

OFFICIAL STATEMENT

Dated September 29, 2025

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

NEW ISSUE - Book-Entry-Only

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

\$16,215,000
CITY OF RED OAK, TEXAS
(Ellis County)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

Dated Date: October 1, 2025

Due: February 15, as shown on page 2

Interest accrues from the Delivery Date (defined herein)

PAYMENT TERMS. . . Interest on the \$16,215,000 City of Red Oak, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") will accrue from the date of initial delivery to the purchaser (the "Delivery Date", anticipated to be on or about October 22, 2025), and will be payable February 15 and August 15 of each year commencing February 15, 2026, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is Wilmington Trust, N.A., Dallas, Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE. . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the City of Red Oak, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, upon all taxable property within the City, and (ii) a limited pledge of \$1,000 of the Surplus Revenues of the City's Waterworks and Sewer System (the "System"), as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "THE CERTIFICATES – Authority for Issuance of the Certificates").

PURPOSE. . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) constructing and improving streets and roads, including related design, drainage, signalization, landscaping, sidewalks, lighting, utility relocation and replacement, bridges, signage and streetscape improvements; (ii) designing, constructing, improving and equipping municipal parks and recreation facilities that are generally accessible to the public and are part of the City park system; (iii) constructing, improving and equipping public safety facilities for the police department, including the design, construction and equipment of a new police station; (iv) designing, constructing, improving and equipping the Red Oak Government Center, an administrative office building housing the governmental functions of the City; (v) purchasing information technology and communication equipment; and (vi) paying legal, fiscal and engineering fees in connection with such projects.

CUSIP PREFIX: 756835
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

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

DELIVERY. . . It is expected that the Certificates will be available for delivery through the facilities of DTC on or about October 22, 2025.

MATURITY SCHEDULE

CUSIP Prefix: 756835 ⁽¹⁾

| Amount | 15-Feb Maturity | Interest Rate | Initial Yield | CUSIP Suffix ⁽¹⁾ |
|--------------|--------------------|------------------|-----------------------|--------------------------------|
| \$ 1,050,000 | 2026 | 5.000% | 2.800% | YE8 |
| 385,000 | 2027 | 5.000% | 2.560% | YF5 |
| 205,000 | 2028 | 5.000% | 2.530% | YG3 |
| 200,000 | 2029 | 5.000% | 2.530% | YH1 |
| 195,000 | 2030 | 5.000% | 2.550% | YJ7 |
| 285,000 | 2031 | 5.000% | 2.620% | YK4 |
| 300,000 | 2032 | 5.000% | 2.800% | YL2 |
| 815,000 | 2033 | 5.000% | 2.950% | YM0 |
| 860,000 | 2034 | 5.000% | 3.030% | YN8 |
| 650,000 | 2035 | 5.000% | 3.230% | YP3 |
| 675,000 | 2036 | 5.000% | 3.400% ⁽²⁾ | YQ1 |
| 720,000 | 2037 | 5.000% | 3.560% ⁽²⁾ | YR9 |
| 750,000 | 2038 | 5.000% | 3.710% ⁽²⁾ | YS7 |
| 1,145,000 | 2039 | 5.000% | 3.840% ⁽²⁾ | YT5 |
| 1,195,000 | 2040 | 4.125% | 4.150% | YU2 |
| 1,245,000 | 2041 | 4.125% | 4.170% | YV0 |
| 1,300,000 | 2042 | 4.125% | 4.200% | YW8 |
| 1,355,000 | 2043 | 4.125% | 4.240% | YX6 |
| 1,410,000 | 2044 | 4.250% | 4.270% | YY4 |
| 1,475,000 | 2045 | 4.250% | 4.300% | YZ1 |

(Interest to accrue from the Delivery Date.)

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- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data set forth 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 CUSIP services. None of the City, the Initial Purchaser or their agents or counsel shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (2) Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on February 15, 2035, the first optional call date for such Certificates, at a redemption price of par, plus accrued interest to the redemption date.

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

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

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

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

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

NONE OF THE CITY, THE INITIAL PURCHASER, OR THE MUNICIPAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY NEW YORK, NEW YORK ("DTC") OR ITS BOOK-ENTRY ONLY SYSTEM AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

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

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

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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 Red Oak, Texas (the "City") is a political subdivision and home rule municipal corporation of the State of Texas (the "State"), located in Ellis County, Texas. The City covers approximately 15.22 square miles (see "Introduction - Description of the City"). |
| THE CERTIFICATES | The \$16,215,000 Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") are being issued as serial certificates maturing February 15 in each of the years 2026 through 2045, inclusive (see "THE CERTIFICATES - Description of the Certificates"). |
| PAYMENT OF INTEREST | Interest on the Certificates accrues from the Delivery Date (anticipated to be October 22, 2025), and is payable February 15 and August 15 of each year, commencing February 15, 2026, until maturity or prior redemption (see "THE CERTIFICATES - Description of the Certificates"). |
| AUTHORITY FOR ISSUANCE | The Certificates are issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") passed by the City Council of the City (see "THE CERTIFICATES - Authority for Issuance of the Certificates"). |
| SECURITY FOR THE CERTIFICATES | The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, upon all taxable property located within the City, and (ii) a limited pledge of \$1,000 of the Surplus Revenues of the City's Waterworks and Sewer System (the "System"), as provided in the Ordinance (see "THE CERTIFICATES - Security and Source of Payment of the Certificates"). |
| OPTIONAL REDEMPTION | The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2036, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on February 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - Optional Redemption of the Certificates"). |
| TAX EXEMPTION | In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS", including the alternative minimum tax on certain corporations. |
| USE OF PROCEEDS | Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) constructing and improving streets and roads, including related design, drainage, signalization, landscaping, sidewalks, lighting, utility relocation and replacement, bridges, signage and streetscape improvements; (ii) designing, constructing, improving and equipping municipal parks and recreation facilities that are generally accessible to the public and are part of the City park system; (iii) constructing, improving and equipping public safety facilities for the police department, including the design, construction and equipment of a new police station; (iv) designing, constructing, improving and equipping the Red Oak Government Center, an administrative office building housing the governmental functions of the City; (v) purchasing information technology and communication equipment; and (vi) paying legal, fiscal and engineering fees in connection with such projects. |
| RATINGS | The Certificates have been rated "AA" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), without regard to credit enhancement (see "OTHER INFORMATION - Rating"). |
| BOOK-ENTRY-ONLY SYSTEM | The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so |

paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").

