Debt Payable from Ad Valorem Taxes	\$ 50,995,000
Less: Self-Supporting Debt ⁽¹⁾⁽²⁾	\$ 13,900,000
Net General Obligation Debt Payable from Ad Valorem Taxes	\$ 37,095,000
General Obligation Interest and Sinking Fund (as of 3/1/2026)	\$ 956,607
Ratio of Net General Obligation Tax Debt to Taxable Assessed Valuation	1.03%

2026 Estimated Population - 32,000
Per Capita Taxable Assessed Valuation - \$112,516
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$1,159

- (1) General obligation debt in the amounts shown for which repayment is currently provided from surplus net revenues of the Waterworks and Sewer System (the “System”). It is the City’s current policy to provide these payments from such revenues; provided this policy is subject to change in the future. In the event payment is not made from revenues, the City will be required to levy and collect an ad valorem tax sufficient to make such debt service payments. Includes the Certificates.
- (2) Includes debt to be repaid by Fate MMD Sales tax revenue. Includes the Certificates.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2026		2025		2024	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 3,305,897,134	85.02%	\$ 3,122,470,924	87.26%	\$ 2,969,636,249	89.38%
Real, Residential, Multi-Family	110,953,510	2.85%	10,664,063	0.30%	143,899	0.00%
Real, Vacant Lots/Tracts	94,718,036	2.44%	121,667,742	3.40%	92,502,454	2.78%
Real, Acreage (Land Only)	54,314,299	1.40%	51,161,387	1.43%	49,715,116	1.50%
Real, Farm and Ranch Improvements	36,441,143	0.94%	28,119,201	0.79%	23,071,746	0.69%
Real, Commercial and Industrial	151,850,472	3.91%	166,986,164	4.67%	112,466,173	3.38%
Real and Tangible Personal, Utilities	29,075,184	0.75%	28,620,482	0.80%	25,744,196	0.77%
Tangible Personal, Business	36,280,700	0.93%	30,965,088	0.87%	26,547,044	0.80%
Tangible Personal, Other	193,481	0.00%	195,783	0.01%	164,989	0.00%
Real Inventory	64,107,384	1.65%	11,000,098	0.31%	15,756,042	0.47%
Special Inventory	4,481,064	0.12%	6,671,288	0.19%	6,830,049	0.21%
Total Appraised Value Before Exemptions	\$ 3,888,312,407	100.00%	\$ 3,578,522,220	100.00%	\$ 3,322,577,957	100.00%
Less: Total Exemptions/Reductions	287,807,295		317,641,873		495,209,692	
Adjustments	-		-		-	
Taxable Assessed Value	<u>\$ 3,600,505,112</u>		<u>\$ 3,260,880,347</u>		<u>\$ 2,827,368,265</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 2,457,926,380	87.91%	\$ 1,613,634,431	84.73%
Real, Vacant Lots/Tracts	65,454,521	2.34%	32,710,393	1.72%
Real, Acreage (Land Only)	42,703,637	1.53%	38,626,620	2.03%
Real, Farm and Ranch Improvements	23,092,498	0.83%	33,390,620	1.75%
Real, Commercial and Industrial	113,568,140	4.06%	67,911,359	3.57%
Real and Tangible Personal, Utilities	17,484,300	0.63%	15,415,620	0.81%
Tangible Personal, Business	18,471,560	0.66%	15,377,110	0.81%
Tangible Personal, Other	204,140	0.01%	141,980	0.01%
Real Inventory	51,211,405	1.83%	82,766,626	4.35%
Special Inventory	5,866,170	0.21%	4,384,950	0.23%
Total Appraised Value Before Exemptions	\$ 2,796,063,071	100.00%	\$ 1,904,359,709	100.00%
Less: Total Exemptions/Reductions	440,562,849		115,330,088	
Adjustments	(1,220,300)		-	
Taxable Assessed Value	<u>\$ 2,354,279,922</u>		<u>\$ 1,789,029,621</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

(Remainder of page intentionally left blank)

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	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2022	21,700	\$1,789,029,621	\$ 82,444	\$ 21,010,000	1.17%	\$ 968
2023	23,000	2,354,279,922	102,360	19,530,000	0.83%	849
2024	26,500	2,827,368,265	106,693	18,395,000	0.65%	694
2025	30,500	3,260,880,347	106,914	37,095,000	1.14%	1,216
2026	32,000	3,600,505,112	112,516	35,795,000 ⁽⁴⁾	0.99%	1,119

- (1) Source: City Officials.
- (2) As reported by the Appraisal District on the City's annual State Property Tax Reports; subject to change during the ensuing year.
- (3) Excludes self-supporting debt. See "Table 8 – Pro-Forma General Obligation Debt Service Requirements" herein for a more detailed description of the City's self-supporting debt
- (4) Does not include the Certificates as they are anticipated to be self-supported.

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
2022	\$ 0.33987	\$ 0.23893	\$ 0.10095	\$ 6,002,023	99.70%	99.70%
2023	0.29383	0.21707	0.07677	6,802,456	99.80%	100.08%
2024	0.26421	0.20233	0.06188	7,470,190	100.48%	100.75%
2025	0.25925	0.19840	0.06085	8,370,522	101.25%	101.98%
2026	0.29087	0.20077	0.09010	10,271,993	98.00% ⁽¹⁾	99.00% ⁽¹⁾

- (1) Collections as of February 28, 2026.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2025/26 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Jameson AL LP	Apartments	\$ 56,426,235	1.57%
CRP/AR Prose Williamsburg Owner	Apartments	43,000,000	1.19%
Oncor Electric Delivery Co. LLC	Electric Utility/Power Plant	24,564,100	0.68%
Amsdell Storage Ventures XXVIII LLC	Storage Units/Warehouses	14,520,533	0.40%
Brookshire Grocery Complany	Grocery Store	11,564,894	0.32%
Foxy LLC	Retail	10,300,000	0.29%
Fate I30 Commercial LP	Commercial Land	9,911,479	0.28%
CSH Property One LLC	Home Builder	7,818,230	0.22%
Grand Homes 2014 LP	Home Builder	7,671,715	0.21%
FKH SFR Propco A LP	Real Estate	7,376,412	0.20%
		<u>\$ 193,153,598</u>	<u>5.36%</u>

GENERAL OBLIGATION DEBT LIMITATION. . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (however, see "THE CERTIFICATES - Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY⁽¹⁾

2026 Net Principal and Interest Requirements.....	\$	3,207,293
\$ 0.0900 Tax Rate at 99% collection produces.....	\$	3,208,050
Average Annual Net Principal and Interest Requirements, 2026-2046.....	\$	2,479,323
\$ 0.0696 Tax Rate at 99% collection produces.....	\$	2,480,892
Maximum Net Principal and Interest Requirements, 2027.....	\$	3,222,513
\$ 0.0905 Tax Rate at 99% collection produces.....	\$	3,225,873

(1) Excludes existing self-supporting debt and the Certificates. See “Table 10 – 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.

<u>Taxing Jurisdiction</u>	<u>2025/26 Taxable Assessed Value</u>	<u>2025/26 Tax Rate⁽²⁾</u>	<u>Total G.O. Tax Debt as of 4/1/2026</u>	<u>Estimated % Applicable</u>	<u>City's Overlapping G.O. Tax Debt as of 4/1/2026</u>
City of Fate	\$ 3,600,505,112	\$ 0.25925	\$ 37,095,000 ⁽¹⁾	100.00%	\$ 37,095,000 ⁽¹⁾
Rockwall County	25,298,517,655	0.25100	161,570,000	12.90%	20,842,530
Rockwall County Consolidated MUD #1	745,995,419	0.15500	4,670,000	100.00%	4,670,000
Rockwall County MUD #6	319,052,388	0.67500	32,575,000	100.00%	32,575,000
Rockwall County MUD #7	99,486,600	0.75000	10,180,000	100.00%	10,180,000
Rockwall County MUD #8	290,859,795	0.75000	28,765,000	100.00%	28,765,000
Rockwall County MUD #9	323,095,456	0.71000	28,530,000	100.00%	28,530,000
Rockwall ISD	15,418,117,064	1.06700	903,942,666	8.47%	76,563,944
Royse City ISD	4,797,810,039	1.25500	685,934,558	23.19%	159,068,224
Total Direct and Overlapping G.O. Tax Debt					<u>\$ 398,289,698</u>
Ratio of Direct and Overlapping G.O. Tax Debt to Taxable Assessed Valuation					11.06%
Per Capita Overlapping G.O. Tax Debt					\$ 12,447

(1) Excludes the Certificates and other self-supporting debt.

(2) Per \$100 value.

(Remainder of page intentionally left blank)

DEBT INFORMATION

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service ⁽¹⁾			The Certificates ⁽²⁾			Less: Utility Self- Supporting Debt ⁽³⁾	Less: MDD	Net Tax Supported Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		Sales Tax Revenue Self- Supporting Debt ⁽⁴⁾		
2026	\$ 1,815,000	\$ 2,216,656	\$ 4,031,656	\$ -	\$ -	\$ -	\$ 824,363	\$ -	\$ 3,207,293	
2027	2,315,000	1,724,613	4,039,613	165,000	275,979	440,979	817,100	440,979	3,222,513	
2028	2,410,000	1,625,238	4,035,238	195,000	246,500	441,500	818,700	441,500	3,216,538	
2029	2,515,000	1,521,450	4,036,450	205,000	236,750	441,750	819,600	441,750	3,216,850	
2030	2,620,000	1,406,713	4,026,713	215,000	226,500	441,500	813,900	441,500	3,212,813	24.56%
2031	2,215,000	1,296,813	3,511,813	225,000	215,750	440,750	537,750	440,750	2,974,063	
2032	2,310,000	1,195,688	3,505,688	235,000	204,500	439,500	536,250	439,500	2,969,438	
2033	2,415,000	1,093,388	3,508,388	245,000	192,750	437,750	539,000	437,750	2,969,388	
2034	2,520,000	989,813	3,509,813	260,000	180,500	440,500	534,400	440,500	2,975,413	
2035	2,345,000	891,138	3,236,138	270,000	167,500	437,500	534,400	437,500	2,701,738	50.27%
2036	2,445,000	797,538	3,242,538	285,000	154,000	439,000	538,800	439,000	2,703,738	
2037	2,405,000	702,438	3,107,438	295,000	142,600	437,600	537,400	437,600	2,570,038	
2038	2,500,000	606,063	3,106,063	310,000	130,800	440,800	535,400	440,800	2,570,663	
2039	2,600,000	505,663	3,105,663	320,000	118,400	438,400	537,800	438,400	2,567,863	
2040	2,705,000	400,838	3,105,838	335,000	105,600	440,600	534,400	440,600	2,571,438	78.26%
2041	2,810,000	297,838	3,107,838	350,000	92,200	442,200	535,400	442,200	2,572,438	
2042	1,785,000	212,788	1,997,788	360,000	78,200	438,200	535,600	438,200	1,462,188	
2043	1,320,000	140,388	1,460,388	375,000	63,800	438,800	-	438,800	1,460,388	
2044	1,375,000	86,488	1,461,488	390,000	48,800	438,800	-	438,800	1,461,488	
2045	1,430,000	29,494	1,459,494	405,000	33,200	438,200	-	438,200	1,459,494	99.16%
2046	-	-	-	425,000	17,000	442,000	-	442,000	-	100.00%
	<u>\$ 44,855,000</u>	<u>\$ 17,741,037</u>	<u>\$ 62,596,037</u>	<u>\$ 5,865,000</u>	<u>\$ 2,931,329</u>	<u>\$ 8,796,329</u>	<u>\$ 10,530,263</u>	<u>\$ 8,796,329</u>	<u>\$ 52,065,775</u>	

- (1) "Outstanding Debt" does not include lease/purchase obligations.
- (2) Average life of the Certificates: 12.028 years. Interest is calculated at the rates shown on page 2 hereof.
- (3) General obligation debt in the amounts shown for which repayment is currently provided from the surplus net revenues of the System. It is the City's current policy to provide these payments from such revenues; provided this policy is subject to change in the future. In the event payment is not made from revenues, the City will be required to levy and collect an ad valorem tax sufficient to make such debt service payments.
- (4) The Certificates will be self-supporting and payable from the Fate Municipal Development District Sales Tax Revenues.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION⁽¹⁾

Net Tax Obligation Debt Service Requirements, Fiscal Year Ending 9/30/26		\$ 3,207,293 ⁽¹⁾
Interest and Sinking Fund Balance, Fiscal Year Ending 9/30/25	\$ 473,317	
Budgeted Interest and Sinking Fund Tax Levy Collection	3,177,092	
Delinquent Taxes	4,000	
Penalties and Interest	3,000	
Income and Investments	15,000	\$ 3,672,409
Estimated Balance, Fiscal Year Ending 9/30/26		<u>\$ 465,116</u>

(1) Excludes "self-supporting debt."

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

As of April 30, 2026, the City has no authorized but unissued general obligation debt.

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

TABLE 11 – OTHER OBLIGATIONS

LEASES

Lease Receivables

The City leases a portion of its property to various cell phone companies and businesses who use the space to conduct their operations, the terms of which expire 2026 through 2029. The measurement of the lease receivable is based on the present value of lease payments expected to be received during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

The City recognized \$102,940 in lease revenue and \$9,649 in interest revenue during the current fiscal year related to these leases. As of September 30, 2025, the City receivable for lease payments was \$230,048. Also, the City has a deferred inflow of resources associated with this lease that will be recognized as revenue over the lease term. As of September 30, 2025, the balance of the deferred inflow of resources was \$217,968.

The following is a schedule by year of minimum payments to be received under the City’s leases that are included in the measurement of lease receivable as of September 30, 2025.

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2026	\$ 80,668
2027	79,955
2028	70,067
2029	<u>12,128</u>
Totals	\$ 242,818
Less: Amounts representing interest	<u>12,771</u>
	<u>\$ 230,047</u>

LEASE LIABILITIES

The City leases vehicles from Enterprise Fleet Management and property and equipment from various third parties to conduct its operations, the terms of which expire 2025 through 2034. The measurement of the lease payables is based on the present value of lease payments expected to be paid during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

As of September 30, 2025, the value of the lease liability was \$2,653,762. Incremental borrowing rates of 3.50% to 16.87% were used to measure lease payables. The value of the right-to-use assets as of the end of the current fiscal year was \$3,729,078 and had accumulated amortization of \$1,140,007.

The future principal and interest payments for lease liabilities as of September 30, 2025, are as follows:

Year Ending September 30,	Governmental Activities
2026	\$ 606,626
2027	487,597
2028	448,191
2029	314,173
2030	255,061
2031-2035	830,373
Totals	\$ 2,942,021
Less: Amounts representing interest	417,820
	<u>\$ 2,524,201</u>

Year Ending September 30,	Business-Type Activities
2026	\$ 61,153
2027	51,069
2028	32,290
2029	10,737
Totals	\$ 155,249
Less: Amounts representing interest	25,688
	<u>\$ 129,561</u>

PENSION FUND

Change in Accounting Principles - GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27," which became effective for fiscal year 2015. This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date. The implementation of Statement No. 68 resulted restatement of beginning net position for the elimination of the previously reported net pension obligation, the recording of the beginning net pension liability and the beginning deferred outflow for contributions made after the measurement date.

For historical pension information, refer to the City's previously filed continuing disclosure reporting on EMMA.msrb.org.

The City of Fate participates as one of the over 940 plans in the nontraditional, jointly contributory, hybrid defined benefit pension 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 (ACFR) that can be obtained at www.tmr.com.

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

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

At retirement, the Member's benefit is calculated as of 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.

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	18
Inactive employees entitled to but not yet receiving benefits	84
Active employees	93
Total	<u>195</u>

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 10.06% and 10.18% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025 were \$810,064 and were equal to the required contributions.

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

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

Inflation	2.5% per year
Overall payroll growth	3.60% to 11.85% per year, including inflation
Investment Rate of return	6.75%, net of pension plan investment expense, including inflation

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of December 31, 2022. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The postretirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target	Long Term
	Allocation	Expected Real Rate of Return
Global Equity	35.00%	7.10%
Core Fixed Income	6.00%	5.00%
Non-Core Fixed Income	6.00%	6.80%
Other Public/Private Markets	4.00%	7.30%
Real Estate	12.00%	6.70%
Infrastructure	6.00%	6.00%
Private Debt	13.00%	8.20%
Hedge Funds	5.00%	6.40%
Private Equity	13.00%	8.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member 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 members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CHANGES IN NET PENSION LIABILITY

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 10/1/2024	\$ 8,455,599	\$ 8,264,331	\$ 191,268
Cha Service Cost	1,224,168	-	1,224,168
Interest	605,006	-	605,006
Difference between expected and actual experience	(270,452)	-	(270,452)
Assumption changes	-	-	
Contributions - employer	-	714,278	(714,278)
Contributions - employee	-	505,556	(505,556)
Net investment income	-	866,034	(866,034)
Benefit payments	(209,250)	(209,250)	-
Administrative expenses	-	(5,507)	5,507
Other changes	-	(129)	129
Net changes	1,349,472	1,870,982	(521,510)
Balance at 9/30/2025	<u>\$ 9,805,071</u>	<u>\$ 10,135,313</u>	<u>\$ (330,242)</u>

The following presents the Net Pension Liability (Asset) of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) of 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	\$ 1,386,221	\$ (330,242)	\$ (1,702,031)

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. The report may be obtained on the internet as www.tnrs.com

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

For the year ended September 30, 2025, the City recognized pension expense of \$675,114.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,909	\$ 247,623
Changes in actual assumptions	14,286	-
Difference between projected and actual investment earnings	-	154,697
Contributions subsequent to the measurement date	629,416	-
Total	<u>\$ 650,611</u>	<u>\$ 402,320</u>

\$629,416 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized an increase in the Net Pension Asset 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	
2026	\$ (76,691)
2027	(8,435)
2028	(184,388)
2029	(111,611)
	<u>\$ (381,125)</u>

OTHER POST-EMPLOYMENT BENEFITS

TMRS SUPPLEMENTAL DEATH BENEFITS FUND

Plan Description. TMRS administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75).