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

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

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SELECTED FINANCIAL INFORMATION

| Fiscal Year Ended 9/30 | Estimated Population ⁽¹⁾ | Taxable Assessed Valuation ⁽²⁾ | Taxable Assessed Valuation Per Capita | Net G.O. Tax Debt Outstanding at End of Year ⁽³⁾ | Ratio of Net G.O. Tax Debt to Taxable Assessed Valuation | Net G.O. Tax Debt Per Capita |
|---------------------------------|--|---|--|---|--|--|
| 2022 | 18,673 | \$ 1,449,998,324 | \$ 77,652 | \$ 21,035,000 | 1.45% | \$ 1,126 |
| 2023 | 17,396 | 1,836,309,207 | 105,559 | 26,422,000 | 1.44% | 1,519 |
| 2024 | 18,624 | 2,419,948,227 | 129,937 | 62,911,000 | 2.60% | 3,378 |
| 2025 | 19,500 | 2,708,364,267 | 138,890 | 75,300,000 ⁽⁴⁾ | 2.78% ⁽⁴⁾ | 3,862 ⁽⁴⁾ |
| 2026 | 20,000 | 3,150,212,143 | 157,511 | 71,143,000 ⁽⁴⁾ | 2.26% ⁽⁴⁾ | 3,557 ⁽⁴⁾ |

(1) Source: The City

(2) As reported by the Ellis Appraisal District on the City's annual State Property Tax Board Reports; subject to change during the ensuing year. Includes Frozen Taxable Values.

(3) Does not include self-supporting debt.

(4) Includes the Certificates.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

| | Fiscal Year Ended September 30, | | | | |
|---------------------|---------------------------------|----------------------|----------------------|---------------------|---------------------|
| | 2024 | 2023 | 2022 | 2021 | 2020 |
| Beginning Balance | \$ 14,754,038 | \$ 14,046,262 | \$ 5,496,240 | \$ 4,955,029 | \$ 3,078,782 |
| Total Revenues | 23,720,285 | 19,360,474 | 19,912,971 | 13,942,392 | 13,251,705 |
| Total Expenditures | 23,876,270 | 21,578,073 | 15,868,051 | 14,661,512 | 12,902,683 |
| Net Transfers | 1,000,523 | 2,925,375 | 4,505,102 | 1,260,331 | 1,527,225 |
| Net Funds Available | 844,538 | 707,776 | 8,550,022 | 541,211 | 1,876,247 |
| Ending Balance | <u>\$ 15,598,576</u> | <u>\$ 14,754,038</u> | <u>\$ 14,046,262</u> | <u>\$ 5,496,240</u> | <u>\$ 4,955,029</u> |

For additional information regarding the City, please contact:

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

| <u>City Council</u> | <u>Length of Service</u> | <u>Term Expires</u> | <u>Occupation</u> |
|---|--------------------------|---------------------|-------------------------|
| Mark Stanfill, DVM Mayor | 5 Years | 2027 | Veterinarian |
| Willie G. Franklin Jr. Place 1 / Mayor Pro Tem | 5 Years | 2027 | Planner Review |
| Sean Flannery Place 2 | 4 Months | 2028 | Chief Operating Officer |
| Ricardo Miller Place 3 | 1 Year | 2027 | Operations Pastor |
| Tim Lightfoot Place 4 | 12 Years | 2028 | Mortgage Servicing |
| Jeffrey Smith Place 5 | 3 Years | 2028 | Federal Law Enforcement |

SELECTED ADMINISTRATIVE STAFF

| <u>Name</u> | <u>Position</u> | <u>Length of Service with City</u> | <u>Length of Governmental Service</u> |
|-------------------|------------------------|------------------------------------|---------------------------------------|
| Todd Fuller | City Manager | 25 Years | 25 Years |
| Jonathan Phillips | Assistant City Manager | 6 Years | 20 Years |
| Tim McRoberts | Director of Finance | 1 Year | 12 Years |
| Caryn Stevens | City Secretary | 12 Years | 12 Years |

CONSULTANTS AND ADVISORS

| | |
|-------------------------|--|
| Auditors | Pattillo, Brown & Hill L.L.P. Waco, Texas |
| Bond Counsel | McCall, Parkhurst & Horton L.L.P. Dallas, Texas |
| Disclosure Counsel..... | McCall, Parkhurst & Horton L.L.P. Dallas, Texas |
| Municipal Advisor | Hilltop Securities Inc. Dallas, Texas |

OFFICIAL STATEMENT
RELATING TO
\$16,215,000
CITY OF RED OAK, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

INTRODUCTION

This Official Statement, which includes the cover page and Appendices hereto, provides certain information regarding the issuance of the \$16,215,000 City of Red Oak, Texas Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") being offered herein. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Certificates which authorized the issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

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

DESCRIPTION OF THE CITY. . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1949, and first adopted its Home Rule Charter in 1997. The City operates under a Council/Manager form of government with a City Council (the "City Council") comprised of the Mayor and five Councilmembers. The terms of office for the Mayor and Councilmembers are three years with the Mayor and Places 1 and 3 on the City Council to have concurrent terms of office and Places 2, 4 and 5 on the City Council to have concurrent terms of office. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2020 Census Bureau data population for the City was 14,222, while the 2026 estimated population is 20,000. The City covers approximately 15.22 square miles

PLAN OF FINANCING

PURPOSE. . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) constructing and improving streets and roads, including related design, drainage, signalization, landscaping, sidewalks, lighting, utility relocation and replacement, bridges, signage and streetscape improvements; (ii) designing, constructing, improving and equipping municipal parks and recreation facilities that are generally accessible to the public and are part of the City park system; (iii) constructing, improving and equipping public safety facilities for the police department, including the design, construction and equipment of a new police station; (iv) designing, constructing, improving and equipping the Red Oak Government Center, an administrative office building housing the governmental functions of the City; (v) purchasing information technology and communication equipment; and (vi) paying legal, fiscal and engineering fees in connection with such projects.

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

SOURCES OF FUNDS:

| | |
|----------------------------|-------------------------|
| Par Amount of Certificates | \$ 16,215,000.00 |
| Premium | 753,746.95 |
| Total Sources of Proceeds | <u>\$ 16,968,746.95</u> |

USES OF FUNDS:

| | |
|-------------------------|-------------------------|
| Deposit to Project Fund | \$ 16,802,000.00 |
| Underwriting Discount | 50,639.95 |
| Cost of Issuance | 116,107.00 |
| Total Uses of Proceeds | <u>\$ 16,968,746.95</u> |

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES. . . The Certificates are dated October 1, 2025, and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the date of initial delivery to the Initial Purchaser (the "Delivery Date", anticipated to be October 22, 2025), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year commencing February 15, 2026, until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").

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

SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES. . . The Certificates are payable from the proceeds of a continuing and direct annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property located within the City and from a limited pledge of \$1,000 of the Surplus Revenues (as defined in the Ordinance) of the System.

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 each \$100 of 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 each \$100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt, based on a 90% tax collection rate as calculated at the time of issuance.

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

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

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

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificates, will send any notice of redemption relating to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemptions of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates within a maturity to be redeemed will not be governed

by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption (see "THE CERTIFICATES – Book-Entry-Only System" herein).

DEFEASANCE . . . The Ordinance provides for the defeasance of the Certificates when the payment of such principal on the Certificates, plus interest on the Certificates to the due date thereof is provided by irrevocably depositing with the Paying Agent/Registrar or 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 Ordinance provides that the term "Defeasance Securities" means any securities and Certificates 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 approves the proceedings authorizing the issuance of refunding bonds, 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 on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, 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. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid.

There is no assurance that current Texas 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 Texas law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or that for any other Defeasance Security will be maintained at any particular rating category.

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

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

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

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

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

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

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

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

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

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

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

Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

PAYING AGENT/REGISTRAR. . . The initial Paying Agent/Registrar for the Certificates is Wilmington Trust, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, trust company, financial institution or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of such Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Certificates will be payable to the registered owner at maturity or prior redemption upon presentation and surrender at the principal office of the Paying Agent/Registrar. Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (see "THE CERTIFICATES – Record Date for Interest Payment" herein), and such interest shall be paid (i) by check sent by United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar, or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal or of interest on the Certificates shall be a Saturday, Sunday, legal holiday or day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Certificates, payments of principal and interest on the Certificates will be made as described in "THE CERTIFICATES - Book-Entry-Only System" herein.

TRANSFER, EXCHANGE AND REGISTRATION. . . In the event the Book-Entry-Only System should be discontinued, printed Certificates will be delivered to the registered owners of the Certificates and thereafter the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the 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 principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 or integral multiples thereof for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - Book-Entry-Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. The Paying Agent/Registrar shall not be required to make any transfer or exchange of any Certificates 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 with respect to any Certificate or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Certificate called for redemption in part.

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

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

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

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

On June 30, 2006 Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous language." Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities under certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services to cities.

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

As noted above, the Ordinance provides that holders of the Certificates may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Certificates of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder 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 original principal amount a majority of outstanding Certificates that are the subject of a proposed amendment shall 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.

TAX INFORMATION

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

VALUATION OF TAXABLE PROPERTY . . . The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Ellis Appraisal District (the “Appraisal District”). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board. The 88th Texas Legislature expanded the size of the governing body of an appraisal district in a county with a population of more than 75,000 by adding elected directors and authorized the legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the “Subjected Property”) whose appraised values are not more than \$5,000,000 (the “maximum property value”) to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined

by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. After the 2024 tax year, through December 31, 2026 (unless extended by the Legislature), the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "TAX INFORMATION – Issuer and Taxpayer Remedies."

STATE MANDATED HOMESTEAD EXEMPTIONS . . . State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action, and surviving spouses of first responders killed or fatally wounded in the line of duty. See "Table 1 – Assessed Valuation and Exemption" for the reduction, if any, attributable to state mandated homestead exemptions.

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

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

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

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

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

Certain goods that are acquired in or imported into the State to be forwarded to another location within or outside the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or outside the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has posted notice prominently on the appraisal district’s website (if the appraisal district maintains a website) and the assessor for the city has prominently posted on the city’s website notice informing property owners of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase. The appraisal district is also required to post notice in a newspaper of general circulation by August 7 or as soon thereafter as practicable or if there is no newspaper of general circulation, the notice must be posted in the appraisal district’s office.