Benefits Provided. The SDBF provides a lump-sum payment approximately equal to employee’s annual salary (calculated based on the employees actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit (OPEB) and is a fixed amount of \$7,500.

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

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>93</u>
Total	<u><u>121</u></u>

Contributions. The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees’ entire careers. The City’s total SBDF contributions rates were 0.14% for calendar year 2024. The retiree portion of the total SBDF contribution rates for the City was 0.01% in both calendar years 2025 and 2024.

The City’s contributions to the SDBF for the years ended September 30, 2025 and 2023 were \$11,880 and \$9,173, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

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

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

Mortality rates for retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas Mortality tables. Based on the size of the City, rates are multiplied by an additional factor of 100%, which adds an additional layer of conservatism. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements.

For disabled annuitants, the mortality tables for healthy retirees are used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

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

Discount Rate. The discount rate used to measure the Total OPEB Liability as of December 31, 2024 was 4.08%, compared to 3.77% as of December 31, 2023. Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of the measurement date December 31, 2024.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 10/1/2024	\$ 78,965
Changes for the year	
Service Cost	13,000
Interest	3,208
Difference between expected and actual experience	2,215
Changes of assumptions	(6,852)
Benefit payments	(722)
Net changes	<u>10,849</u>
Balance at 9/30/2025	<u>\$ 89,814</u>

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

	<u>1% Decrease in Discount Rate (3.08%)</u>	<u>Current Discount Rate (4.08%) Assumption</u>	<u>1% Increase in Discount Rate (5.08%)</u>
Total OPEB Liability	\$ 114,098	\$ 89,814	\$ 71,717

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to OPEBs. For the year ended September 30, 2025, the City recognized OPEB expense of \$12,093.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 4,128	\$ 10,725
Changes in actual assumptions	15,959	34,628
Total	<u>\$ 20,087</u>	<u>\$ 45,353</u>

Other amounts of the reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended</u>	
2026	(4,115)
2027	(4,548)
2028	(3,588)
2029	(5,215)
2030	(5,551)
<u>Thereafter</u>	<u>(2,249)</u>
<u>Total</u>	<u>\$ (25,266)</u>

FINANCIAL INFORMATION

TABLE 12 - CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
Revenues					
Program Revenues:					
Charges for Services	\$ 5,906,487	\$ 6,671,487	\$ 5,237,149	\$ 7,274,103	\$ 6,295,548
Operating Grants and Contributions	345,975	473,619	564,018	249,923	389,971
Capital Grants and Contributions	3,193,721	3,013,958	16,890,812	7,010,289	2,689,078
General Revenues:					
Property Taxes	8,375,591	7,597,634	6,835,807	6,110,257	4,284,144
Other Taxes	5,976,800	5,683,701	4,404,988	3,570,497	2,691,940
Investment Income	1,448,934	1,519,048	1,328,906	(63,694)	66,180
Miscellaneous	38,840	87,917	57,377	92,469	13,302
Gain on Sale of capital assets	92,205	-	15,746	39,946	1,453
Total Revenues	<u>\$ 25,378,553</u>	<u>\$ 25,047,364</u>	<u>\$ 35,334,803</u>	<u>\$ 24,283,790</u>	<u>\$ 16,431,616</u>
Expenditures					
General Government	\$ 8,315,179	\$ 6,524,973	\$ 5,138,010	\$ 5,424,963	\$ 4,015,766
Public Safety	6,570,445	5,988,138	329,428	5,668,318	5,597,343
Public Works	3,978,687	4,309,831	7,222,615	1,088,352	1,169,344
Parks and Recreation	688,646	798,770	1,695,071	284,576	268,488
Interest on Long-Term Debt	1,400,832	723,657	689,317	902,593	504,732
Total Expenses	<u>\$ 20,953,789</u>	<u>\$ 18,345,369</u>	<u>\$ 15,074,441</u>	<u>\$ 13,368,802</u>	<u>\$ 11,555,673</u>
Increase (Decrease) in Net Assets					
Before Transfers	\$ 4,424,764	\$ 6,701,995	\$ 20,260,362	\$ 10,914,988	\$ 4,875,943
Net Transfers	1,250,790	1,739,650	386,889	1,284,077	100,567
Increase (Decrease in Net Assets)	<u>\$ 5,675,554</u>	<u>\$ 8,441,645</u>	<u>\$ 20,647,251</u>	<u>\$ 12,199,065</u>	<u>\$ 4,976,510</u>
Net Assets - Beginning	117,410,592	108,968,947	88,321,696	76,122,631	71,146,121
Net Assets - Ending	<u>\$ 123,086,146</u>	<u>\$ 117,410,592</u>	<u>\$ 108,968,947</u>	<u>\$ 88,321,696</u>	<u>\$ 76,122,631</u>

(Remainder of page intentionally left blank)

TABLE 12A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
Revenues:					
Property Taxes	\$ 6,405,028	\$ 5,779,562	\$ 5,047,051	\$ 4,300,237	\$ 3,621,201
Franchise Taxes	816,507	1,017,087	656,124	552,679	465,892
Sales Taxes	3,874,747	3,515,148	2,820,245	2,259,789	1,105,335
Beverage Taxes	23,924	11,833	7,259	11,029	3,019
Fine and Forfeitures	349,311	271,235	185,781	188,639	144,362
Licenses and Permits	2,750,604	3,567,953	2,132,067	3,552,606	3,104,348
Charges for Services	1,030,402	344,668	423,451	184,481	540,635
Donations	-	5	-	-	-
Intergovernmental	285,051	252,919	332,156	200,412	340,006
Investment Income	397,095	459,410	295,217	(119,849)	15,167
Miscellaneous	33,872	87,917	57,377	79,869	13,302
Total Revenues	<u>\$ 15,966,541</u>	<u>\$ 15,307,737</u>	<u>\$ 11,956,728</u>	<u>\$ 11,209,892</u>	<u>\$ 9,353,267</u>
Expenditures:					
General Government	\$ 6,761,684	\$ 5,880,586	\$ 5,075,168	\$ 4,391,425	\$ 3,516,152
Parks and Community Relations	140,864	96,179	73,814	65,087	54,824
Public Safety	6,369,753	5,822,629	5,553,532	4,389,527	4,449,658
Public Works	565,436	444,822	367,495	924,422	876,282
Debt Service	680,423	505,211	219,152	208,656	-
Leases	-	-	60,329	182,653	-
Capital Outlays	803,591	2,571,067	118,989	841,278	1,168,953
Total Expenditures	<u>\$ 15,321,751</u>	<u>\$ 15,320,494</u>	<u>\$ 11,468,479</u>	<u>\$ 11,003,048</u>	<u>\$ 10,065,869</u>
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 644,790	\$ (12,757)	\$ 488,249	\$ 206,844	\$ (712,602)
Other Sources (Uses)	(879,931)	1,890,752	305,667	1,499,778	(889,726)
Beginning Fund Balance	\$ 8,321,772	\$ 6,443,777	\$ 5,649,861	\$ 3,943,239	\$ 5,545,567
Ending Fund Balance	<u>\$ 8,086,631</u>	<u>\$ 8,321,772</u>	<u>\$ 6,443,777</u>	<u>\$ 5,649,861</u>	<u>\$ 3,943,239</u>

(Remainder of page intentionally left blank)

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Property, Tax Code, as amended, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On November 7, 2000, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½% of 1%) for economic development. Collection for the additional tax went into effect on April 1, 2001. The sales tax for economic development is collected solely for the benefit of Fate Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue Certificates issued by the Corporation.

On November 4th, 2014, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½% of 1%) for economic development. Collection for the additional tax went into effect on April 1, 2015. The sales tax for economic development is collected solely for the benefit of Fate Municipal Development District No. 1 (the "District"), and may be pledged to secure payment of sales tax revenue bonds issued by the District.

Fiscal Year Ended 9/30	City of Fate Sales Tax Collected ⁽¹⁾	Fate Municipal Development District 0.50%		Equivalent of	
		Sales Tax Collected	% of Ad Valorem Tax Levy	Ad Valorem Tax Rate	Per Capita
2022	\$ 2,259,789	\$ 757,000	37.65%	\$ 0.1263	\$ 104.14
2023	2,820,245	921,360	41.46%	0.1198	122.62
2024	3,515,148	1,139,633	47.06%	0.1243	132.65
2025	3,874,747	1,261,622	46.29%	0.1188	127.04
2026	1,852,251 ⁽²⁾	607,248 ⁽²⁾	18.03%	0.0514	57.88

(1) Includes the sales tax collections for the Fate Development Corporation, but does not include sales tax collections for the Fate Municipal Development District No. 1. The Fate Development Corporation sales tax was discontinued as of September 30, 2021.

(2) Collections through February 28, 2026.

FINANCIAL POLICIES

Basis of Accounting . . . The City’s accounting records of the governmental-wide and proprietary fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Use of Bond Proceeds, Grants, etc . . . The City’s policy is to use bond proceeds for capital expenditures only. Such revenues are never to be used to fund normal City operations.

Budgetary Procedures . . . The City Charter establishes the budget year which begins on the first (1st) day of October and ends on the last day of September of the next succeeding year. On or before the fifteen (15th) of August of the fiscal year, the City Manager shall submit to the City Council a budget for the ensuing fiscal year and an accompanying budget message. The City Council shall hold a public hearing or hearings as required by state law. The City Council shall adopt the budget by the affirmative vote of a majority of the full membership of the City Council prior to October 1.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law, including particularly V.T.C.A., Texas Government Code, Chapter 2256, as amended (the “PFIA”), in accordance with investment policies approved by the City Council. Both State law and the City’s investment policies are subject to change.

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

successors; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended)(the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits; or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.) and that provide the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934; (15) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, and either: (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (16) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f) and (g) of Section 2256.011 of the PFIA. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the City and deposited with the City or with a third party selected and approved by the City.

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 pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the 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.

Under Texas law, the City's 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 City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas 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 by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the 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.

The City's current investment policy is in compliance with the State law requirements described above.

TABLE 15 - CURRENT INVESTMENTS

As of December 31, 2025, the City's investable general funds were invested in the following categories:

Description	Percent of Portfolio	Book Value	Market Value
Cash	9.97%	\$ 7,892,732	\$ 7,892,732
Premier Index Fund	30.69%	24,296,630	24,296,630
TexPool	9.58%	7,586,871	7,586,871
Texas Class	13.92%	11,021,160	11,021,160
US Treasury	22.81%	18,062,413	18,038,040
US Agencies	13.03%	10,320,960	10,264,157
Total	100.00%	\$ 79,180,766	\$ 79,099,589

TAX MATTERS

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

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

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

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

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

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

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

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

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

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

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

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

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

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

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

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

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

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

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

Qualified Tax-Exempt Obligations for Financial Institutions . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City has designated the Certificates as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the City has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Certificates as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Certificates would not be "qualified tax-exempt obligations."**

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the registered and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board ("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 when and if available, and in any event, within 12 months after the end of each fiscal year. 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 SEC Rule 15c2-12 (the "Rule").

EVENT NOTICES . . . The City will provide notice in a timely manner not in excess of ten business days after the occurrence of the event of any of the following events with respect to the Certificates, as applicable: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (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 Paying Agent/Registrar or change in the name of the 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 any such financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the City, any of which reflect financial difficulties.

As used above in item (12), the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the existing City Council and officials or officers of the City 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. (Neither the Certificates nor the Ordinance make any provision for debt service reserves, liquidity enhancement or credit enhancement). For the purposes of the above describe event notices (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.

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

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 via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain 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 registered and beneficial owners of the Certificates. The City may also amend or repeal the provisions of its 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 believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

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

LITIGATION

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

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.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, the Texas Public Funds Investment Act requires that the Certificates be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the 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.

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

LEGAL MATTERS

The City will furnish to the Initial Purchaser a complete transcript of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Certificates and to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the 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, including the alternative minimum tax on certain corporations. The customary closing papers, including a certificate from the City to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. Though Bond Counsel may represent the Municipal Advisor and purchasers of debt from governmental issuers from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form 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. Bond Counsel's legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. The City expects to pay the legal fee of McCall, Parkhurst & Horton L.L.P. for services rendered in connection with the issuance of the Certificates from proceeds of the Certificates.

The various legal opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgement, 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.

MUNICIPAL ADVISOR

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

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

CERTIFICATION AS TO OFFICIAL STATEMENT

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

INITIAL PURCHASER

After requesting competitive bids for the Certificates, the City accepted the bid of BOK Financial Securities, Inc. (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on page 2 of this Official Statement at a price of \$6,078,877.00. 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 initial yields shown on page 2 of this Official Statement were established by and are the sole responsibility of the Initial Purchaser and may subsequently be changed at the sole discretion of the Initial Purchaser. The City has no control over the determination of the initial yields and has no control over the prices at which the Certificates are sold in the secondary market.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

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

Andrew Greenberg

Mayor
City of Fate, Texas

ATTEST:

Vickey Raduechel
City Secretary
City of Fate, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THIS PAGE LEFT BLANK INTENTIONALLY

THE CITY

LOCATION AND HISTORY . . . The City is primarily residential located in Central Rockwall County. The City maintains approximately 98 acres of parks including the newly completed Smith Family Park and another 1 acre park located in old town near City Hall. Smith Park includes a pavilion, athletic facility, playground and a walking/jogging path. The Old City Park includes a playground and gazebo. Future upgrades, to include a walking/jogging path are underway. Downtown park work is underway, which includes complete reconstruction of Barnes and the associated parking lot near Sauce & Wine. The City issued \$3.25M parks bond in January 2021 for the south side park, \$15M for the road construction in July 2021, \$7.5M CO bonds for the pump station 3 in June 2022, and \$20M GO for the DPS facility in February 2025. The City also continues to work with developers to assure continued growth.

The City was incorporated in 1900 and current has a population estimated at 31,000 based on City of Fate, Utility Billing data as of September 30, 2025. By a vote of the citizens of Fate in November 2008 a Home Rule Charter was established. The City now operates under a Manager/Council form of government.

The City's major operations include fire protection, building inspection, finance, parks, public works, refuge services and general administrative services. In addition, the City owns and operates a water and sewer system.

ECONOMY . . . Fate continues to grow its commercial and retail base across multiple corridors, including I-30, FM-551, SH-66, and the downtown core. This commercial growth is driven by Fate's population growth, which now exceeds 30,000 residents.

The southwest quadrant of I-30 and FM-551, anchored by the Fresh by Brookshire's specialty grocery store, continues to attract new businesses. Chipotle, Whataburger, Panda Express, Scrubbies Car Wash, and Brakes Plus are now open or under construction. Chicken Express has been announced but has not yet broken ground. Phase II of Fate Village is under construction and will add nearly 30,000 square feet of additional retail shop space, building on the success of Phase I. The Memorial Parkway corridor (FM-551 south of I-30) added Lightbridge Academy and the 9,500-square-foot Ashton Gray retail strip center, which will include Jimmy John's and MB2 Dental. O'Reilly Auto Parts and Fate Crossing, a 6,271-square-foot speculative retail center, are expected to break ground in Q1 2026. The Fate Professional Offices development will add more than 16,000 square feet of inline office, professional, and retail space to the corridor in 2026.

The northeast quadrant of I-30 and FM-551 added Stags Carwash and Stags Valvoline Express Lube to complement the existing convenience store and gas station. AutoZone expanded its traditional store into a 23,000-square-foot mega hub. A speculative retail center, the Shops at Fate, is expected to break ground in 2026 and add 9,200 square feet of retail space adjacent to Spec's Wine & Liquor, which is one of the top ten traffic-generating Spec's locations in the State of Texas. An 80-acre portion of the 267-acre Lafayette Crossing planned development sold in 2025 for retail development. The northwest quadrant of I-30 and FM-551 will include a 400,000-plus square-foot retail development anchored by Kroger Marketplace and a not-yet-named 150,000-square-foot department store. Other portions of the development include retail, commercial, mixed-use, residential, an innovation core, and 33 acres of park and open space. Infrastructure work is anticipated to begin in Q1 2026.

The SH-66 corridor has experienced its own commercial growth, including 7-Eleven, Arka Montessori, Beach Club Carwash, the 15,000-square-foot Fate Commons retail plaza, and the Celebree School, all currently under construction. The 19,800-square-foot Shops at Woodcreek, which will include a therapy center and mailbox store among others, is expected to break ground in Q1 2026.

Downtown revitalization continues with new businesses tenanting the mixed-use developments at The Park and Fate Place. Red Dirt Social and Greenhill Family Dental opened in 2025. Wings Over Fate and Sauce & Vine are wrapping up construction, along with the relocation of Dark Ritual Coffee. An oral surgeon opened on the second floor of Fate Place. The third floor houses the Hub at Fate Station, a City-owned coworking and business incubator space that was fully leased by summer 2025 and contributes to increased daytime activity downtown.

EDUCATION . . . Served by Royse City Independent School District and Rockwall Independent School District.

TRANSPORTATION . . . Interstate 30 ("I-30") runs through the City.