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

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

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

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

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

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

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

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

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

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

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

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

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

2025 REGULAR AND SPECIAL LEGISLATIVE SESSIONS . . . The Legislature meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Texas Governor (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 regular session of the 89th Texas Legislature (the “89th Regular Session”) convened on January 14, 2025, and adjourned on June 2, 2025. The Governor has called and the Legislature has concluded two special sessions, and together with any special sessions (the "2025 Legislative

Sessions"). The agenda for the first special session included, among other items, "legislation reducing the property tax burden on Texans and legislation imposing spending limits on entities authorized to impose property taxes." Additional special sessions may be called by the Governor.

During the 2025 Legislative Sessions, the Legislature adopted a general appropriations act and legislation affecting ad valorem taxation procedures. The City is still in the process of reviewing legislation passed during the 2025 Legislative Sessions. At this time, the City cannot make any representations as to the full impact of such legislation. Further, the City can make no representations or predictions regarding any proposed legislation on the agenda for the second special session or any additional legislation that may be considered during any special session or the potential impact of such legislation at this time, but it intends to monitor applicable legislation related thereto.

CITY APPLICATION OF PROPERTY TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$20,000; the disabled are also granted an exemption of \$3,000.

The City has not granted any of the additional exemption of 20% of the market value of residence homesteads.

See "Table 1 – Assessed Valuation and Exemption" 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 Ellis County Tax Collector's Office collects taxes for the City.

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

The City does not tax Freeport Property.

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

The City has adopted a tax abatement policy. The City has taken action to tax goods in transit.

TAX ABATEMENT POLICY. . . The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The City enters into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. The City benefits from 380 agreements through the promotion of economic development activity, job creation, increased tax revenues, increased opportunity for input into new development construction of city/county projects, creation of new businesses, infrastructure commitments, and streamlining implementation. These development incentives typically take the form of property tax abatements, loans or grants, commitments for infrastructure, or payments of portions of the sales tax generated by the project. For FY 2024, the City did not rebate any taxes. The City enters into economic development agreements designed to promote development and redevelopment within the City, spur economic improvement, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of the City. A portion of the City's economic development agreements are authorized under Chapter 312 (Property Redevelopment and Tax Abatement) of the Texas Tax Code. The economic development agreements are designed to support the creation of new businesses, the expansion and retention of existing businesses within the City, and the attraction of companies that offer high impact jobs and share the community's values. Recipients may be eligible to receive economic assistance based on the employment, or community impact of the project requesting assistance. Recipients generally commit to building or remodeling real property and related infrastructures, redeveloping properties, expanding operations or bringing targeted businesses to the City. These agreements have no formal recapture provisions. For FY 2024, the City abated \$1,286,929 in taxes.

The City enters into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. The City benefits from 380 agreements through the promotion of economic development activity, job creation, increased tax revenues, increased opportunity for input into new development construction of city/county projects, creation of new businesses, infrastructure commitments, and streamlining implementation. These development incentives typically take the form of property tax abatements, loans or grants, commitments for infrastructure, or payments of portions of the sales tax generated by the project. For FY 2024, the City did not rebate any taxes. On December 19, 2020, the City formally established the Red Oak Public Improvement District No. 1 (the "PID") for the purpose of financing the construction and installation of certain public improvements benefiting property owners within the PID's boundaries. The City entered into a development agreement with Amalgamated Properties, LLC, on November 30, 2020, which was assigned to The Oaks at Red Oak LLC (the "Developer"). Under the terms of development agreement, the City agreed to reimburse the Developer for eligible and budgeted public improvement construction costs in an amount not to exceed \$11,500,000 for certain improvements within the PID. Such reimbursements are to be made solely from special assessments levied against and collected from property owners within the PID. As of the publication date of this document, no reimbursement payments were owed or payable to the Developer. The abatement amount listed in "Table 1 – Assessed Valuation and Exemption" is entirely comprised of the foregoing abatements.

TABLE 1 – ASSESSED VALUATION AND EXEMPTION

| | | |
|---|--------------------|----------------------|
| 2025/2026 Market Valuation Established by Ellis Appraisal District (including totally exempt property) | | \$ 4,205,005,756 |
| Less Exemptions/Reductions at 100% Market Value: | | |
| Productivity Loss | \$ 84,552,652 | |
| Loss to 10% Home Cap | 51,868,914 | |
| Circuit Breaker | 16,113,163 | |
| Over 65 and Disabled | 19,621,506 | |
| Disabled Veteran | 96,421,033 | |
| Absolute Exemptions | 286,346,125 | |
| Freeport Loss | 108,926,235 | |
| Abatement | 389,592,239 | |
| Solar | 1,351,746 | 1,054,793,613 |
| | <u>970,240,961</u> | |
| 2025/2026 Taxable Assessed Valuation | | \$ 3,150,212,143 |
| General Obligation Debt Payable from Ad Valorem Taxes (as of 9/1/2025) | | \$ 69,530,000 |
| The Certificates | | <u>16,215,000</u> |
| Total General Obligation Debt Payable from Ad Valorem Taxes (as of 9/1/2025) | | <u>\$ 85,745,000</u> |
| Less: Self Supporting Debt (Drainage) ⁽¹⁾ | | \$ 53,000 |
| Less: Self Supporting Debt (4A Corp) ⁽¹⁾ | | 192,000 |
| Less: Self Supporting Debt (W&S) ⁽¹⁾ | | 10,200,000 |
| Net General Obligation Debt Payable from Ad Valorem Taxes | | \$ 75,300,000 |
| General Obligation Interest and Sinking Fund (as of 8/1/2025) ⁽²⁾ | | \$ 16,708,016 |
| Ratio General Obligation Tax Debt to Taxable Assessed Valuation | | 2.39% |

2026 Estimated Population - 20,000

Per Capita Taxable Assessed Valuation - \$157,511

Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$4,287

Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$3,765

(1) General obligation debt in the amount shown for which repayment is provided from revenues of the respective revenue systems. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future.

(2) Unaudited.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

| Category | Taxable Appraised Value for Fiscal Year Ended September 30, | | | | | |
|---|---|------------|-------------------------|------------|-------------------------|------------|
| | 2026 | | 2025 | | 2024 | |
| | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | \$ 1,955,155,021 | 46.50% | \$ 1,823,764,876 | 52.23% | \$ 1,855,253,303 | 56.38% |
| Real, Residential, Multi-Family | 256,391,154 | 6.10% | 253,233,550 | 7.25% | 159,180,170 | 4.84% |
| Real, Vacant Lots/Tracts | 86,959,448 | 2.07% | 97,323,301 | 2.79% | 74,308,888 | 2.26% |
| Real, Acreage (Land Only) | 86,274,722 | 2.05% | 92,300,621 | 2.64% | 90,961,860 | 2.76% |
| Real, Farm and Ranch Improvements | 41,687,278 | 0.99% | 53,539,198 | 1.53% | 53,825,924 | 1.64% |
| Real, Commercial | 886,552,753 | 21.08% | 507,621,219 | 14.54% | 462,652,219 | 14.06% |
| Real, Industrial | 87,042,327 | 2.07% | 86,627,217 | 2.48% | 84,091,631 | 2.56% |
| Real and Tangible Personal, Utilities | 44,677,409 | 1.06% | 28,894,758 | 0.83% | 17,757,342 | 0.54% |
| Tangible Personal, Commercial | 260,364,112 | 6.19% | 49,211,939 | 1.41% | 43,412,504 | 1.32% |
| Tangible Personal, Industrial | 167,482,105 | 3.98% | 188,592,614 | 5.40% | 179,246,278 | 5.45% |
| Tangible Other Personal, Mobile Homes | 1,827,937 | 0.04% | 2,057,377 | 0.06% | 2,196,135 | 0.07% |
| Real Property, Inventory | 43,952,965 | 1.05% | 28,797,688 | 0.82% | 26,586,895 | 0.81% |
| Totally Exempt Properties | 286,346,125 | 6.81% | 279,850,836 | 8.01% | 241,045,638 | 7.33% |
| Special Inventory | 292,400 | 0.01% | 118,376 | 0.00% | 108,516 | 0.00% |
| Total Appraised Value Before Exemptions | \$ 4,205,005,756 | 100.00% | \$ 3,491,933,570 | 100.00% | \$ 3,290,627,303 | 100.00% |
| Less: Total Exemptions/Reductions | 1,054,793,613 | | 783,569,303 | | 870,679,076 | |
| Taxable Assessed Value | <u>\$ 3,150,212,143</u> | | <u>\$ 2,708,364,267</u> | | <u>\$ 2,419,948,227</u> | |

| Category | Taxable Appraised Value for Fiscal Year Ended September 30, | | | |
|---|---|------------|-------------------------|------------|
| | 2023 | | 2022 | |
| | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | \$ 1,397,651,909 | 55.72% | \$ 1,058,477,194 | 53.48% |
| Real, Residential, Multi-Family | 123,562,187 | 4.93% | 76,390,894 | 3.86% |
| Real, Vacant Lots/Tracts | 44,404,249 | 1.77% | 21,550,804 | 1.09% |
| Real, Acreage (Land Only) | 69,231,484 | 2.76% | 43,201,279 | 2.18% |
| Real, Farm and Ranch Improvements | 40,124,922 | 1.60% | 31,322,686 | 1.58% |
| Real, Commercial | 260,676,837 | 10.39% | 218,282,520 | 11.03% |
| Real, Industrial | 86,154,029 | 3.43% | 68,505,230 | 3.46% |
| Real and Tangible Personal, Utilities | 17,252,449 | 0.69% | 15,678,860 | 0.79% |
| Tangible Personal, Commercial | 43,075,607 | 1.72% | 40,313,036 | 2.04% |
| Tangible Personal, Industrial | 153,342,152 | 6.11% | 200,632,002 | 10.14% |
| Tangible Other Personal, Mobile Homes | 2,007,636 | 0.08% | 864,190 | 0.04% |
| Real Property, Inventory | 29,642,758 | 1.18% | 30,047,220 | 1.52% |
| Totally Exempt Properties | 241,017,417 | 9.61% | 173,984,506 | 8.79% |
| Special Inventory | 178,267 | 0.01% | 91,940 | 0.00% |
| Total Appraised Value Before Exemptions | \$ 2,508,321,903 | 100.00% | \$ 1,979,342,361 | 100.00% |
| Less: Total Exemptions/Reductions | 672,012,696 | | 529,344,037 | |
| Taxable Assessed Value | <u>\$ 1,836,309,207</u> | | <u>\$ 1,449,998,324</u> | |

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

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TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

| Fiscal Year Ended 9/30 | Estimated Population ⁽¹⁾ | Taxable Assessed Valuation ⁽²⁾ | Taxable Assessed Valuation Per Capita | Net G.O. Tax Debt Outstanding at End of Year ⁽³⁾ | Ratio of Net G.O. Tax Debt to Taxable Assessed Valuation | Net G.O. Tax Debt Per Capita |
|---------------------------------|--|---|--|---|--|--|
| 2022 | 18,673 | \$ 1,449,998,324 | \$ 77,652 | \$ 21,035,000 | 1.45% | \$ 1,126 |
| 2023 | 17,396 | 1,836,309,207 | 105,559 | 26,422,000 | 1.44% | 1,519 |
| 2024 | 18,624 | 2,419,948,227 | 129,937 | 62,911,000 | 2.60% | 3,378 |
| 2025 | 19,500 | 2,708,364,267 | 138,890 | 75,300,000 ⁽⁴⁾ | 2.78% ⁽⁴⁾ | 3,862 ⁽⁴⁾ |
| 2026 | 20,000 | 3,150,212,143 | 157,511 | 71,143,000 ⁽⁴⁾ | 2.26% ⁽⁴⁾ | 3,557 ⁽⁴⁾ |

(1) Source: The City.