MAJOR EMPLOYERS IN THE CITY

<u>Major Businesses</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Royse City ISD	School District	277
FRESH by Brookshire's	Grocery	225
JCK Batch Plant	Construction	100
City of Fate	Government	93
Rockwall ISD	School District	80
Spiral X	Commercial	43
American Bobtail	Transportation	38
McClain's RV	Commercial	36
Highview Learning Center	Child Care	32
USA Erosion Inc	Construction	29

EMPLOYMENT RATES

Employment statistics for Rockwall County are as follows:

<u>Rockwall County</u>	<u>Average Annual</u>				
	<u>2026⁽¹⁾</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Civilian Labor Force	74,779	75,039	73,660	61,012	59,266
Total Employed	71,859	72,288	71,044	58,820	57,275
Total Unemployed	2,920	2,751	2,616	2,192	1,991
Unemployment Rate	3.9%	3.7%	3.6%	3.6%	3.4%

Source: Texas Employment Commission, Austin, Texas.

(1) Averages as of January 2026.

APPENDIX B

EXCERPTS FROM THE
CITY OF FATE, TEXAS

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For the Year Ended September 30, 2025

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

THIS PAGE LEFT BLANK INTENTIONALLY

Independent Auditor's Report

The Honorable Mayor and Members of the City Council
City of Fate, Texas

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 Fate, Texas (City) as of and for the year ended September 30, 2025 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Forvis Mazars, LLP

**March 4, 2026
Dallas, Texas**

This Page Intentionally Left Blank

City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025

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

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$256,938,642 (net position). Of this amount, \$187,724,024 , or 73.06%, represents the City's investment in capital assets, less any related outstanding debt used to acquire those assets. The amount of net position restricted for debt service, municipal court use, impact fees, net pension asset, community development, fire department, public safety and capital projects is \$33,891,833, or 13.19%. Total unrestricted net position is \$35,322,785, or 13.75%.
- The government's total net position increased by \$11,450,409, or 4.66%, over the prior year. The \$1,042,528, or 0.56%, increase in net investment capital and lease assets represents capital expenditures less depreciation, retirement of current debt, unspent bond proceeds and capital contributions. The \$14,236,899, or 72.43%, increase in restricted net position represents the change in resources that are subject to external restrictions on their use. The \$3,829,018, or 9.78%, decrease in unrestricted net position represents the change in resources available to fund City programs to citizens.
- The City's governmental funds combined ending fund balance of \$42,861,292 was an increase of 79.89%, or \$19,034,249, from the prior year ending fund balance of \$23,827,043.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund amounts to \$7,916,640 and was 51.67% of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

Basic Financial Statements. The first two statements (pages 15-18) in the basic financial statements are the government-wide financial statements. They provide both short- and long-term information about the City's financial status.

The next statements (pages 19-29) are fund financial statements. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the fund financial statements: 1) the Governmental Fund financial statements and 2) the Proprietary Fund financial statements.

City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025

The next section of the basic financial statements is the notes, beginning on page 31. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, required supplementary information (pages 66-74) is provided to show details about the City's budgetary information for the General Fund, Street Impact Fund, and various information on the pension and OPEB plans. Supplemental information (pages 76-92) is also included to provide combining nonmajor fund financial statements and information about the City's budgetary comparison for Debt Service Fund, Capital Projects Fund, and Nonmajor Special Revenue Funds.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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 is improving or deteriorating. The Statement of Net Position combines governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. In order to assess the overall health or financial condition of the City, other nonfinancial factors should also be taken into consideration. These include changes in the City's property tax base and the condition of the City's infrastructure.

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. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing related to cash flows.

Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but not unused, vacation leave, if material value).

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales tax, licenses and permits, and franchise fees finance most of the activities. The business-type activities are those that 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, sewer and solid waste systems are reported as business-type activities.

The government-wide financial statements can be found on pages 15-18 of this report.

Fund Financial Statements. The fund financial statements provide a more detailed look at the City's most significant funds. 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. Some funds are required to be established by state law and by bond covenants. However, the City Council established many 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. The City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025

Governmental Funds. *Governmental funds* are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flows in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs.

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

The City maintains 15 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service, Capital Projects Funds, and Street Impact Fund which are considered major funds. Data from the other eleven governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City adopts an annual budget for its General Fund, Capital Projects Fund, Street Impact Fund, Debt Service Fund, and certain Special Revenue Funds as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary schedules provided for the funds demonstrates how well the City complied with the budget ordinance and whether the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison schedules use the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) original budget; 2) the final budget as amended by the Council; 3) the actual resources, charges for appropriations, and ending balances in the funds; and 4) the difference or variance between the final budget and the actual resources and charges.

The Governmental Fund financial statements can be found on pages 19-23 of this report.

Proprietary Funds. The City charges customers for the services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way activities are reported in the statement of net position and the statement of activities. In fact, the City's proprietary funds provide the same type of information as the government-wide financial statements, only contain more detail, such as cash flow statements. The City has two proprietary funds, the Water and Sewer Fund and the Solid Waste Fund, which are considered major funds.

The basic proprietary fund financial statements can be found on pages 24-28 of this report.

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. The notes to the financial statements begin on page 30 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's budgetary information for the General Fund and Street Impact Fund and progress in funding its obligations to provide pension and OPEB benefits to its employees. Required supplementary information can be found on pages 66-74 of this report.

**City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025**

The combining and individual fund financial statements and budgetary schedules referred to earlier in connection with nonmajor funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 77-92 of this report.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources by \$256,938,642 as of September 30, 2025. The City's net position increased by \$11,450,409, or 4.66%, for the fiscal year ended September 30, 2025.

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 45,428,164	\$ 27,134,752	\$ 40,828,305	\$ 43,067,505	\$ 86,256,469	\$ 70,202,257
Capital and leased assets	124,519,597	118,870,878	109,716,598	101,600,056	234,236,195	220,470,934
Total assets	169,947,761	146,005,630	150,544,903	144,667,561	320,492,664	290,673,191
Deferred outflows of resources	645,142	701,409	227,806	246,892	872,948	948,301
Current liabilities	2,647,665	3,041,781	4,427,252	3,551,326	7,074,917	6,593,107
Long-term liabilities	44,258,364	25,840,643	12,428,048	13,268,301	56,686,412	39,108,944
Total liabilities	46,906,029	28,882,424	16,855,300	16,819,627	63,761,329	45,702,051
Deferred inflows of resources	600,728	414,023	64,913	17,185	665,641	431,208
Net position						
Net investment in capital assets	90,787,652	97,563,461	96,936,372	89,118,035	187,724,024	186,681,496
Restricted	24,992,349	10,402,404	8,899,484	9,252,530	33,891,833	19,654,934
Unrestricted	7,306,145	9,444,727	28,016,640	29,707,076	35,322,785	39,151,803
Total net position	\$ 123,086,146	\$ 117,410,592	\$ 133,852,496	\$ 128,077,641	\$ 256,938,642	\$ 245,488,233

Net Investment in Capital and Lease Assets. A large portion of the City's net position, \$187,724,024, or 73.06%, reflects the City's investment in capital and lease assets (e.g., land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The City uses these capital and lease assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital and lease assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Restricted Net Position. The restricted net position of \$33,891,833, or 13.19%, of total net position, represents resources that are subject to external restrictions on their use or restrictions by enabling legislation.

Unrestricted Net Position. Unrestricted net position in the amount of \$35,322,785, or 13.75%, is available to fund the City's programs to its citizens and obligations to its creditors.

At the end of the current fiscal year, the City was able to report positive balances in all reported categories of net position, both for the City as a whole, as well as its separate governmental and business-type activities.

The City's overall net position increased \$11,450,409 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025

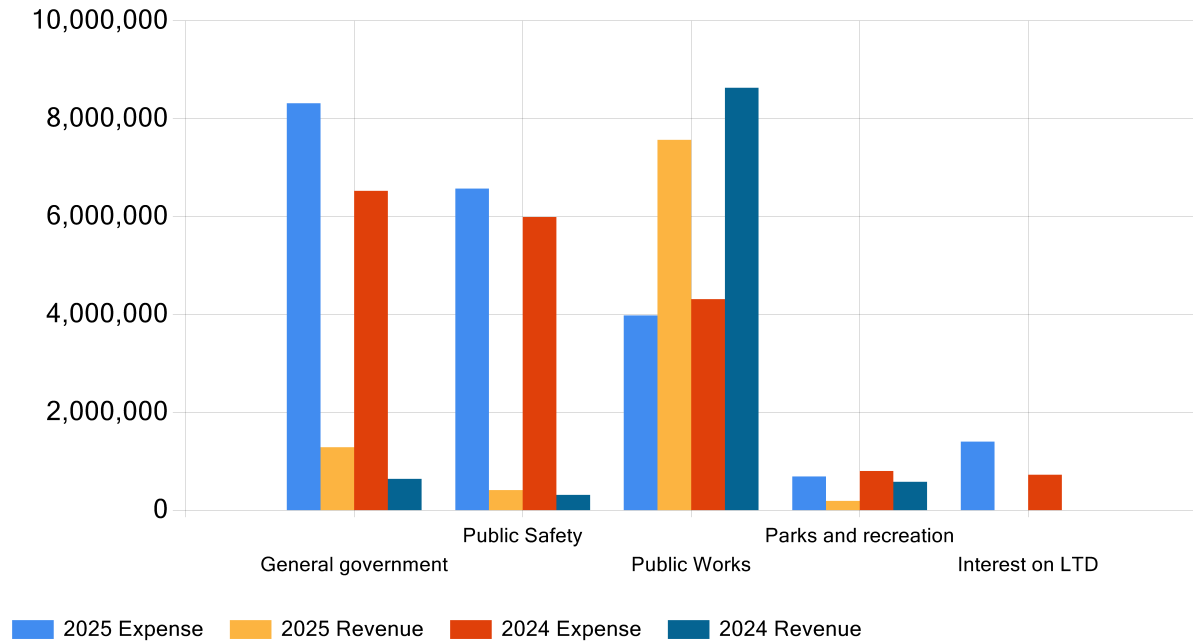
City of Fate's Changes in Net Position

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$5,675,554 from the prior fiscal year for an ending balance of \$123,086,146. The increase in the overall position of governmental activities is the result of continued increases in property tax collections, sales tax, licenses and permits, impact fees and an increase in investment income. Additionally, the City received approximately \$3.2 million in donated capital assets from developers.

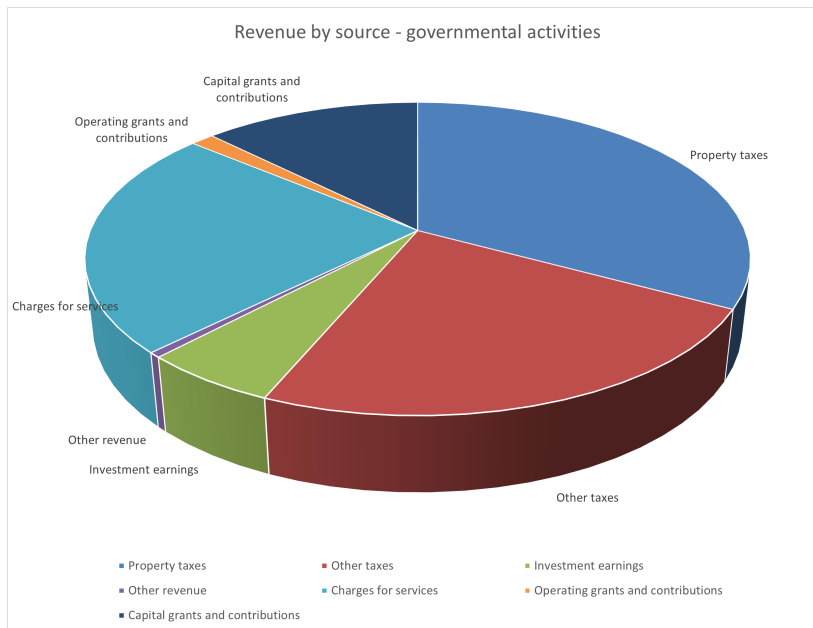
	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues						
Program Revenues						
Charges for services	\$ 5,906,487	\$ 6,671,487	\$ 21,014,567	\$ 21,341,321	\$ 26,921,054	\$ 28,012,808
Operating grants and contributions	345,975	473,619	-	-	345,975	473,619
Capital grants and contributions	3,193,721	3,013,958	3,328,439	8,139,852	6,522,160	11,153,810
General Revenues						
Property taxes	8,375,591	7,597,634	-	-	8,375,591	7,597,634
Other taxes	5,976,800	5,683,701	-	-	5,976,800	5,683,701
Interest income (loss)	1,448,934	1,519,048	1,694,914	2,257,214	3,143,848	3,776,262
Miscellaneous	38,840	87,917	37,228	12,576	76,068	100,493
Gain (loss) on sale of capital assets	92,205	-	-	-	92,205	-
Total revenues	<u>25,378,553</u>	<u>25,047,364</u>	<u>26,075,148</u>	<u>31,750,963</u>	<u>51,453,701</u>	<u>56,798,327</u>
Expenses						
General government	8,315,179	6,524,973	-	-	8,315,179	6,524,973
Parks and recreation	688,646	798,770	-	-	688,646	798,770
Public safety	6,570,445	5,988,138	-	-	6,570,445	5,988,138
Public works	3,978,687	4,309,831	-	-	3,978,687	4,309,831
Interest on long-term debt	1,400,832	723,657	-	-	1,400,832	723,657
Water and wastewater services	-	-	16,706,846	14,358,048	16,706,846	14,358,048
Solid waste services	-	-	2,342,657	2,036,181	2,342,657	2,036,181
Total expenses	<u>20,953,789</u>	<u>18,345,369</u>	<u>19,049,503</u>	<u>16,394,229</u>	<u>40,003,292</u>	<u>34,739,598</u>
Increase in net position						
before transfers	4,424,764	6,701,995	7,025,645	15,356,734	11,450,409	22,058,729
Transfers	1,250,790	1,739,650	(1,250,790)	(1,739,650)	-	-
Increase in Net Position	<u>5,675,554</u>	<u>8,441,645</u>	<u>5,774,855</u>	<u>13,617,084</u>	<u>11,450,409</u>	<u>22,058,729</u>
Net Position, Beginning	<u>117,410,592</u>	<u>108,968,947</u>	<u>128,077,641</u>	<u>114,460,557</u>	<u>245,488,233</u>	<u>223,429,504</u>
Net Position, Ending	<u>\$ 123,086,146</u>	<u>\$ 117,410,592</u>	<u>\$ 133,852,496</u>	<u>\$ 128,077,641</u>	<u>\$ 256,938,642</u>	<u>\$ 245,488,233</u>

**City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025**

Expense and Program Revenue – Governmental Activities



Revenue by Source - Governmental Activities



City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025

Business-Type Activities. Business-type activities increased the City's net position by \$5,774,855. Key elements of this increase are as follows:

- The City received contributions of \$3,328,439 for water, sewer and storm water infrastructure dedicated by developers.

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At September 30, 2025, the City's governmental funds reported combined fund balances of \$42,861,292, an increase of \$19,034,249, or 79.89 %. The components of total fund balances are as follows:

- Non-spendable fund balance of \$177,991, or 0.42%, consists of the amount of prepaid items that cannot be spent because it is not spendable in form.
- Restricted fund balance of \$34,766,661, or 81.11%, consists of amounts restricted by external laws or contractual obligations as follows: \$32,469,514, representing 75.75%, for construction projects; \$53,697, or 0.13%, for municipal courts; \$473,317, or 1.10%, for debt service; \$1,642,149, or 3.83%, for community development; \$127,984 or 0.30%, represents fund balances intended to be used for the fire department (\$185); and public safety (\$127,799).
- Unassigned fund balance, \$7,916,640, or 18.47%, represents residual available fund balances that have not been restricted, committed, or assigned, by management, City Council, or otherwise.

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 \$7,916,640 compared to \$8,168,170 at the end of the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 51.67% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$235,141 during the fiscal year. The net decrease was primarily determined by the following changes in both revenues and expenditures:

- Increased property tax revenue due to the increase in certified property values in FY2024 by \$375 million
- Increased sales tax revenue due to increased consumer spending
- Increase in personnel cost as a result of an across the board 6% raise increase

The Debt Service Fund recorded a net increase in fund balance of \$205,914, primarily related to property tax collections.

The major Capital Projects Fund had a \$17,462,275 increase in fund balances during the current fiscal year, which was the result of the issuance of general obligation bonds and premiums of \$20,197,734.

The Street Impact Fund had an increase in fund balance during the current year of \$2,055,773. This was mainly attributed to non-grant intergovernmental revenue received through an interlocal agreement between the City, Rockwall County, and Rockwall ISD.

City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025

Proprietary Funds. The City's proprietary fund statements provide essentially the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$28,016,640.

Net investment in capital assets increased from \$89,118,035 to \$96,936,372, a 8.77% increase from the prior year. This increase is primarily the result of developer dedicated assets received during the year.

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. The City amends the adopted budget whenever necessary to account for various changes that become known throughout the fiscal year. There were no budget amendments during the year.

Final Budget Compared to Actual Results. For the fiscal year 2024-2025, General Fund actual revenues of \$15,966,541 exceeded budgeted revenues of \$15,230,170, a positive variance of \$736,371. The main reason for this variance was greater than expected franchise tax (\$87,860), licenses and permits (\$511,299) and investment income (\$97,095) as the City continues to experience positive performance in the market. As for General Fund expenditures, the City spent \$15,321,751, a \$328,784 difference between budget expenditures of \$15,650,535. This difference is primarily driven by favorable variances in public safety and public works expenditures, offset by unfavorable variances in other departments and classifications.