(2) As reported by the Ellis Appraisal District on the City's annual State Property Tax Board Reports; subject to change during the ensuing year. Includes Frozen Taxable Values.

(3) Does not include self-supporting debt.

(4) Includes the Certificates.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

| Fiscal Year Ended 9/30 | Tax Rate | General Fund | Interest and Sinking Fund | Tax Levy | % Current Collections | % Total Collections |
|---------------------------------|-------------|-----------------|------------------------------------|---------------------------|---------------------------|------------------------|
| 2022 | \$ 0.703645 | \$ 0.549874 | \$ 0.153771 | \$ 9,857,797 | 99.27% | 101.94% |
| 2023 | 0.697464 | 0.481043 | 0.216421 | 12,434,422 | 98.39% | 98.53% |
| 2024 | 0.696886 | 0.440465 | 0.256421 | 16,127,947 | 98.39% | 98.46% |
| 2025 | 0.696886 | 0.458991 | 0.237895 | 18,292,758 | 99.49% ⁽¹⁾ | 99.49% ⁽¹⁾ |
| 2026 | 0.695306 | 0.457028 | 0.238278 | 21,152,080 ⁽²⁾ | In Process of Collections | |

(1) Collections through August 31, 2025.

(2) Source: City's Fiscal Year 2026 Adopted Budget.

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TABLE 5 - TEN LARGEST TAXPAYERS ⁽¹⁾

| Name of Taxpayer | Nature of Property | 2025/2026 | % of Total |
|-----------------------------------|------------------------|----------------------------------|----------------------------------|
| | | Taxable Assessed Valuation | Taxable Assessed Valuation |
| Qarbon Aerospace Foundation LLC | Manufacturer | \$ 92,321,092 | 2.93% |
| Compass DataCenters DFW IIID LLC | Commercial Real Estate | 86,083,935 | 2.73% |
| Alamo Mission LLC | Commercial Real Estate | 77,798,346 | 2.47% |
| Design LLC | Commercial Real Estate | 64,089,244 | 2.03% |
| LMBP Red Oak LP | Real Estate | 59,715,918 | 1.90% |
| TC/F Red Oak LP | Real Estate | 58,453,064 | 1.86% |
| Compass Data Centers DFW IIIC LLC | Commercial Real Estate | 51,449,487 | 1.63% |
| Red Oak Town Village LP | Apartment Complex | 49,648,000 | 1.58% |
| CZ GA I LLC | Real Estate | 46,371,660 | 1.47% |
| CSL Red Oak 2018 LLC | Real Estate | 29,289,505 | 0.93% |
| | | <u>\$ 615,220,251</u> | <u>19.53%</u> |

- (1) The 2025/2026 Ten Largest Taxpayers in the City currently account for approximately 19.53% of the City's tax base, thereby creating a concentration risk for the City. Adverse developments in economic conditions could adversely impact the businesses that own such properties in the City and the tax values in the City, resulting in less local tax revenue. Economic and market forces, such as a downturn in the economy, or legislative changes impacting funding or property taxation, for example, can also affect assessed values, particularly as these forces might trigger an increase in foreclosures or in delinquent tax payments or in the number of requests submitted to the assessment appeals board for a reduction in assessed value of taxable property in the City.

Source: Ellis Appraisal District

TABLE 6 – ESTIMATED OVERLAPPING DEBT

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

| Taxing Jurisdiction | 2024/2025 | 2024/2025 | Total GO | Estimated | City's |
|---|---------------------------|-------------------------|------------------------------|-----------------|--|
| | Taxable Assessed Value | Tax Rate | Tax Debt as of 9/1/2025 | % Applicable | Overlapping GO Tax Debt as of 9/1/2025 |
| City of Red Oak | \$ 2,708,364,267 | \$ 0.696886 | \$ 85,745,000 ⁽¹⁾ | 100.00% | \$ 85,745,000 ⁽¹⁾ |
| Ellis County | 35,456,117,026 | 0.273992 ⁽²⁾ | 21,260,000 | 7.74% | 1,645,524 |
| Ferris Independent School District | 1,091,945,525 | 1.140800 | 71,347,629 | 3.55% | 2,532,841 |
| Red Oak Independent School District | 4,299,069,095 | 1.103300 | 310,825,000 | 54.16% | 168,342,820 |
| Waxahachie Independent School District | 8,948,432,535 | 1.168100 | 678,220,981 | 0.42% | 2,848,528 |
| Total Direct and Overlapping GO Tax Debt | | | | | \$ 261,114,713 |
| Ratio of Direct and Overlapping GO Tax Debt to Taxable Assessed Valuation | | | | | 9.64% |
| Per Capita overlapping GO Tax Debt | | | | | \$13,390.50 |

(1) Includes self-supporting debt. Includes the Certificates.

(2) Includes Farm to Market (Lateral) tax rate.