Capital and Lease Asset and Debt Administration

Capital Assets. The City's investment in capital and lease assets for its governmental and business-type activities as of September 30, 2025 amounts to \$234,236,195 (net of accumulated depreciation and amortization). These assets include land, buildings, improvements, infrastructure, machinery and equipment and construction in progress. The City's governmental capital and lease assets increased by 4.75% and the business-type capital assets increased by 7.99%. Major capital asset transactions during the year include the following:

- Developer contributions of land, street, drainage, water, and wastewater infrastructure totaled \$5,315,482.
- \$1,053,033 was spent for the purchase and upfit of a new Spartan S-180 Model 3106 Fire Apparatus for the fire department.
- \$3,394,094 was reimbursed to developers for the construction of roads, parks and water infrastructure.
- \$5,381,572 was spent for continued construction of Pump Station #3.

City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025

Capital and Lease Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land	\$ 6,724,499	\$ 5,882,954	\$ 4,035,416	\$ 2,208,093	\$ 10,759,915	\$ 8,091,047
Construction in progress	7,696,021	5,022,314	18,835,213	13,453,641	26,531,234	18,475,955
Buildings and improvements	13,514,902	12,028,972	958,580	858,860	14,473,482	12,887,832
Infrastructure and systems	114,514,091	111,769,654	108,502,089	105,173,650	223,016,180	216,943,304
Machinery and equipment	3,992,249	3,307,029	2,670,299	2,597,732	6,662,548	5,904,761
Right-to-use assets	3,735,131	3,658,478	230,217	356,320	3,965,348	4,014,798
Accumulated depreciation	<u>(25,657,296)</u>	<u>(22,798,523)</u>	<u>(25,515,216)</u>	<u>(23,048,240)</u>	<u>(51,172,512)</u>	<u>(45,846,763)</u>
Total	<u>\$ 124,519,597</u>	<u>\$ 118,870,878</u>	<u>\$ 109,716,598</u>	<u>\$ 101,600,056</u>	<u>\$ 234,236,195</u>	<u>\$ 220,470,934</u>

More detailed information about the City's capital and lease assets can be found in Note 5 on pages 45-46 of this report.

Long-term Debt. As of September 30, 2025, the City had total long-term debt outstanding of \$56,003,451, an increase of \$17,719,708, or 46.29%, from the prior year. Of this amount, \$53,249,775 is debt backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2025	2024	2025	2024	2025	2024
Bonds payable	\$ 37,270,000	\$ 19,560,000	\$ 11,575,000	\$ 12,315,000	\$ 48,845,000	\$ 31,875,000
Notes payable	285,000	420,000	-	-	285,000	420,000
Premiums (discounts) on long term debt	3,484,840	2,316,985	634,935	695,449	4,119,775	3,012,434
SBITA liabilities	99,914	132,385	-	-	99,914	132,385
Lease liabilities	<u>2,524,201</u>	<u>2,684,701</u>	<u>129,561</u>	<u>159,223</u>	<u>2,653,762</u>	<u>2,843,924</u>
Totals	<u>\$ 43,663,955</u>	<u>\$ 25,114,071</u>	<u>\$ 12,339,496</u>	<u>\$ 13,169,672</u>	<u>\$ 56,003,451</u>	<u>\$ 38,283,743</u>

The City received an "AA stable" rating from Standard & Poor's Ratings Services on September 22, 2017, for general obligation refunding bonds and certificates of obligation. This rating was affirmed June 14, 2021. The City received an upgraded "A-(SPUR) /stable" rating from Standard & Poor's Rating Services on August 14, 2013, for 2011 waterworks and sanitary sewer revenue refunding and improvement bonds. This rating was affirmed April 2, 2020. The waterworks and sewer system revenue refunding bonds issued in 2020 received a rating of "A-/Stable" from Standard & Poor's Rating Service on April 2, 2020. The combination tax and revenue bonds issued in 2022 received a rating of "AA" from Standard & Poor's Rating Service on May 31, 2022. The general obligation bonds issued in 2025 received a rating of "AA" from Standard & Poor's Rating Service on February 3, 2025.

More detailed information about the City's long-term debt is presented in Note 6, on pages 47-50 of the financial statements.

**City of Fate, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2025**

Economic Factors And Next Year's Budgets And Rates

The following economic factors currently affect the City and were considered in developing the 2025-2026 fiscal year budgets.

- Water and sewer rates remained unchanged for FY 2025-2026.
- Solid waste rates increased by a weighted average of 6%
- The proposed budget for the FY 2025-2026 raised more total property taxes than last year's budget by an amount of \$1,896,599, which is a 22.64% increase from FY 2024-2025 budget. The property tax revenue to be raised from new property added to the tax roll is \$739,821 for FY 2025-2026.
- The proposed budget for the FY 2025-2026 is an increase of tax rate from FY 2024-2025 to \$0.290869 per \$100 assessed taxable valuation, which will generate \$10,271,993 in total revenue. The General Fund will receive \$7,089,982 with the Debt Service Fund receiving \$3,182,011 to service fiscal year 2026 debt.

Requests For Information

This report is designed to provide an overview of the City's finances for all those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be addressed to the City of Fate, Finance Department, 1900 C.D. Boren Parkway, Fate, Texas 75087.

Basic Financial Statements

City of Fate, Texas
Statement of Net Position
September 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows of Resources			
Cash and cash equivalents	\$ 114,605	\$ 19,729,844	\$ 19,844,449
Investments	18,815,693	7,434,606	26,250,299
Receivables (net of allowance for uncollectibles)	1,006,346	2,446,266	3,452,612
Lease receivable	230,048	-	230,048
Due from other governments	-	36,057	36,057
Prepays	177,991	56,890	234,881
Inventories	-	87,612	87,612
Restricted cash and cash equivalents	24,801,124	10,989,145	35,790,269
Net pension asset	282,357	47,885	330,242
Capital assets not being depreciated	14,420,520	22,870,629	37,291,149
Capital, lease and SBITA assets, net of accumulated depreciation/amortization	110,099,077	86,845,969	196,945,046
Total assets	<u>169,947,761</u>	<u>150,544,903</u>	<u>320,492,664</u>
Deferred Outflows of Resources			
Deferred outflows from pensions	556,273	94,338	650,611
Deferred outflows from OPEB	17,175	2,912	20,087
Deferred loss on refunding	71,694	130,556	202,250
Total deferred outflows of resources	<u>645,142</u>	<u>227,806</u>	<u>872,948</u>
Total assets and deferred outflows of resources	<u>\$ 170,592,903</u>	<u>\$ 150,772,709</u>	<u>\$ 321,365,612</u>

City of Fate, Texas
Statement of Net Position
September 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities, Deferred Inflows of Resources and Net Position			
Accounts payable	\$ 797,096	\$ 516,094	\$ 1,313,190
Accrued liabilities	559,392	126,605	685,997
Accrued interest payable	622,101	61,863	683,964
Retainage payable	43,720	892,806	936,526
Unearned revenue	2,337	-	2,337
Other liabilities	623,019	1,598,404	2,221,423
Customer deposits	-	1,231,480	1,231,480
Noncurrent liabilities:			
Due within one year			
Compensated absences	27,667	7,692	35,359
Certificates of obligation	65,000	480,000	545,000
Tax notes payable	140,000	-	140,000
Bonds payable	1,270,000	280,000	1,550,000
SBITA liability	49,087	-	49,087
Lease liability	475,737	47,248	522,985
Due in more than one year			
Compensated absences	489,950	67,838	557,788
Certificates of obligation	300,000	7,947,808	8,247,808
Tax notes payable	145,000	-	145,000
Bonds payable	39,119,840	3,502,127	42,621,967
SBITA liability	50,827	-	50,827
Lease liability	2,048,464	82,313	2,130,777
Total OPEB liability	76,792	13,022	89,814
Total liabilities	<u>46,906,029</u>	<u>16,855,300</u>	<u>63,761,329</u>
Deferred Inflows of Resources			
Deferred inflows from pensions	343,983	58,337	402,320
Deferred inflows from other post employment benefits	38,777	6,576	45,353
Lease related	217,968	-	217,968
Total deferred inflows of resources	<u>600,728</u>	<u>64,913</u>	<u>665,641</u>
Net Position			
Net investment in capital assets	90,787,652	96,936,372	187,724,024
Restricted for:			
Debt service	473,317	-	473,317
Municipal court	53,697	-	53,697
Capital projects	14,879,799	-	14,879,799
Impact fees	7,533,046	8,851,599	16,384,645
Net pension asset	282,357	47,885	330,242
Community development	1,642,149	-	1,642,149
Fire department	185	-	185
Public safety	127,799	-	127,799
Unrestricted	7,306,145	28,016,640	35,322,785
Total net position	<u>123,086,146</u>	<u>133,852,496</u>	<u>256,938,642</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 170,592,903</u>	<u>\$ 150,772,709</u>	<u>\$ 321,365,612</u>

City of Fate, Texas
Statement of Activities
Year Ended September 30, 2025

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 8,315,179	\$ 999,909	\$ 285,051	\$ -
Parks and community relations	688,646	133,751	53,141	-
Public safety	6,570,445	400,975	7,783	-
Public works	3,978,687	4,371,852	-	3,193,721
Interest and fiscal charges	1,400,832	-	-	-
Total governmental activities	<u>20,953,789</u>	<u>5,906,487</u>	<u>345,975</u>	<u>3,193,721</u>
Business-type activities:				
Water and wastewater	16,706,846	18,650,253	-	3,328,439
Solid waste	2,342,657	2,364,314	-	-
Total business-type activities	<u>19,049,503</u>	<u>21,014,567</u>	<u>-</u>	<u>3,328,439</u>
Total primary government	<u>\$ 40,003,292</u>	<u>\$ 26,921,054</u>	<u>\$ 345,975</u>	<u>\$ 6,522,160</u>
General revenues:				
Property tax				
Sales tax				
Franchise tax				
Beverage tax				
Investment earnings				
Miscellaneous				
Gain on sale of capital assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
Net position, end of year				

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (7,030,219)	\$ -	\$ (7,030,219)
(501,754)	-	(501,754)
(6,161,687)	-	(6,161,687)
3,586,886	-	3,586,886
(1,400,832)	-	(1,400,832)
<u>(11,507,606)</u>	<u>-</u>	<u>(11,507,606)</u>
-	5,271,846	5,271,846
-	21,657	21,657
<u>-</u>	<u>5,293,503</u>	<u>5,293,503</u>
<u>(11,507,606)</u>	<u>5,293,503</u>	<u>(6,214,103)</u>
8,375,591	-	8,375,591
5,136,369	-	5,136,369
816,507	-	816,507
23,924	-	23,924
1,448,934	1,694,914	3,143,848
38,840	37,228	76,068
92,205	-	92,205
1,250,790	(1,250,790)	-
<u>17,183,160</u>	<u>481,352</u>	<u>17,664,512</u>
5,675,554	5,774,855	11,450,409
<u>117,410,592</u>	<u>128,077,641</u>	<u>245,488,233</u>
<u>\$ 123,086,146</u>	<u>\$ 133,852,496</u>	<u>\$ 256,938,642</u>

City of Fate, Texas
Balance Sheet
Governmental Funds
September 30, 2025

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Street Impact Fund</u>
Assets				
Cash and cash equivalents	\$ 1,406,198	\$ 472,357	\$ 12,889,691	\$ 7,564,953
Investments	6,997,900	-	11,817,793	-
Receivables (net of allowance for uncollectibles)	769,572	10,979	-	-
Lease receivable	230,048	-	-	-
Prepays	169,991	-	-	-
	<u>169,991</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 9,573,709</u>	<u>\$ 483,336</u>	<u>\$ 24,707,484</u>	<u>\$ 7,564,953</u>
Liabilities				
Accounts payable	\$ 578,847	\$ 400	\$ 152,633	\$ 31,907
Accrued liabilities	274,007	-	-	-
Retainage payable	-	-	43,720	-
Other liabilities	384,892	-	-	-
	<u>384,892</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,237,746</u>	<u>400</u>	<u>196,353</u>	<u>31,907</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	31,364	9,619	-	-
Lease related	217,968	-	-	-
	<u>217,968</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>249,332</u>	<u>9,619</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable - prepaid items	169,991	-	-	-
Restricted for:				
Capital projects	-	-	24,511,131	7,533,046
Municipal court	-	-	-	-
Debt service	-	473,317	-	-
Community development	-	-	-	-
Fire department	-	-	-	-
Public safety	-	-	-	-
Unassigned	7,916,640	-	-	-
	<u>7,916,640</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>8,086,631</u>	<u>473,317</u>	<u>24,511,131</u>	<u>7,533,046</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,573,709</u>	<u>\$ 483,336</u>	<u>\$ 24,707,484</u>	<u>\$ 7,564,953</u>

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,582,530	\$ 24,915,729
-	18,815,693
225,795	1,006,346
-	230,048
<u>8,000</u>	<u>177,991</u>
<u>\$ 2,816,325</u>	<u>\$ 45,145,807</u>
\$ 33,309	\$ 797,096
-	274,007
-	43,720
<u>525,849</u>	<u>910,741</u>
<u>559,158</u>	<u>2,025,564</u>
-	40,983
-	<u>217,968</u>
-	<u>258,951</u>
8,000	177,991
425,337	32,469,514
53,697	53,697
-	473,317
1,642,149	1,642,149
185	185
127,799	127,799
-	<u>7,916,640</u>
<u>2,257,167</u>	<u>42,861,292</u>
<u>\$ 2,816,325</u>	<u>\$ 45,145,807</u>

This Page Intentionally Left Blank

City of Fate, Texas
Reconciliation of the Balance Sheet - Governmental Funds
to the Government-Wide Statement of Net Position
September 30, 2025

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

Total fund balance – governmental funds	\$	42,861,292
Capital, lease and SBITA assets \$150,176,893, net of accumulated depreciation and amortization of \$25,657,296, used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements.		124,519,597
Other long-term assets that are not available to pay for current period expenditures and, therefore, are not reported in the funds.		
Net pension asset		282,357
Differences between expected and actual experiences, assumption changes, net differences between projected and actual earnings, and contributions subsequent to the measurement date for the postretirement benefits (pension and OPEB) are recognized as deferred outflows of resources and deferred inflows of resources on the statement of net position.		
Deferred outflows – pension related	556,273	
Deferred outflows – OPEB related	17,175	
Deferred inflows – pension related	(343,983)	
Deferred inflows – OPEB related	(38,777)	
Total deferred outflows and inflows related to postemployment benefits		190,688
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.		
Certificates of obligation	(365,000)	
Tax notes payable	(285,000)	
Bonds payable, net	(40,389,840)	
Leases	(2,524,201)	
SBITAs	(99,914)	
Compensated absences	(517,617)	
Accrued interest payable	(622,101)	
Total OPEB liability	(76,792)	
Total long-term liabilities		(44,880,465)
Revenues in the statements of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.		40,983
Governmental funds report the effect of refundings and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Deferred amount on refunding		71,694
Net position of governmental activities	\$	123,086,146

City of Fate, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2025

	General	Debt Service	Capital Projects	Street Impact Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Property	\$ 6,405,028	\$ 1,963,396	\$ -	\$ -	\$ -	\$ 8,368,424
Franchise	816,507	-	-	-	-	816,507
Sales	3,874,747	-	-	-	1,261,622	5,136,369
Beverage	23,924	-	-	-	-	23,924
Fines and forfeitures	349,311	-	-	-	26,811	376,122
Licenses and permits	2,750,604	-	-	-	47,152	2,797,756
Charges for services	1,030,402	-	-	-	195,643	1,226,045
Impact fees	-	-	-	1,570,513	-	1,570,513
Donations	-	-	-	-	53,141	53,141
Intergovernmental	285,051	-	-	1,121,516	28,996	1,435,563
Investment income	397,095	33,492	608,439	305,453	104,455	1,448,934
Miscellaneous	33,872	4,968	-	-	-	38,840
Total revenues	15,966,541	2,001,856	608,439	2,997,482	1,717,820	23,292,138
Expenditures						
Current:						
General government	6,761,684	-	-	-	574,465	7,336,149
Parks and community relations	140,864	-	-	-	254,568	395,432
Public safety	6,369,753	-	-	-	69,692	6,439,445
Public works	565,436	-	1,082,583	188,702	-	1,836,721
Debt service:						
Principal	516,032	1,255,000	-	-	-	1,771,032
Interest	164,391	690,942	-	-	-	855,333
Bond issuance costs	-	-	197,734	-	-	197,734
Capital outlay	803,591	-	5,088,581	753,007	644,654	7,289,833
Total expenditures	15,321,751	1,945,942	6,368,898	941,709	1,543,379	26,121,679
Excess (Deficiency) of Revenues Over (Under) Expenditures	644,790	55,914	(5,760,459)	2,055,773	174,441	(2,829,541)
Other Financing Sources (Uses)						
Sales of general capital assets	92,205	-	-	-	-	92,205
Proceeds from issuance of debt	-	-	18,830,000	-	-	18,830,000
Premiums on bonds issued	-	-	1,367,734	-	-	1,367,734
Leases/SBITAs issued	323,061	-	-	-	-	323,061
Transfers in	2,409,457	150,000	3,025,000	-	15,000	5,599,457
Transfers out	(3,704,654)	-	-	-	(644,013)	(4,348,667)
Total other financing sources (uses)	(879,931)	150,000	23,222,734	-	(629,013)	21,863,790
Net Change in Fund Balances	(235,141)	205,914	17,462,275	2,055,773	(454,572)	19,034,249
Fund Balances, Beginning of Year	8,321,772	267,403	7,048,856	5,477,273	2,711,739	23,827,043
Fund Balances, End of Year	\$ 8,086,631	\$ 473,317	\$ 24,511,131	\$ 7,533,046	\$ 2,257,167	\$ 42,861,292

City of Fate, Texas
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Government-Wide
Statement of Activities
For the Year Ended September 30, 2025

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

Net change in fund balances – total governmental funds	\$	19,034,249
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$6,919,949 and leases and SBITAs of \$369,884 exceeded depreciation of \$2,997,826 and amortization of \$630,331 in the current year.</p>		
		3,661,676
<p>Certain revenues not recognized in fund financial statements on the modified accrual basis are recognized in the government-wide financial statements on the accrual basis.</p>		
		7,167
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.</p>		
Donation of capital assets		1,987,043
<p>Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and other debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>		
Issuance of long-term debt	(18,830,000)	
Premium on issuance of debt	(1,367,734)	
Leases/SBITAs issued	(323,061)	
Amortization of bond premiums and discounts	199,879	
Amortization of deferred amounts of refunding	(14,338)	
Principal payments on leases/SBITAs	516,032	
Principal paid on long-term debt	<u>1,255,000</u>	
		(18,564,222)
<p>Some expenses reported in the statement of activities (require) do not require the use of current financial resources and, therefore, are (are not) reported as expenditures in the governmental funds. This is the net change for these items in the current fiscal year.</p>		
Accrued interest on long-term debt	(533,306)	
Compensated absences	(20,121)	
Changes in pension liabilities and related deferred outflows and inflows of resources	115,383	
Changes in OPEB liabilities and related deferred outflows and inflows of resources	<u>(12,315)</u>	
		<u>(450,359)</u>
Change in net position of governmental activities	\$	<u><u>5,675,554</u></u>

City of Fate, Texas
Statement of Net Position
Proprietary Funds
September 30, 2025

	Water and Sewer Fund	Solid Waste Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 19,560,620	\$ 169,224	\$ 19,729,844
Investments	7,434,606	-	7,434,606
Receivables (net of allowance for doubtful accounts)	2,142,618	303,648	2,446,266
Due from other governments	36,057	-	36,057
Prepaid expenses	46,517	10,373	56,890
Inventory	87,612	-	87,612
Total current assets	<u>29,308,030</u>	<u>483,245</u>	<u>29,791,275</u>
Noncurrent assets			
Restricted cash and cash equivalents	10,989,145	-	10,989,145
Net pension asset	47,885	-	47,885
Capital assets			
Land	4,035,416	-	4,035,416
Construction in progress	18,835,213	-	18,835,213
Infrastructure	108,502,089	-	108,502,089
Buildings and improvements	958,580	-	958,580
Machinery and equipment	2,670,299	-	2,670,299
Right-to-use assets	230,217	-	230,217
Accumulated depreciation/amortization	<u>(25,515,216)</u>	<u>-</u>	<u>(25,515,216)</u>
Total noncurrent assets	<u>120,753,628</u>	<u>-</u>	<u>120,753,628</u>
Total assets	<u>150,061,658</u>	<u>483,245</u>	<u>150,544,903</u>
Deferred Outflows of Resources			
Deferred outflows of resources - Pension	94,338	-	94,338
Deferred outflows of resources - OPEB	2,912	-	2,912
Deferred loss on refunding	<u>130,556</u>	<u>-</u>	<u>130,556</u>
Total deferred outflows of resources	<u>\$ 227,806</u>	<u>\$ -</u>	<u>\$ 227,806</u>

City of Fate, Texas
Statement of Net Position
Proprietary Funds
September 30, 2025

	Water and Sewer Fund	Solid Waste Fund	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 308,822	\$ 207,272	\$ 516,094
Accrued liabilities	123,909	2,696	126,605
Retainage payable	892,806	-	892,806
Accrued interest payable	61,863	-	61,863
Other liabilities	1,449,386	149,018	1,598,404
Customer deposits	1,231,480	-	1,231,480
Compensated absences	7,692	-	7,692
Certificates of obligation - current	480,000	-	480,000
Bonds payable - current	280,000	-	280,000
SBITA/lease liability - current	47,248	-	47,248
Total current liabilities	<u>4,883,206</u>	<u>358,986</u>	<u>5,242,192</u>
Noncurrent liabilities			
Compensated absences	67,449	389	67,838
Certificates of obligation, net	7,947,808	-	7,947,808
Bonds payable, net	3,502,127	-	3,502,127
SBITA/lease liability	82,313	-	82,313
Total OPEB liability	<u>13,022</u>	<u>-</u>	<u>13,022</u>
Total noncurrent liabilities	<u>11,612,719</u>	<u>389</u>	<u>11,613,108</u>
Total liabilities	<u>16,495,925</u>	<u>359,375</u>	<u>16,855,300</u>
Deferred Inflows of Resources			
Deferred inflows of resources - Pension	58,337	-	58,337
Deferred inflows of resources - OPEB	6,576	-	6,576
Total deferred inflows of resources	<u>64,913</u>	<u>-</u>	<u>64,913</u>
Net Position			
Net invested in capital assets	96,936,372	-	96,936,372
Restricted for:			
Impact fees	8,851,599	-	8,851,599
Net pension asset	47,885	-	47,885
Unrestricted	<u>27,892,770</u>	<u>123,870</u>	<u>28,016,640</u>
Total net position	<u>\$ 133,728,626</u>	<u>\$ 123,870</u>	<u>\$ 133,852,496</u>

This Page Intentionally Left Blank

City of Fate, Texas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended September 30, 2025

	Water and Sewer Fund	Solid Waste Fund	Total
Operating Revenues			
Charges for services	\$ 16,543,955	\$ 2,364,314	\$ 18,908,269
Impact fees	2,106,298	-	2,106,298
Miscellaneous	36,285	943	37,228
Total operating revenues	<u>18,686,538</u>	<u>2,365,257</u>	<u>21,051,795</u>
Operating Expenses			
Personnel services	1,662,507	48,365	1,710,872
Supplies and materials	338,788	6,536	345,324
Maintenance and repair	219,450	73	219,523
Contractual services	11,515,883	2,287,683	13,803,566
Depreciation	2,665,251	-	2,665,251
Total operating expenses	<u>16,401,879</u>	<u>2,342,657</u>	<u>18,744,536</u>
Operating Income	<u>2,284,659</u>	<u>22,600</u>	<u>2,307,259</u>
Nonoperating Revenues (Expenses)			
Investment earnings	1,687,414	7,500	1,694,914
Interest expense	(304,967)	-	(304,967)
Total nonoperating revenues (expenses)	<u>1,382,447</u>	<u>7,500</u>	<u>1,389,947</u>
Income Before Capital Contributions and Transfers	<u>3,667,106</u>	<u>30,100</u>	<u>3,697,206</u>
Capital contributions	3,328,439	-	3,328,439
Transfers in	664,654	-	664,654
Transfers out	(1,915,444)	-	(1,915,444)
Change in Net Position	<u>5,744,755</u>	<u>30,100</u>	<u>5,774,855</u>
Net Position, Beginning of Year	<u>127,983,871</u>	<u>93,770</u>	<u>128,077,641</u>
Net Position, End of Year	<u>\$ 133,728,626</u>	<u>\$ 123,870</u>	<u>\$ 133,852,496</u>

City of Fate, Texas
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2025

	Water and Sewer Fund	Solid Waste Fund	Total
Operating Activities			
Receipts from customers	\$ 19,569,090	\$ 2,339,593	\$ 21,908,683
Payment of customer deposits	(10,075)	-	(10,075)
Payments to suppliers for goods and services	(11,378,085)	(2,255,939)	(13,634,024)
Payments to employees for salaries and benefits	(1,665,350)	(47,976)	(1,713,326)
	<u>6,515,580</u>	<u>35,678</u>	<u>6,551,258</u>
Net cash provided by operating activities			
Noncapital and Related Financing Activities			
Transfers from other funds	664,654	-	664,654
Transfers to other funds	(1,915,444)	-	(1,915,444)
	<u>(1,250,790)</u>	<u>-</u>	<u>(1,250,790)</u>
Net cash used in operating activities			
Capital and Related Financing Activities			
Acquisition and construction of capital assets	(7,275,632)	-	(7,275,632)
Principal paid on capital debt	(740,000)	-	(740,000)
Principal paid on leases	(105,432)	-	(105,432)
Interest and fiscal charges paid on capital debt	(357,419)	-	(357,419)
	<u>(8,478,483)</u>	<u>-</u>	<u>(8,478,483)</u>
Net cash used in capital and related financing activities			
Investing Activities			
Interest on investments	1,687,414	7,500	1,694,914
Purchase of securities	1,885,739	-	1,885,739
	<u>3,573,153</u>	<u>7,500</u>	<u>3,580,653</u>
Net cash provided by investing activities			
Net increase in cash and cash equivalents	359,460	43,178	402,638
Cash and Cash Equivalents, Beginning of Year (Including \$13,500,340 Reported as Restricted Assets)	<u>30,190,305</u>	<u>126,046</u>	<u>30,316,351</u>
Cash and Cash Equivalents, End of Year (Including \$10,989,145 Reported as Restricted Assets)	<u>\$ 30,549,765</u>	<u>\$ 169,224</u>	<u>\$ 30,718,989</u>

City of Fate, Texas
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2025

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities

Operating income	\$ 2,284,659	\$ 22,600	\$ 2,307,259
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,665,251	-	2,665,251
(Increases) decreases in assets and deferred outflows of resources:			
Accounts receivable and unbilled revenue	513,168	(25,664)	487,504
Due from other governments	369,384	-	369,384
Inventories	(15,765)	-	(15,765)
Prepaid expenses	(26,766)	(10,373)	(37,139)
Net pension asset	(47,885)	-	(47,885)
Deferred outflows of resources	7,780	-	7,780
Increases (decreases) in liabilities and deferred inflows of resources:			
Accounts payable	(577,359)	28,559	(548,800)
Accrued liabilities	1,315,926	20,167	1,336,093
Customer deposits	(10,075)	-	(10,075)
Compensated absences	17,669	389	18,058
Net pension liability	(27,734)	-	(27,734)
OPEB liability	(401)	-	(401)
Deferred inflows of resources	47,728	-	47,728
	<u>4,230,921</u>	<u>13,078</u>	<u>4,243,999</u>
Total adjustments			
Net cash provided by operating activities	<u>\$ 6,515,580</u>	<u>\$ 35,678</u>	<u>\$ 6,551,258</u>

Schedule of Noncash Capital and Related Financing Activities

Contributions of capital assets	\$ 3,328,439	\$ -	\$ 3,328,439
Purchase of capital asset with accounts payable	101,952	-	101,952
Initiation of lease	75,770	-	75,770

This Page Intentionally Left Blank

Notes to Basic Financial Statements

This Page Intentionally Left Blank

Note 1. Summary of Significant Accounting Policies

The City of Fate, Texas (City) is a municipal corporation governed by an elected mayor and a six-member council and provides the following services to the citizens of the City as authorized by its charter: public safety (police and fire), public works, parks and recreation, public services, water, sewer, and solid waste utilities, and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Boards (GASB) and the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments – Audit and Accounting Guide*. The more significant accounting policies of the City are described below.

Description of Government-Wide Financial Statements

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

Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member Governing Council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be 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.

Blended component units. The Fate Municipal Development District and The Fate Public Facility Corporation are blended component units of the City. Both of these entities' Boards are substantively the same as the City Council. Additionally, as the City is considered a primary government for financial reporting purposes, their activities are not considered a part of any other governmental or other type of reporting entity. Management of the City has operational responsibility for these two component units. In addition, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any organizations that fit these criteria.

Basis of Presentation

Government-Wide Financial Statements

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

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function category (Police, Fire, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operations requirements of a particular function or program, and c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function) is normally covered by general revenue (property and sales taxes, franchise taxes, and interest income).

Fund Financial Statements

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

The City reports the following major governmental funds:

The *General Fund* is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other funds are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The *Debt Service Fund* is used to account for the resources accumulated and payments made for principal and interest on long-term governmental funds debt. This fund is designated as major by the City.

The *Capital Projects Fund* is used to account for the City's funds received for capital projects and the expenditures associated with the projects.

The *Street Impact Fund* is used to account for the collection of impact fees and eligible expenditures.

The focus of proprietary funds measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to businesses.

The City reports the following major business-type funds:

The *Water and Sewer Fund* is used to account for the operations of the water and wastewater system.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

The *Solid Waste Fund* is used to account for the operations of solid waste collection. This fund is designated as major by the City.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds. Further, certain activity occurs during the year involving transfers of resources between funds reported at gross amounts as transfers in/out. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Measurement Focus, Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they have been earned and 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 the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service principal and interest expenditures on general long-term debt, as well as expenditures related to compensated absences, claims and judgments, and postemployment benefits, are recognized later based on specific accounting rules applicable to each, generally when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and financing through 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.

Budgetary Policy and Control

The City adopts an “appropriated budget” of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data:

- No later than the fifteenth day of each August, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- According to the City Charter, total estimated expenditures of the General Fund, Debt Service Fund, Capital Projects Fund and Special Revenue Funds, except for Williamsburg PID, Williamsburg East PID Funds, and Monterra PID Funds, are to be budgeted.
- The level of budgetary control is the fund-level budget. When budget amendments among funds are necessary, these must be approved by the City Council.

Budgets for the General Fund, Debt Service Fund, Capital Projects Fund and Special Revenue Funds, except for Williamsburg PID, Williamsburg East PID Funds and Monterra PID Funds, are legally adopted on a on a basis consistent with generally accepted accounting principles.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. At year-end, encumbrances are canceled or appropriated as part of the following year budget.

Assets, Liabilities, Deferred Outflow/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The City’s cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the City’s proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments held by the City that have a remaining maturity of greater than one year from purchase are carried at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

All investments are recorded at fair value based on quoted market prices, except for certificates of deposits, investment pools, and government agencies, which are recorded at amortized cost or net asset value (NAV). Amortized cost and NAV approximate fair value.

Prepaid Items and Inventories

Prepaid balances are for payments made by the City for which benefits extend beyond the fiscal year and the reserve for prepaid items have been recognized to signify that a portion of the fund balance is not available for other subsequent expenditures. Prepaid items are recorded using the consumption method.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Inventories on the statement of net position are valued at cost on a first-in, first-out basis. Inventory items are recorded as expenditures when they are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Restricted assets in the governmental funds represent cash and cash equivalents and investments set aside for capital projects, impact fees, debt service, community development, parks development and municipal court use. Restricted assets in the proprietary fund represent cash and cash equivalents and investments set aside for capital projects, customer deposits, and impact fees.

Impact fees are the capital recovery fees that are, by law, restricted to the project these funds must be used to support.

Customer's deposits received for water and sewer services are, by law, to be considered restricted assets. These activities are included in the proprietary fund.

Lease Receivable

The City is a lessor for noncancellable leases related to cellular towers and building space. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines: (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

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

Capital, Lease and Subscription Assets

Capital, lease, and subscription assets, which include land, buildings, equipment, software, and improvements, purchased, or acquired, are reported in the applicable governmental or business-type activities column in the government-wide financial statements and proprietary fund types. The City defines capital and lease assets as assets with an initial individual cost of more than \$10,000 and an estimated

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Land and construction in progress are not depreciated. The other tangible and intangible property, plant, equipment, and infrastructure of the primary government are depreciated/amortized using the straight-line method over the following estimated useful lives:

Capital Asset Class	Lives (in Years)
Infrastructure	15-50
Buildings	45
Improvements	15-20
Machinery and equipment	5-10
Vehicles	3-7

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/reduction of net pension liability or total OPEB liability) until then. The City has the following items that qualify for reporting in this category:

- Pension contributions after measurement date – These contributions are deferred and recognized as a reduction of the pension liability or increase in pension asset in the subsequent fiscal year-end.
- Difference in expected and actual economic experience – pension & OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension & OPEB expense beginning with the period in which it is incurred.
- Difference in assumption changes – pension & OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the pension & OPEB plan and recorded as a component of pension & OPEB expense beginning with the period in which it is incurred.
- 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.

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/increase of net pension liability or total OPEB liability) until that time. The City has the following items that qualify for reporting in this category:

- Difference in expected and actual experience – pension and OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the pension and OPEB plan and recorded as a component of pension and OPEB expense beginning with the period in which it is incurred.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

- Difference in projected and actual earnings on pension plan investments – This difference is deferred and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.
- Difference in assumption changes – OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the period in which it is incurred.
- Unavailable revenue – This arises only under a modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes.
- Leases – Represents the initial value of the lease receivable under GASB 87 systematically reduced and recognized as lease revenue over the term of the lease. This deferred inflow is recorded at both the fund level and government-wide financial statements.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused paid time off (PTO) and overtime not paid (compensation time). The City's policy is that leave earned in the current period is used before leave earned in prior periods. A liability is accrued for compensated absences as the benefits are earned if the leave is more likely than not to be used for time off or settled in cash. Compensated absences liabilities are computed using the regular pay and termination pay rates, as applicable, in effect at the statement of net position date, plus an additional amount for salary-related payments such as social security and Medicare taxes computed using rates in effect at that date. Upon separation, any accumulated unused PTO and compensation time will be paid to the employee up to the amount available at time of separation, provided the employee separated from the City in good standing.

Lease Liability

The City is a lessee for noncancellable leases of buildings and vehicles. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial individual value of \$10,000 or more.

At the commencement of a lease, the City 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 for lease term, whichever is shorter.