DEBT INFORMATION

TABLE 7 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

| Fiscal Year Ending 30-Sep | Outstanding Debt Service | | | The Certificates | | | Less: W&S Syst. Self Supporting Debt Service | Less: Drainage Syst. Self Supporting Debt Service | Less: 4A Corp. Self Supporting Debt Service | Net General Obligation Debt Service | % of Principal Retired |
|------------------------------------|--------------------------|----------------------|-----------------------|----------------------|---------------------|----------------------|--|---|---|--|------------------------------|
| | Principal | Interest | Total D/S | Principal | Interest | Total D/S | | | | | |
| 2025 | \$ 5,411,000 | \$ 2,761,570 | \$ 8,172,570 | \$ - | \$ - | \$ - | \$ 1,833,184 | \$ 94,427 | \$ 9,522 | \$ 6,235,438 | |
| 2026 | 4,877,000 | 2,760,738 | 7,637,738 | 1,050,000 | 579,716 | 1,629,716 | 1,828,721 | 53,479 | 193,734 | 7,191,520 | |
| 2027 | 4,753,000 | 2,598,770 | 7,351,770 | 385,000 | 682,406 | 1,067,406 | 1,761,250 | - | - | 6,657,926 | |
| 2028 | 5,059,000 | 2,420,686 | 7,479,686 | 205,000 | 667,656 | 872,656 | 1,693,900 | - | - | 6,658,442 | |
| 2029 | 5,254,000 | 2,236,003 | 7,490,003 | 200,000 | 657,531 | 857,531 | 1,689,700 | - | - | 6,657,834 | 29.83% |
| 2030 | 5,518,000 | 2,028,438 | 7,546,438 | 195,000 | 647,656 | 842,656 | 1,730,900 | - | - | 6,658,194 | |
| 2031 | 4,047,000 | 1,830,439 | 5,877,439 | 285,000 | 635,656 | 920,656 | 511,700 | - | - | 6,286,395 | |
| 2032 | 3,647,000 | 1,668,230 | 5,315,230 | 300,000 | 621,031 | 921,031 | 510,850 | - | - | 5,725,411 | |
| 2033 | 3,040,000 | 1,523,206 | 4,563,206 | 815,000 | 593,156 | 1,408,156 | 509,450 | - | - | 5,461,913 | |
| 2034 | 3,170,000 | 1,385,031 | 4,555,031 | 860,000 | 551,281 | 1,411,281 | 507,450 | - | - | 5,458,863 | 53.83% |
| 2035 | 3,175,000 | 1,243,831 | 4,418,831 | 650,000 | 513,531 | 1,163,531 | 122,700 | - | - | 5,459,663 | |
| 2036 | 3,325,000 | 1,100,531 | 4,425,531 | 675,000 | 480,406 | 1,155,406 | 120,500 | - | - | 5,460,438 | |
| 2037 | 3,465,000 | 953,381 | 4,418,381 | 720,000 | 445,531 | 1,165,531 | 123,250 | - | - | 5,460,663 | |
| 2038 | 3,620,000 | 802,431 | 4,422,431 | 750,000 | 408,781 | 1,158,781 | 120,950 | - | - | 5,460,263 | |
| 2039 | 3,385,000 | 653,756 | 4,038,756 | 1,145,000 | 361,406 | 1,506,406 | 123,600 | - | - | 5,421,563 | 76.77% |
| 2040 | 3,095,000 | 512,656 | 3,607,656 | 1,195,000 | 308,134 | 1,503,134 | 121,200 | - | - | 4,989,591 | |
| 2041 | 3,225,000 | 370,481 | 3,595,481 | 1,245,000 | 257,809 | 1,502,809 | - | - | - | 5,098,291 | |
| 2042 | 3,055,000 | 231,491 | 3,286,491 | 1,300,000 | 205,319 | 1,505,319 | - | - | - | 4,791,809 | |
| 2043 | 3,195,000 | 95,375 | 3,290,375 | 1,355,000 | 150,559 | 1,505,559 | - | - | - | 4,795,934 | |
| 2044 | 625,000 | 12,500 | 637,500 | 1,410,000 | 92,650 | 1,502,650 | - | - | - | 2,140,150 | 98.38% |
| 2045 | - | - | - | 1,475,000 | 31,344 | 1,506,344 | - | - | - | 1,506,344 | 100.00% |
| | <u>\$ 74,941,000</u> | <u>\$ 27,189,545</u> | <u>\$ 102,130,545</u> | <u>\$ 16,215,000</u> | <u>\$ 8,891,563</u> | <u>\$ 25,106,563</u> | <u>\$ 13,309,305</u> | <u>\$ 147,905</u> | <u>\$ 203,255</u> | <u>\$ 113,576,642</u> | |

TABLE 8 – INTEREST AND SINKING FUND BUDGET PROJECTION

| | | |
|---|------------|-------------------|
| Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2025 | | \$ 6,235,438 |
| Budgeted Interest and Sinking Fund, Fiscal Year Ended 9/30/2024 | \$ 408,188 | |
| Budgeted Interest and Sinking Fund Tax Collections | 6,211,406 | <u>6,619,594</u> |
| Estimated Balance as of Fiscal Year Ending 9/30/2025 | | <u>\$ 384,156</u> |

TABLE 9 – COMPUTATION OF SELF-SUPPORTING DEBT

| | |
|---|-----------------------------|
| Net System Revenue Available, Fiscal Year Ended 9/30/2024 | \$ 2,309,941 |
| Less: Requirements for Revenue Bonds | <u>-</u> |
| Balance Available for Other Purposes | \$ 2,309,941 |
| Requirements for W&S System GO Debt, Fiscal Year Ending 9/30/2025 | \$ 1,833,184 ⁽¹⁾ |
| Percentage of System General Obligation Bonds Self-Supporting | 100% |

(1) The debt service payments are made from budgeted transfers to the Debt Service Fund from the Water & Sewer and General Fund when utility net revenues are not sufficient.