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. 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.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

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

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources of governmental and business-type activities and proprietary funds. The government-wide and proprietary fund financials utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- Net Investment in Capital Assets – This amount consists of capital, lease and SBITA assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt, that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position – This amount is restricted by external parties such as creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

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

Fund Balance Policies and Classifications

In the fund financial statements, governmental funds report fund balance into classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purpose for which amount in those funds can be spent. The classifications of fund balance are Nonspendable, Restricted, Committed, Assigned, and Unassigned.

- Nonspendable: 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 remain intact.
- 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 and 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 formal action (ordinance) by the highest level of decision-making authority, namely the City Council, prior to the end of the reporting period. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of formal action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. At September 30, 2025, the City has no committed fund balance.
- Assigned: This classification includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City Manager. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City management based on the City Council’s direction. At September 30, 2025, the City has no assigned fund balance.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

- **Unassigned:** This classification represents the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance. In other governmental funds, it is not appropriate to report a positive unassigned fund balance. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned, to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

When both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance) are available for specified expenditures, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unassigned fund balance. Further, when the components of unassigned fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The City strives to maintain a minimum reserve balance for the General Fund equal to 120 days of budgeted expenditures. As of September 30, 2025, the City was in compliance with this policy, as unassigned fund balance in the General Fund was equal to 51% of budgeted expenditures.

Interfund Activity

Interfund activity results from loans, services provided, reimbursements, or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and transfers out are netted and presented as a single "Transfers" line on the government-wide statements of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the City's management to make estimates and assumptions that affect reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results may differ from those estimates.

Program and General Revenues

Amounts reported as program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment.

All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Pensions

For purposes of measuring the net pension asset, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

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.

Defined Benefit Other Postemployment Benefits

The City participates in the Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF), which is an optional single-employer defined benefit life insurance plan that is administered by TMRS. It provides death benefits to active and, if elected, retired employees of participating employers. Contribution rates are determined annually for each participating municipality as a percentage of that City's covered payroll. The death benefit for retirees is considered another postemployment benefit (OPEB). The OPEB program is an unfunded trust because the SDBF trust covers both actives and retirees and is not segregated. This includes for purposes of measuring the Total OPEB Liability, deferred inflows, and outflows of resources, and OPEB expense. Benefit payments are recognized when due and payable in accordance with the benefit terms.

Future Changes in Accounting Principles

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 for decision making and assessing a government's accountability. This statement also addresses certain application issues.

The City expects to first apply GASB 103 during the year ending September 30, 2026. The impact of applying the Statement has not been determined.

GASB Statement No. 104, Disclosure of Certain Capital Assets

This statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this statement requires intangible assets other than those three types to be disclosed separately by major class.

The City expects to first apply GASB 104 during the year ending September 30, 2026. The impact of applying this Statement has not 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 the application and better meeting the information needs of financial statement users.

The City expects to first apply GASB 105 during the year ending September 30, 2027. The impact of applying this Statement has not been determined.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Note 2. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository banks dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash and Cash Equivalents

At September 30, 2025, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings account included in temporary investments) was \$55,634,718 and the bank balances totaled \$55,907,820.

Cash and investments as of September 30, 2025 consist of and are classified in the accompanying financial statements as follows:

Statement of Net Position

Primary government:

Cash and cash equivalents	\$ 19,844,449
Investments	26,250,299
Restricted assets – cash and cash equivalents	<u>35,790,269</u>

Total cash, cash equivalents, and investments	<u><u>\$ 81,885,017</u></u>
---	-----------------------------

Governmental – restricted cash

Debt service	\$ 473,317
Municipal court	53,697
Capital projects	14,879,799
Impact fees	7,533,046
Community development	1,642,149
Fire department	185
Public safety	<u>127,799</u>

Total governmental	<u><u>\$ 24,709,992</u></u>
--------------------	-----------------------------

Business-type – restricted cash

Impact fees	\$ 8,851,599
Capital projects	906,066
Customer deposits	<u>1,231,480</u>

Total business-type	<u>10,989,145</u>
---------------------	-------------------

Total restricted cash	<u><u>\$ 35,699,137</u></u>
-----------------------	-----------------------------

Custodial Credit Risk

There is risk that, in the event of a bank failure, the City's deposits may not be returned. Both the City's investment policy and the Texas Public Funds Investment Act requires that all deposits of the City that exceed the FDIC coverage levels are collateralized with securities held by a third-party custodian in the City's name. As of September 30, 2025, the value of the City's deposits and investments not insured through the FDIC has been fully collateralized and meets the requirements of the City's policy and state statutes.

Investments

The City's investment policies are governed by state statutes. The City's investment policies further limit state statutes such that eligible investments include the following:

1. Obligations of the United States or its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies and instrumentalities.
3. Collateralized mortgage obligations directly issued by a federal agency instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentalities of the United States.
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by the state or the United States of America or its agencies and instrumentalities.
5. Obligations of states, agencies, counties, cities, and other political subdivisions or any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent.
6. Pooled investments with other government entities as authorized by the *Interlocal Cooperation Act*.

Investment Pools

During the year, the City invested in multiple public fund investment pools, including TexPool and Texas CLASS. Each pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds. The City can liquidate funds daily without penalty, and there is no unfunded commitment.

Following the criteria for GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, TexPool uses amortized cost and Texas CLASS uses NAV to value portfolio assets. As is legally permissible for municipalities and school districts in the state, TexPool and Tex CLASS invest in a high-quality portfolio of short-term investments. Investments in the pools are considered to be cash equivalents when preparing these financial statements.

Interest Rate Risk

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

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

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. The City’s investment policy requires that investment pools be continuously rated no lower than “AAA” or “AAA-m” or an equivalent rating by at least one nationally recognized rating service.

Fair Value of Investments

As of September 30, 2025, the City had the following investments:

Investment Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Governmental obligations	\$ 11,233,749	\$ 2,952,086	\$ 8,281,663	\$ -
U.S Treasury	15,016,550	15,016,550	-	-
	<u>\$ 26,250,299</u>	<u>\$ 17,968,636</u>	<u>\$ 8,281,663</u>	<u>\$ -</u>

The City categorizes its fair value measurements within the fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1** Quoted prices for identical investments in active markets
- Level 2** Observable inputs other than those in Level 1; such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

As of September 30, 2025, the City did not invest in any securities which are highly sensitive to interest rate fluctuations. Investments that are measured using the net asset value per share (or its equivalent) practical expedient and amortized cost have not been classified in the fair value hierarchy. Additionally, certificates of deposit are excluded from the fair value hierarchy, as their carrying value amounts approximate fair value.

Note 3. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property tax estimated to be collectible within 60 days following the close of the fiscal year has been recognized as revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. If a city with a population of less than 30,000 adopts a tax rate that exceeds the greater of the city’s voter-approval tax rate or the de minimis tax rate, the city council must order an election to approve the adopted tax rate for the November uniform election date.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation. For the fiscal year September 30, 2025, the City had a tax rate of \$0.259250 per \$100 assessed valuation based upon the maximum rates described above. Allocations of property tax levy by purpose for 2025 and 2024 are as follows (amounts per \$100 assessed value):

Fund Type	2025	2024
General Fund	\$ 0.19840	\$ 0.20233
Debt Service Fund	<u>0.06085</u>	<u>0.06188</u>
Total	<u>\$ 0.25925</u>	<u>\$ 0.26421</u>

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Note 4. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for doubtful accounts) line for certain funds and aggregated columns. The detail of receivables for the general fund, debt service fund, nonmajor governmental funds, water and sewer fund, and solid waste fund including the applicable allowances for uncollectible accounts, as of September 30, 2025, are as follows:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Water and Sewer Fund	Solid Waste Fund	Total
Receivables:						
Ad valorem taxes	\$ 43,920	\$ 13,470	\$ -	\$ -	\$ -	57,390
Sales taxes	695,752	-	225,772	-	-	921,524
Court fines	177,688	-	-	-	-	177,688
Charges for services	7,232	-	-	2,241,579	319,184	2,567,995
Other	12,791	-	23	-	-	12,814
Gross receivables	937,383	13,470	225,795	2,241,579	319,184	3,737,411
Less: allowance for doubtful accounts	171,982	2,491	-	98,961	15,536	288,970
Net receivables	<u>\$ 765,401</u>	<u>\$ 10,979</u>	<u>\$ 225,795</u>	<u>\$ 2,142,618</u>	<u>\$ 303,648</u>	<u>\$ 3,448,441</u>

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Note 5. Capital, Lease and Subscription Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 5,882,954	\$ 841,545	\$ -	\$ -	\$ 6,724,499
Construction in progress	5,022,314	3,850,603	-	(1,176,896)	7,696,021
Total capital assets not being depreciated	<u>10,905,268</u>	<u>4,692,148</u>	<u>-</u>	<u>(1,176,896)</u>	<u>14,420,520</u>
Capital, leased, and subscription assets being depreciated and amortized:					
Buildings and improvements	12,028,972	309,034	-	1,176,896	13,514,902
Right-to-use leased buildings	1,939,025	-	-	-	1,939,025
Infrastructure	111,769,654	2,744,437	-	-	114,514,091
Machinery and equipment	3,307,029	1,161,373	(476,153)	-	3,992,249
SBITA asset	331,342	15,449	(110,521)	-	236,270
Right-to-use leased equipment	44,568	104,844	-	-	149,412
Right-to-use leased vehicles	1,343,543	249,591	(182,710)	-	1,410,424
Totals capital, leased, and subscription assets being depreciated	<u>130,764,133</u>	<u>4,584,728</u>	<u>(769,384)</u>	<u>1,176,896</u>	<u>135,756,373</u>
Less accumulated depreciation and amortization for:					
Buildings and improvements	(2,362,920)	(302,586)	-	-	(2,665,506)
Right-to-use leased buildings	(106,067)	(206,605)	-	-	(312,672)
Infrastructure	(17,500,078)	(2,481,329)	-	-	(19,981,407)
Machinery and equipment	(2,143,318)	(213,911)	476,153	-	(1,881,076)
SBITA asset	(142,546)	(65,379)	110,521	-	(97,404)
Right-to-use leased equipment	(19,313)	(26,388)	-	-	(45,701)
Right-to-use leased vehicles	(524,281)	(331,959)	182,710	-	(673,530)
Total accumulated depreciation and amortization	<u>(22,798,523)</u>	<u>(3,628,157)</u>	<u>769,384</u>	<u>-</u>	<u>(25,657,296)</u>
Total capital, leased, and subscription assets being depreciated/amortized, net	<u>\$ 118,870,878</u>	<u>\$ 5,648,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,519,597</u>

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities					
Capital assets not being depreciated:					
Land	\$ 2,208,093	\$ 1,827,323	\$ -	\$ -	\$ 4,035,416
Construction in progress	<u>13,453,641</u>	<u>5,381,572</u>	<u>-</u>	<u>-</u>	<u>18,835,213</u>
Total capital assets not being depreciated	<u>15,661,734</u>	<u>7,208,895</u>	<u>-</u>	<u>-</u>	<u>22,870,629</u>
Capital and leased assets being depreciated and amortized:					
Distribution system	105,173,650	3,328,439	-	-	108,502,089
Buildings and improvements	858,860	99,720	-	-	958,580
Machinery and equipment	2,597,732	72,567	-	-	2,670,299
SBITA asset	10,724	-	(10,724)	-	-
Right-to-use leased vehicles	<u>345,596</u>	<u>72,172</u>	<u>(187,551)</u>	<u>-</u>	<u>230,217</u>
Totals capital assets being depreciated	<u>108,986,562</u>	<u>3,572,898</u>	<u>(198,275)</u>	<u>-</u>	<u>112,361,185</u>
Less accumulated depreciation and amortization for:					
Distribution system	(20,848,705)	(2,301,178)	-	-	(23,149,883)
Buildings and improvements	(132,874)	(18,944)	-	-	(151,818)
Machinery and equipment	(1,865,792)	(239,619)	-	-	(2,105,411)
SBITA asset	(8,042)	(2,682)	10,724	-	-
Right-to-use leased vehicles	<u>(192,827)</u>	<u>(102,828)</u>	<u>187,551</u>	<u>-</u>	<u>(108,104)</u>
Total accumulated depreciation and amortization	<u>(23,048,240)</u>	<u>(2,665,251)</u>	<u>198,275</u>	<u>-</u>	<u>(25,515,216)</u>
Total capital assets being depreciated, net	<u>\$ 101,600,056</u>	<u>\$ 8,116,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>109,716,598</u>

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

Governmental Activities

General government	\$ 492,402
Parks and recreation	354,866
Public safety	188,701
Public works	<u>2,592,188</u>

Total depreciation and amortization expense – governmental activities \$ 3,628,157

Business-Type Activities

Water and Sewer	<u>\$ 2,665,251</u>
-----------------	---------------------

Total depreciation and amortization expense – business-type activities \$ 2,665,251

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Note 6. Long-Term Debt

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2025, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Certificates of obligation	\$ 430,000	\$ -	\$ (65,000)	\$ 365,000	\$ 65,000
Refunding bonds	4,560,000	-	(435,000)	4,125,000	445,000
General obligation bonds	14,570,000	18,830,000	(620,000)	32,780,000	825,000
Tax notes payable	420,000	-	(135,000)	285,000	140,000
Total	19,980,000	18,830,000	(1,255,000)	37,555,000	1,475,000
Premiums	2,316,985	1,367,734	(199,879)	3,484,840	-
Total bonds payable	22,296,985	20,197,734	(1,454,879)	41,039,840	1,475,000
Lease liabilities	2,684,701	312,937	(473,437)	2,524,201	475,737
SBITA liability	132,385	10,124	(42,595)	99,914	49,087
Compensated absences*	497,496	20,121	-	517,617	27,667
Governmental activity long-term liability	<u>\$ 25,611,567</u>	<u>\$ 20,540,916</u>	<u>\$ (1,970,911)</u>	<u>\$ 44,181,572</u>	<u>\$ 2,027,491</u>
Business-Type Activities					
Refunding bonds	\$ 4,270,000	\$ -	\$ (280,000)	\$ 3,990,000	\$ 280,000
Certificates of obligation	8,045,000	-	(460,000)	7,585,000	480,000
Total	12,315,000	-	(740,000)	11,575,000	760,000
Premiums	695,449	-	(60,514)	634,935	-
Total bonds payable	13,010,449	-	(800,514)	12,209,935	760,000
Lease liabilities	159,223	75,770	(105,432)	129,561	47,248
Compensated absences*	57,472	18,058	-	75,530	7,692
Total business-type activities	<u>\$ 13,227,144</u>	<u>\$ 93,828</u>	<u>\$ (905,946)</u>	<u>\$ 12,415,026</u>	<u>\$ 814,940</u>

*The change in accrued compensated absences is presented as a net amount in accordance with the adoption of GASB No. 101, *Compensated Absences*.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Changes in Governmental Long-Term Debt

Interest Rate Payable	Interest Rate Payable	Original Amounts Issued	Amounts Outstanding September 30, 2024	Issued	Retired	Amounts Outstanding September 30, 2025	Due Within One Year
2015 GO Refunding	2.89%	\$ 3,665,000	\$ 2,220,000	\$ -	\$ (185,000)	\$ 2,035,000	\$ 190,000
2015 Certificates of Obligation	2.48%	935,000	430,000	-	(65,000)	365,000	65,000
2017 GO Refunding	3.00%	3,565,000	2,340,000	-	(250,000)	2,090,000	255,000
2017 Revenue Bond	2-4%	1,265,000	420,000	-	(135,000)	285,000	140,000
2021 GO Bonds	1-2%	3,230,000	2,840,000	-	(145,000)	2,695,000	145,000
2021A GO Bonds	3-5%	12,985,000	11,730,000	-	(475,000)	11,255,000	500,000
2025 GO Bonds	4-5%	18,830,000	-	18,830,000	-	18,830,000	180,000
Total bonds payable		<u>\$ 44,475,000</u>	<u>\$ 19,980,000</u>	<u>\$ 18,830,000</u>	<u>\$ (1,255,000)</u>	<u>\$ 37,555,000</u>	<u>\$ 1,475,000</u>

A description of each debt series follows:

\$3,665,000 General Obligation Refunding Bonds, Series 2015, issued for the purpose of refunding a portion of the City's outstanding debt (2014 Tax Note which was issued for construction and equipment for a new City Hall facility).

\$935,000 Combination Tax and Surplus Revenue Certificates of Obligation Bonds, Series 2015, issued for the purpose of constructing and improving streets, roads and sidewalks including related drainage signalization, landscaping, lighting, signage and utility relocation, and the acquisition of land and interest in land for such projects; and payment of fiscal, engineering, and legal fees incurred in connection with the issuance of the Certificates.

\$3,565,000 General Obligation Refunding Bonds, Series 2017, issued for the purpose of refunding a portion of the City's outstanding debt.

\$1,265,000 Sales Tax Revenue Bonds, Series 2017, issued for the purpose of: (i) constructing, improving, extending, expanding, upgrading, and developing parks and recreation facilities, (ii) acquiring and constructing, installing, and equipping additions, improvements, extensions and equipment for the City's waterworks and sewer system, and (iii) paying legal, fiscal, engineering, and other professional fees with these projects.

\$3,230,000 General Obligation Bonds, Series 2021, issued for the purpose of: (i) designing, constructing, improving, expanding, and equipping parks, trails, and recreational facilities in the City and (ii) paying legal, fiscal, engineering, and architectural fees in connection with such projects.

\$12,985,000 General Obligation Bonds, Series 2021A, issued for the purpose of: (i) designing, constructing, reconstructing, improving, extending, expanding, upgrading, and developing streets, roads, sidewalks, thoroughfares, and related improvements in the City, including pedestrian right of ways, related drainage, utility relocation, signalization, landscaping, lighting, and signage, and (ii) paying fees in connection with such projects.

\$18,830,000 General Obligation Bonds, Series 2025, issued for the purpose of: (i) designing, constructing, improving and equipping public safety facilities, including the purchase of fire trucks and vehicles for the City's Department of Public Safety, and (ii) payment of the costs of issuance of the Bonds.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Long-term debt service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2026	\$ 1,475,000	\$ 1,923,251	\$ 3,398,251
2027	1,970,000	1,442,416	3,412,416
2028	1,900,000	1,598,043	3,498,043
2029	1,985,000	1,268,951	3,253,951
2030	2,070,000	1,178,513	3,248,513
2031-2035	10,000,000	4,589,902	14,589,902
2036-2040	10,445,000	2,685,915	13,130,915
2041-2045	7,710,000	705,996	8,415,996
Totals	<u>\$ 37,555,000</u>	<u>\$ 15,392,987</u>	<u>\$ 52,947,987</u>

Changes in Business-Type Long-Term Debt

<u>Interest Rate Payable</u>	<u>Interest Rate Payable</u>	<u>Original Amounts Issued</u>	<u>Amounts Outstanding September 30, 2024</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding September 30, 2025</u>	<u>Due Within One Year</u>
2015 Certificates of Obligation	2.48%	\$ 2,815,000	\$ 1,295,000	\$ -	\$ (195,000)	\$ 1,100,000	\$ 205,000
2020 Refunding Bonds	2.50%	5,270,000	4,270,000	-	(280,000)	3,990,000	280,000
2022 Certificates of Obligation	3-5%	7,230,000	6,750,000	-	(265,000)	6,485,000	275,000
Total bonds payable		<u>\$ 15,315,000</u>	<u>\$ 12,315,000</u>	<u>\$ -</u>	<u>\$ (740,000)</u>	<u>\$ 11,575,000</u>	<u>\$ 760,000</u>

A description of the debt series follows:

\$2,815,000 Combination and Tax Surplus Revenue Certificates of Obligation Bonds, Series 2015 were issued for the purpose of: (i) constructing, installing, acquiring, and equipping additions, extensions and improvements to the City's waterworks and sewer system, including a water storage tank, and the acquisition of land and interest in land for such projects, and (ii) payment of fiscal, engineering, and legal fees incurred in connection with the issuance of the Certificates.

\$5,270,000 Refunding Bonds issued for the purpose of refunding a portion of the City's outstanding debt.

\$7,230,000 Combination and Tax Surplus Revenue Certificates of Obligation Bonds, Series 2022 were issued for the purpose of: (i) the acquisition, construction, and equipment of Pump Station 3, (ii) paying legal, fiscal, and engineering fees in connection with such project, and (iii) paying the costs of issuance of the Certificates.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Long-term debt service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2026	\$ 760,000	\$ 435,488	\$ 1,195,488
2027	780,000	411,050	1,191,050
2028	810,000	388,250	1,198,250
2029	835,000	361,550	1,196,550
2030	865,000	328,100	1,193,100
2031-2035	3,520,000	1,238,200	4,758,200
2036-2040	2,995,000	652,400	3,647,400
2041-2042	1,010,000	61,000	1,071,000
Totals	<u>\$ 11,575,000</u>	<u>\$ 3,876,038</u>	<u>\$ 15,451,038</u>

Note 7. Leases

Lease Receivables

The City leases a portion of its property to various cell phone companies and businesses who use the space to conduct their operations, the terms of which expire 2026 through 2029. The measurement of the lease receivable is based on the present value of lease payments expected to be received during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

The City recognized \$102,940 in lease revenue and \$9,649 in interest revenue during the current fiscal year related to these leases. As of September 30, 2025, the City receivable for lease payments was \$230,048. Also, the City has a deferred inflow of resources associated with this lease that will be recognized as revenue over the lease term. As of September 30, 2025, the balance of the deferred inflow of resources was \$217,968.

The following is a schedule by year of minimum payments to be received under the City's leases that are included in the measurement of the lease receivable as of September 30, 2025:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Receipts</u>
2026	\$ 73,829	\$ 6,839	\$ 80,668
2027	75,689	4,266	79,955
2028	68,489	1,578	70,067
2029	12,041	88	12,129
Totals	<u>\$ 230,048</u>	<u>\$ 12,771</u>	<u>\$ 242,819</u>

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Lease Liabilities

The City leases vehicles from Enterprise Fleet Management and property and equipment from various third parties to conduct its operations, the terms of which expire 2025 through 2034. The measurement of the lease payables is based on the present value of lease payments expected to be paid during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

As of September 30, 2025, the value of the lease liability was \$2,653,762. Incremental borrowing rates of 3.50% to 16.87% were used to measure lease payables. The value of the right-to-use assets as of the end of the current fiscal year was \$3,729,078 and had accumulated amortization of \$1,140,007.

The future principal and interest payments for lease liabilities as of September 30, 2025, are as follows:

Governmental Activities			
Year Ending September 30,	Principal	Interest	Total Receipts
2026	\$ 475,737	\$ 130,889	\$ 606,626
2027	393,165	94,432	487,597
2028	382,304	65,887	448,191
2029	270,569	43,604	314,173
2030	223,080	31,981	255,061
2031-2035	779,346	51,027	830,373
Totals	<u>\$ 2,524,201</u>	<u>\$ 417,820</u>	<u>\$ 2,942,021</u>

Business-Type Activities			
Year Ending September 30,	Principal	Interest	Total Receipts
2026	\$ 47,248	\$ 13,905	\$ 61,153
2027	42,828	8,241	51,069
2028	29,227	3,063	32,290
2029	10,258	479	10,737
Totals	<u>\$ 129,561</u>	<u>\$ 25,688</u>	<u>\$ 155,249</u>

Note 8. Subscription-Based Information Technology Arrangements (SBITA)

Subscription Liability

The City has obtained the right to use various server software subscriptions under the provision of various subscription-based information technology arrangements. Incremental borrowing rates of 3.50% to 5.0% were used to measure the SBITA payables. The value of the right-to-use assets as of the end of the current fiscal year was \$236,270 and had accumulated amortization of \$97,404.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

The following schedule details minimum subscription payments to maturity for the City’s subscription liability at September 30, 2025:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2026	\$ 49,087	\$ 3,542	\$ 52,629
2027	50,827	1,802	52,629
Totals	<u>\$ 99,914</u>	<u>\$ 5,344</u>	<u>\$ 105,258</u>

Note 9. Defined Benefit Pension Plan

Plan Description

The City of Fate participates as one of the over 940 plans in the nontraditional, jointly contributory, hybrid defined benefit pension 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 (ACFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the Member’s benefit is calculated as of 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.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

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	18
Inactive employees entitled to but not yet receiving benefits	84
Active employees	93
	195

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 10.06% and 10.18% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025 were \$810,064 and were equal to the required contributions.

Net Pension Liability (Asset)

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

Actuarial Assumptions

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

Inflation	2.5% per year
Overall payroll growth	3.60% to 11.85% per year, including inflation
Investment Rate of return	6.75%, net of pension plan investment expense, including inflation

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of December 31, 2022. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The postretirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.10%
Core Fixed Income	6.0%	5.00%
Non-Core Fixed Income	6.0%	6.80%
Other Public and Private Markets	4.0%	7.30%
Real Estate	12.0%	6.70%
Infrastructure	6.0%	6.00%
Private Debt	13.0%	8.20%
Hedge Funds	5.0%	6.40%
Private Equity	13.0%	8.50%
Total	<u>100.0%</u>	

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Discount Rate

The discount rate used to measure the Total Pension Asset was 6.75%. The projection of cash flows used to determine the discount rate assumed that member 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 members. 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 (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balance at October 1, 2024	\$ 8,455,599	\$ 8,264,331	\$ 191,268
Changes for the year:			
Service cost	1,224,168	-	1,224,168
Interest	605,006	-	605,006
Difference between expected and actual experience	(270,452)	-	(270,452)
Assumption changes	-	-	-
Contributions – employer	-	714,278	(714,278)
Contributions – employee	-	505,556	(505,556)
Net investment income	-	866,034	(866,034)
Benefit payments, including refunds of employee contributions	(209,250)	(209,250)	-
Administrative expense	-	(5,507)	5,507
Other changes	-	(129)	129
Net changes	1,349,472	1,870,982	(521,510)
Balance at September 30, 2025	<u>\$ 9,805,071</u>	<u>\$ 10,135,313</u>	<u>\$ (330,242)</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
\$ 1,386,221	\$ (330,242)	\$ (1,702,031)

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

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.tnrs.com.

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

For the year ended September 30, 2025, the City recognized pension expense of \$675,114.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,909	\$ 247,623
Changes in actuarial assumptions	14,286	-
Difference between projected and actual investment earnings	-	154,697
Contributions subsequent to the measurement date	629,416	-
	<hr/>	<hr/>
Total	<u>\$ 650,611</u>	<u>\$ 402,320</u>

\$629,416 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized an increase in the Net Pension Asset for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2026	\$ (76,691)
2027	(8,435)
2028	(184,388)
2029	<hr/> (111,611)
Total	<u>\$ (381,125)</u>

Allocation of Pension Items

The City allocates pension items between governmental activities and business-type activities on the basis of employee payroll funding. For the governmental activities, the General Fund is responsible for the contributions. For the business type activities, the Water and Sewer Fund is responsible for the contributions.

Note 10. Postemployment Benefits Other Than Pensions

Plan Description

The City maintains a single-employer defined benefit group-term life insurance plan known as the Texas Municipal Retirement System (TMRS) Supplemental Death Benefits Fund (SDBF). The plan is administered by the TMRS. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75).

Benefits Provided

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

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	13
Inactive employees entitled to but not yet receiving benefits	15
Active employees	93
 Total	 121

Contributions

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

The City’s total SBDF contribution rates were 0.14% for calendar year 2025 and 0.17% for calendar year 2024. The retiree portion of the total SBDF contribution rates for the City was 0.01% in both calendar years 2025 and 2024.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

The City's contributions to the SDBF for the years ended September 30, 2025 and 2024 were \$11,880 and \$9,173, 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 (TOL) was measured as of December 31, 2024 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

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

Mortality rates for retirees and beneficiaries are based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. Based on the size of the City, rates are multiplied by an additional factor of 100.0%, which adds an additional layer of conservatism. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements.

For disabled annuitants, the mortality tables for healthy retirees are used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied for males and females, respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

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

Discount Rate

The discount rate used to measure the Total OPEB Liability as of December 31, 2024 was 4.08%, compared to 3.77% as of December 31, 2023. Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date of December 31, 2024.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at October 1, 2024	\$ 78,965
Changes for the year:	
Service cost	13,000
Interest	3,208
Difference between expected and actual experience	2,215
Changes of assumptions	(6,852)
Benefit payments	<u>(722)</u>
Net changes	<u>10,849</u>
Balance at September 30, 2025	<u>\$ 89,814</u>

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

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

	<u>1% Decrease in Discount Rate (3.08%)</u>	<u>Current Discount Rate (4.08%) Assumption</u>	<u>1% Increase in Discount Rate (5.08%)</u>
Total OPEB liability	\$ 114,098	\$ 89,814	\$ 71,717

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

For the year ended September 30, 2025, the City recognized OPEB expense of \$12,093.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 4,128	\$ 10,725
Changes in actuarial assumptions	<u>15,959</u>	<u>34,628</u>
Total	<u>\$ 20,087</u>	<u>\$ 45,353</u>

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Other amounts of the reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2026	\$	(4,115)
2027		(4,548)
2028		(3,588)
2029		(5,215)
2030		(5,551)
Thereafter		<u>(2,249)</u>
Total	<u>\$</u>	<u>(25,266)</u>

Allocation of OPEB Items

The City allocates OPEB items between governmental activities and business-type activities on the basis of employee payroll funding. For the governmental activities, the total OPEB liability is liquidated by the general fund. For the business type activities, the Water and Sewer Fund liquidates the total OPEB liability.

Note 11. Healthcare Coverage

During the year ended September 30, 2025, employees of the City were covered by a health insurance plan (Plan). The City contributed \$600.15 per month per employee and up to 30% of the cost for dependent's coverage. Employees, at their option, authorized payroll withholdings to pay their share of contributions for dependents. All contributions were paid to Blue Cross Blue Shield. The Plan was authorized by article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

Note 12. Deferred Compensation Plan

The City offers its employees a defined contribution, deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by Mission Square Retirement (formerly ICMA Retirement Corporation) and the Trustee is VantageTrust Company. Benefit provisions are contained in the plan document and were established and can be amended by the action of City Council. All assets and income are held in trust for the exclusive benefit of participants and their beneficiaries; therefore, they are not reported in the financial statements of the City.

The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City does not contribute to the plan.

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

Note 13. Interfund Transactions

Current transfers between funds during the year were as follows:

Transfers Out	Transfers in					Totals Transfers Out
	General	Capital Projects	Debt Service Fund	Nonmajor Governmental Funds	Water and Sewer	
General Fund	\$ -	\$ 3,025,000	\$ -	\$ 15,000	\$ 664,654	\$ 3,704,654
Fate Municipal Development District	188,013		150,000			338,013
Nonmajor governmental funds	306,000	-	-	-		306,000
Water and Sewer Fund	1,915,444	-	-	-		1,915,444
Total transfers in	<u>\$ 2,409,457</u>	<u>\$ 3,025,000</u>	<u>\$ 150,000</u>	<u>\$ 15,000</u>	<u>\$ 664,654</u>	<u>\$ 6,264,111</u>

Transfers are used to: 1) transfer debt service payments 2) transfer monies for capital asset purchases and 3) Utility fund franchise payments.

Note 14. Commitments and Contingencies

Construction Commitments

The City had the following active construction projects as of September 30, 2025:

Project	Spent-to-Date	Remaining Commitment
N. Ben Payne to CD Boren Pump Station 3	\$ 3,476,974	\$ 34,550
Miss May Vernon Drive (1) Facilities Building Renovations	18,842,360	273,216
Public Safety Headquarters	340,855	6,159,145
	16,634	233,366
	220,250	19,779,750
	<u>\$ 22,897,073</u>	<u>\$ 26,480,027</u>

(1) Cost to be shared with Royse City ISD (one third) and Rockwall County (\$2M)

Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year, and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Note 15. Developer Agreements

The City is a party to several developer agreements which offer incentives to contractors who develop property and construct infrastructure in the City. These agreements include reduced impact fees paid by the developer as lots are sold. As each phase of construction is completed, the City takes ownership of the infrastructure as a developer contribution.

Williamsburg Public Improvement District

The City created the Williamsburg Public Improvement District No. 1 (PID) on November 6, 2006, and PID 2 on October 15, 2012, to assist in the financing of certain public improvements projects. The revenues are derived from an assessment levied against each residential lot and are used to reimburse the developer for infrastructure costs. As of September 30, 2025, developer dedicated assets total \$36,647,817.

Woodcreek Development Agreement

This agreement was executed July 15, 2002, and amended December 11, 2010. As of September 30, 2024, the City has completed reimbursement, per the agreement, the \$1.4 million in water costs to the developer. As of September 30, 2025, developer dedicated assets totaling \$47,329,290 have been recorded by the City in relation to the Woodcreek development agreement.

Southstar Woodcreek Developer Agreement

This agreement was executed July 7, 2016, for Woodcreek, Phase 8. The developer will construct 24 feet of pavement with curb and gutter on both sides for CD Boren in phases as final platted to current City Subdivision Standards for the entire length but excluding bridge improvements. All roadway impact fees assessed and collected from lots within this plat shall be allocated and used to reimburse the developer for its actual costs in an amount not to exceed \$875,000. The final payment was made during fiscal year 2023. The City's dedicated assets related to the Southstar Woodcreek Developer Agreement total \$4,477,808 as of September 30, 2025.

Edgewater Development Agreement

This agreement was executed February 1, 2021. Developer will construct the full length and section of Gettysburg Boulevard. The estimated cost and maximum impact fee credit for Authorized Costs of Gettysburg (CIP Project No.15) is \$4,488,000. Developer will construct approximately 3,700 linear feet of 12-inch waterline located within the Gettysburg right-of-way from FM551 to the existing Blackland 6-inch waterline. The maximum impact fee credit for authorized costs of the waterline is \$861,000. As of September 30, 2025, developer dedicated assets totaling \$10,120,808 have been recorded by the City in relation to the Edgewater development agreement.

Avondale Development Agreement

On April 1, 2021, the City Council approved the Avondale development agreement. The developer will build eligible infrastructure improvements in exchange for impact and park development fee credits. As of September 30, 2025, developer dedicated assets total \$8,214,463.

Monterra Public Improvement District

On March 24, 2021, the City Council approved the Monterra Residential Development and Facilities agreement. The developer will construct on-site improvements to Ben Payne Road, a 16" water line, and potentially be required to construct improvements to the wastewater collection system. Developer dedicated assets total \$9,266,113 as of September 30, 2025.

Impact and Park Development Fee Credit Agreement

This agreement was executed June 24, 2022, for public improvements with Fate I-30 Commercial, LP, a Texas limited partnership. The developer shall construct Wastewater 8-inch sewer line at FM 551, Roads from backage collector IH-30 Williamsburg collector to Memorial Parkway, Memorial Parkway to Greenbriar Road, IH-30 Williamsburg Collector IH-30 EBFR to Williamsburg Parkway, Williamsburg Parkway-1125's of Colonial Trace to Pleasant Hill Lane, Williamsburg IH 30 connector, and signal at Greenbriar and Memorial intersection, greenbelt trails at SE corner FM 551/I30 heading from Memorial toward Reserve at Chamberlain. The maximum credit amount for this project is \$8,446,070. As of September 30, 2025, developer dedicated assets total \$3,485,518.

Note 16. Additional Water and Sewer Information

The North Texas Municipal Water District (NTMWD) is a conservation and reclamation district and political subdivision of the State of Texas, created and functioning under Article VXi, Section 59, of the Texas Constitution, pursuant to Chapter 62, Acts of 1951, 52nd Legislature of Texas, Regular Session, as amended. An amendment to the NTMWD's creating ACT by the legislation in 1975, Section 27, authorizes the NTMWD to acquire, treat, and distribute water, and to collect, treat and dispose of wastes, both liquid and solid, in order to reduce pollution, conserve and develop the natural resources of Texas.

The primary mission of the District is to meet the various needs of its members and customer cities, whether that is the need for drinking water, solid waste disposal or wastewater treatment. NTMWD acts as a regional wholesale of water to its members and customer cities. Rates for service are set at cost. No profits are included, and no taxes are collected. Unit costs for services are lower because the services are regional.

Revenue bonds issued in 2016 by NTMWD for the engineering cost for 1.5 MGD to 3 MGD in the amount of \$11,120,000 are contractually obligated by the City of Fate and Royse City. Payments for this bond began in 2017

City of Fate, Texas
Notes to Financial Statements
September 30, 2025

and will be paid in full in 2035. The current-year expense for this obligation is \$412,911.

Revenue bonds issued in 2016 by NTMWD for the construction of the Parker Creek Parallel Interceptor System are contractually obligated by the City of Fate. Payment for this \$3,045,000 project began in FY 2016 and will be paid in full in 2036. The current-year expense for this obligation is \$196,665.

Revenue bonds issued on 2022 to upgrade the Sabine Creek Waste Water Treatment Plant are contractually obligated by the Cities of Fate and Royse City. The City began paying for this \$81,615,000 project in FY2023. Current-year expense for this obligation is \$2,322,109.

The City is contractually obligated to make sufficient payments to the NTMWD, recognized as operating expenses by the City and as revenues by NTMWD, for the redemption and payment of the City's portion of certain NTMWD revenue bonds as they become due.

Note 17. Special Assessment Districts

The City's PIDs have issued debt to finance infrastructure improvements and facilities within its boundaries. The City has no direct or contingent liability or moral obligation for the payment of this debt. Therefore, this debt is not recorded as long-term debt of the City. The outstanding balance of each of the debt issuances as of September 30, 2025, is as follows:

Williamsburg PID No. 1 Phase 1A Special Assessment Revenue Bonds, Series 2014	\$	3,625,000
Williamsburg PID No. 1 Phase 1B Special Assessment Revenue Bonds, Series 2014		1,825,000
Williamsburg PID No. 2 Phase 1C Special Assessment Revenue Bonds, Series 2014		925,000
Williamsburg PID No.1 Phase 1B2-1B3 Special Assessment Revenue Bonds, Series 2018		4,145,000
Williamsburg PID No.1 Phase 2B, 2C, 3A1 Special Assessment Revenue Bonds, Series 2019		6,355,000
Williamsburg PID No.1 Phase 2A and 3A2 Special Assessment Revenue Bonds, Series 2022		7,304,000
Williamsburg PID No.1 Phase 3B Special Assessment Revenue Bonds, Series 2023		7,174,000
Williamsburg East PID, MIA Special Assessment Revenue Bonds, Series 2020		3,415,000
Williamsburg East PID, 1A#2, Special Assessment Revenue Bonds, Series 2020		15,877,000
Williamsburg East PID, 1A #1 Special Assessment Revenue Bonds, Series 2020		3,912,000
Monterra PID, Improvement Area #1 Project Special Assessment Revenue Bonds, Series 2021		10,955,000
Monterra PID, Improvement Area #2 Project Special Assessment Revenue Bonds, Series 2024		<u>14,106,000</u>
 Total	 \$	 <u>79,618,000</u>

This Page Intentionally Left Blank

Required Supplementary Information

This Page Intentionally Left Blank

City of Fate, Texas
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to
Actual - General Fund
For the Year Ended September 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 6,481,931	\$ 6,481,931	\$ 6,405,028	\$ (76,903)
Franchise taxes	728,647	728,647	816,507	87,860
Sales taxes	3,896,000	3,896,000	3,874,747	(21,253)
Beverage taxes	-	-	23,924	23,924
Fines and forfeitures	260,540	260,540	349,311	88,771
Licenses and permits	2,239,305	2,239,305	2,750,604	511,299
Charges for services	804,104	999,656	1,030,402	30,746
Intergovernmental	280,091	280,091	285,051	4,960
Investment income	300,000	300,000	397,095	97,095
Miscellaneous	44,000	44,000	33,872	(10,128)
Total revenues	<u>15,034,618</u>	<u>15,230,170</u>	<u>15,966,541</u>	<u>736,371</u>
Expenditures				
Current				
General government	6,361,408	6,579,900	6,761,684	(181,784)
Parks and community relations	128,100	128,100	140,864	(12,764)
Public safety	7,367,686	7,367,686	6,369,753	997,933
Public works	1,517,708	1,494,768	565,436	929,332
Debt service:				
Principal	-	-	516,032	(516,032)
Interest	-	-	164,391	(164,391)
Capital outlay	80,081	80,081	803,591	(723,510)
Total expenditures	<u>15,454,983</u>	<u>15,650,535</u>	<u>15,321,751</u>	<u>328,784</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(420,365)</u>	<u>(420,365)</u>	<u>644,790</u>	<u>1,065,155</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	92,205	92,205
Leases/SBITAs issued	-	-	323,061	323,061
Transfers in	2,359,457	2,359,457	2,409,457	50,000
Transfers out	(1,939,092)	(1,939,092)	(3,704,654)	(1,765,562)
Total other financing sources (uses)	<u>420,365</u>	<u>420,365</u>	<u>(879,931)</u>	<u>(1,300,296)</u>
Net Change in Fund Balances	-	-	(235,141)	(235,141)
Fund Balances, Beginning	<u>8,321,772</u>	<u>8,321,772</u>	<u>8,321,772</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 8,321,772</u>	<u>\$ 8,321,772</u>	<u>\$ 8,086,631</u>	<u>\$ (235,141)</u>

City of Fate, Texas
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to
Actual - Street Impact Fund
For the Year Ended September 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Impact fees	\$ 1,417,340	\$ 1,417,340	\$ 1,570,513	\$ 153,173
Intergovernmental - Misc Payments	2,800,000	2,800,000	1,121,516	(1,678,484)
Investment income	150,000	150,000	305,453	155,453
Total revenues	4,367,340	4,367,340	2,997,482	(1,369,858)
Expenditures				
Current				
Public works	250,000	250,000	188,702	61,298
Capital outlay	10,910,810	10,910,810	753,007	10,157,803
Total expenditures	11,160,810	11,160,810	941,709	10,219,101
Excess (deficiency) of revenues over (under) expenditures	(6,793,470)	(6,793,470)	2,055,773	8,849,243
Net Change in Fund Balances	(6,793,470)	(6,793,470)	2,055,773	8,849,243
Fund Balances, Beginning	5,477,273	5,477,273	5,477,273	-
Fund Balances, Ending	\$ (1,316,197)	\$ (1,316,197)	\$ 7,533,046	\$ 8,849,243

Budgetary Controls and Procedures

The objective of the City's budgetary controls is to ensure compliance with legal provisions embodied in the annual adopted budget approved by the City Council. The City Manager is required by charter to submit a proposed budget and accompanying message to City Council by August 15. The Council shall review and revise the proposed budget as they deem appropriate prior to circulation for the public hearing. The proposed budget is filed with the municipal clerk and made available for public inspection no less than 30 days before the City Council levies the tax. The notice of public hearing must be posted in the official newspaper at least 10 days prior to the hearing. Annual budgets for General, Debt Service, and Special Revenue Funds, except for Williamsburg PID and Williamsburg East PID Funds, are legally adopted by ordinance before fiscal year end.

The budgets for General Fund and Street Impact Fund are legally adopted on a basis with generally accepted accounting principles.

The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the total approved budget for each fund. The City Manager is authorized to transfer part or all of any unencumbered appropriation balance among programs within a fund. All other amendments and/or transfers must be approved by Council.

City of Fate, Texas
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Texas Municipal Retirement System
September 30, 2025

	Measurement Year			
	2015	2016	2017	2018
Total Pension Liability				
Service cost	\$ 362,918	\$ 431,762	\$ 482,834	\$ 497,994
Interest (on the total pension liability)	112,537	138,372	170,308	203,133
Difference between expected and actual experience	(45,185)	(36,340)	(85,949)	(83,304)
Change in assumptions	48,083	-	-	-
Benefit payments, including refunds of employee contributions	(48,594)	(92,370)	(80,031)	(96,921)
Net Change in Total Pension Liability	429,759	441,424	487,162	520,902
Total Pension Liability – Beginning	1,450,503	1,880,262	2,321,686	2,808,848
Total Pension Liability – Ending (a)	<u>\$ 1,880,262</u>	<u>\$ 2,321,686</u>	<u>\$ 2,808,848</u>	<u>\$ 3,329,750</u>
Plan Fiduciary Net Position:				
Contributions – employer	\$ 221,133	\$ 246,502	\$ 306,452	\$ 322,070
Contributions – employee	160,178	178,625	200,109	212,688
Net investment income	1,795	104,906	275,833	(80,481)
Benefit payments, including refunds of employee contributions	(48,594)	(92,370)	(80,031)	(96,921)
Administrative expense	(1,092)	(1,182)	(1,426)	(1,555)
Other	(54)	(64)	(73)	(81)
City’s Net Change in Plan Fiduciary Net Position	333,366	436,417	700,864	355,720
Plan Fiduciary Net Position – Beginning	1,215,409	1,548,775	1,985,192	2,686,056
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,548,775</u>	<u>\$ 1,985,192</u>	<u>\$ 2,686,056</u>	<u>\$ 3,041,776</u>
City’s Net Pension Liability (Asset) – Ending (a) – (b)	\$ 331,487	\$ 336,494	\$ 122,792	\$ 287,974
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.37%	85.51%	95.63%	91.35%
Covered Payroll	\$ 2,288,260	\$ 2,551,788	\$ 2,858,695	\$ 3,038,399
City’s Net Pension Liability (Asset) as a Percentage of Covered Payroll	14.49%	13.19%	4.30%	9.48%

Other Information:

For the 2019 valuation, inflation used was 2.5% investment rate of return and discount rate used was 6.75% and actuarial studies were updated through December 31, 2018.

Information has been determined as of the City's measurement date (December 31, 2024).

2019	2020	2021	2022	2023	2024
\$ 595,128	\$ 640,619	\$ 757,988	\$ 911,664	\$ 1,075,621	\$ 1,224,168
240,137	283,196	345,188	416,904	506,091	605,006
(114,269)	14,016	(33,819)	16,467	(41,251)	(270,452)
(3,476)	-	-	-	22,818	-
(139,471)	(65,227)	(91,006)	(76,454)	(135,015)	(209,250)
578,049	872,604	978,351	1,268,581	1,428,264	1,349,472
3,329,750	3,907,799	4,780,403	5,758,754	7,027,335	8,455,599
<u>\$ 3,907,799</u>	<u>\$ 4,780,403</u>	<u>\$ 5,758,754</u>	<u>\$ 7,027,335</u>	<u>\$ 8,455,599</u>	<u>\$ 9,805,071</u>
\$ 337,445	\$ 402,118	\$ 452,577	\$ 548,071	\$ 646,782	\$ 714,278
238,597	262,088	310,288	375,391	448,709	505,556
471,736	300,787	634,524	(451,508)	763,880	866,034
(139,471)	(65,227)	(91,006)	(76,454)	(135,015)	(209,250)
(2,657)	(1,939)	(2,923)	(3,884)	(4,819)	(5,507)
(79)	(75)	20	4,635	(36)	(129)
905,571	897,752	1,303,480	396,251	1,719,501	1,870,982
3,041,776	3,947,347	4,845,099	6,148,579	6,544,830	8,264,331
<u>\$ 3,947,347</u>	<u>\$ 4,845,099</u>	<u>\$ 6,148,579</u>	<u>\$ 6,544,830</u>	<u>\$ 8,264,331</u>	<u>\$ 10,135,313</u>
\$ (39,548)	\$ (64,696)	\$ (389,825)	\$ 482,505	\$ 191,268	\$ (330,242)
101.01%	101.35%	106.77%	93.13%	97.74%	103.37%
\$ 3,408,522	\$ 3,744,121	\$ 4,432,680	\$ 5,362,730	\$ 6,410,134	\$ 7,978,574
-1.16%	-1.73%	-8.79%	9.00%	2.98%	-4.14%

City of Fate, Texas
Schedule of Employer's Contributions
Texas Municipal Retirement System
September 30, 2025

	Fiscal Year			
	2016	2017	2018	2019
Actuarially determined contribution	\$ 244,980	\$ 288,118	\$ 315,781	\$ 334,142
Contribution in relation of the actuarially determined contribution	<u>244,980</u>	<u>288,118</u>	<u>315,781</u>	<u>334,142</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,537,464	\$ 2,757,417	\$ 2,969,913	\$ 3,242,864
Contributions as a percentage of covered payroll	9.65%	10.45%	10.63%	10.30%

Notes to Schedule of Contributions

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

- Actuarial Cost Method: Entry Age Normal
- Amortization Method: Level Percentage of Payroll, Closed
- Remaining Amortization Period: 20 years
- Asset Valuation Method: 10 Year smoothed 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 are specific to the City's plan of benefits. 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)
Preretirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Notes: There were no benefit changes during the year.

Information has been determined as of the City's most recent fiscal year end (September 30, 2025).



Fiscal Year					
2020	2021	2022	2023	2024	2025
\$ 383,105	\$ 434,099	\$ 543,231	\$ 614,412	\$ 700,192	\$ 810,064
<u>383,105</u>	<u>434,099</u>	<u>543,231</u>	<u>614,412</u>	<u>700,192</u>	<u>810,064</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,634,439	\$ 4,194,680	\$ 5,320,578	\$ 6,017,120	\$ 6,927,885	\$ 7,978,574
10.54%	10.35%	10.21%	10.21%	10.11%	10.15%

City of Fate, Texas
Schedule of Changes in the Total OPEB Liability and Related Ratios
Texas Municipal Retirement System - Supplemental Death Benefits
For the Year Ended September 30, 2025

	Measurement Year			
	2017	2018	2019	2020
Total OPEB Liability				
Service cost	\$ 4,860	\$ 5,773	\$ 5,454	\$ 8,611
Interest (on the total OPEB liability)	1,330	1,513	1,618	1,644
Difference between expected and actual experience	-	(5,065)	(4,760)	(501)
Change in assumptions	4,017	(3,993)	12,637	14,138
Benefit payments	(286)	-	(341)	(374)
Net Change in Total OPEB Liability	9,921	(1,772)	14,608	23,518
Total OPEB Liability – Beginning	32,909	42,830	41,058	55,666
Total OPEB Liability – Ending	<u>\$ 42,830</u>	<u>\$ 41,058</u>	<u>\$ 55,666</u>	<u>\$ 79,184</u>
Covered Employee Payroll	\$ 2,858,695	\$ 3,038,399	\$ 3,408,522	\$ 3,744,121
City’s Total OPEB Liability as a Percentage of Covered Employee Payroll	1.50%	1.35%	1.63%	2.11%

Notes to Schedule:

Changes of benefit terms: None

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2016	3.78%
2017	3.31%
2018	3.71%
2019	2.75%
2020	2.00%
2021	1.84%
2022	4.05%
2023	3.77%
2024	4.08%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's measurement date (December 31).

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

	2021	2022	2023	2024
\$	14,185	\$ 17,161	\$ 9,615	\$ 13,000
	1,721	1,807	2,608	3,208
	(8,347)	(5,409)	2,842	2,215
	3,585	(43,004)	4,637	(6,852)
	<u>(443)</u>	<u>(536)</u>	<u>(641)</u>	<u>(722)</u>
	10,701	(29,981)	19,061	10,849
	<u>79,184</u>	<u>89,885</u>	<u>59,904</u>	<u>78,965</u>
\$	<u>89,885</u>	<u>\$ 59,904</u>	<u>\$ 78,965</u>	<u>\$ 89,814</u>
\$	4,432,680	\$ 5,362,730	\$ 6,410,134	\$ 7,222,228
	2.03%	1.12%	1.23%	1.24%

THIS PAGE LEFT BLANK INTENTIONALLY

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

THIS PAGE LEFT BLANK INTENTIONALLY

Proposed Form of Opinion of Bond Counsel

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

**CITY OF FATE, TEXAS,
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2026**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$5,865,000

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

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been authorized and issued and the Certificates delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Certificates issued in exchange therefore will have been duly delivered, in accordance with law, and that the Certificates, except as may be limited by laws applicable to the City relating to governmental immunity and bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding special obligations of the City, and that ad valorem taxes sufficient to provide for the payment of the interest, if any, on and principal of the Certificates have been levied and pledged for such purpose, within the limits prescribed by law, and that the Certificates are additionally secured by and payable from a limited pledge of the revenues of the City's combined Waterworks and Sewer System remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the City's revenue obligations (now or hereafter outstanding), which are payable from all or part of said revenues, all as provided in the ordinance adopted by the City Council of the City, pursuant to which the Certificates have been issued.



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

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

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

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

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



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

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

Municipal Advisory Services
Provided By