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

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

OTHER OBLIGATIONS . . . The City has several outstanding capital leases and other obligations. For more information and a list of those outstanding obligations, see “APPENDIX B – Excerpts from the Annual Financial Report” and notes thereto.

PENSION FUND . . .The City participates as one of 936 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report that can be obtained at www.TMRS.org. All eligible employees of the City are required to participate in TMRS.

For a more in depth description, see the City’s Notes to the Financial Statements in the audit in Appendix B.

WASTEWATER TREATMENT SERVICES . . .The City contracts with the Trinity River Authority of Texas – Red Oak Creek Regional Wastewater System for wastewater treatment, with no set expiration. The Authority built and operates the regional system serving Red Oak and nearby areas in Ellis and Dallas Counties. The City pays a proportionate share of annual operating, maintenance, and debt costs, billed monthly. Payments for FY 2024 totaled \$5,090,359. These payments secure TRA bonds issued to fund the facility. Financial statements are available from the Trinity River Authority, Arlington, Texas.

WATER PURCHASES . . .The City purchases treated water from the City of Dallas at annually adjusted rates. FY 2024 payments totaled \$1,008,093.

POLICE DISPATCHING SERVICES . . .Since October 2009, the City has contracted with the City of Midlothian for joint dispatch services, extended in 2020 for five years. Red Oak also pays its share of the Ellis Countywide Radio System (ECRS). FY 2024 contributions were \$1,021,195, with \$1,088,073 committed for FY 2025.

FINANCIAL INFORMATION

TABLE 10 – CHANGE IN NET ASSETS

| | Fiscal Year Ended September 30, | | | | |
|--|---------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2024 | 2023 | 2022 | 2021 | 2020 |
| Revenues: | | | | | |
| Program Revenues: | | | | | |
| Charges for Services | \$ 7,387,254 | \$ 5,454,942 | \$ 16,687,995 | \$ 4,167,321 | \$ 9,851,729 |
| Operating Grants and Contributions | 147,877 | 204,421 | 5,082,525 | 1,293,401 | 1,372,677 |
| Capital Grants and Contributions | 1,099,323 | 3,394,276 | 2,789,232 | 2,485,606 | 3,519,935 |
| General Revenues: | | | | | |
| Property Taxes | 16,693,539 | 12,821,642 | 9,938,732 | 8,571,758 | 8,000,818 |
| Sales, Franchise and Other Tax | 9,879,277 | 8,787,745 | 8,421,241 | 7,401,042 | 6,499,512 |
| Investment Earnings | 3,210,513 | 1,968,752 | 299,382 | 52,373 | 332,046 |
| Miscellaneous | 333,817 | 101,674 | 270,180 | 45,403 | 56,382 |
| Capital Contributions | | | | | |
| Gain on Sale of Land Held for Resale | - | - | - | - | - |
| Gain On Sale of Capital Assets | - | - | - | - | - |
| Total Revenues | <u>\$ 38,751,600</u> | <u>\$ 32,733,452</u> | <u>\$ 43,489,287</u> | <u>\$ 24,016,904</u> | <u>\$ 29,633,099</u> |
| Expenses: | | | | | |
| General Government | \$ 4,084,448 | \$ 2,858,917 | \$ 2,465,079 | \$ 1,931,114 | \$ 1,876,147 |
| Public Safety | 12,682,547 | 12,081,171 | 9,686,199 | 8,910,297 | 8,682,659 |
| Cultural and Recreational | 2,488,660 | 2,127,725 | 1,637,434 | 1,051,184 | 848,530 |
| Public Works | 5,296,687 | 3,786,941 | 3,166,498 | 2,895,417 | 2,772,479 |
| Economic Development Corporation | 214,731 | 338,680 | 108,579 | 209,880 | 58,940 |
| Industrial Development Corporation | 370,285 | 222,610 | 158,197 | 5,596,763 | 1,104,636 |
| Interest on Long-Term Debt | 3,700,225 | 2,058,827 | 1,495,075 | 2,259,864 | 1,550,846 |
| Total Expenses | <u>\$ 28,837,583</u> | <u>\$ 23,474,871</u> | <u>\$ 18,717,061</u> | <u>\$ 22,854,519</u> | <u>\$ 16,894,237</u> |
| Increases in Net Assets Before Transfers | \$ 9,914,017 | \$ 9,258,581 | \$ 24,772,226 | \$ 1,162,385 | \$ 12,738,862 |
| Transfers | (124,300) | (2,963,800) | (2,012,392) | (593,000) | - |
| Increase in Net Assets | <u>\$ 9,789,717</u> | <u>\$ 6,294,781</u> | <u>\$ 22,759,834</u> | <u>\$ 569,385</u> | <u>\$ 12,738,862</u> |
| Net Assets - Oct 1 | 61,589,438 | 55,073,846 | 32,314,012 | 31,744,627 | 19,005,765 |
| Prior period adjustment | - | 220,811 | - | - | - |
| Net Assets - Sept 30 | <u>\$ 71,379,155</u> | <u>\$ 61,589,438</u> | <u>\$ 55,073,846</u> | <u>\$ 32,314,012</u> | <u>\$ 31,744,627</u> |

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TABLE 11 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

| | Fiscal Year Ended September 30, | | | | |
|--------------------------------------|---------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2024 | 2023 | 2022 | 2021 | 2020 |
| <u>Revenues:</u> | | | | | |
| Property Taxes | \$ 10,284,317 | \$ 8,501,554 | \$ 7,744,549 | \$ 6,780,776 | \$ 6,060,672 |
| Sales Tax | 4,274,083 | 3,778,234 | 3,620,838 | 3,169,140 | 2,802,285 |
| Franchise and Other Taxes | 914,576 | 855,832 | 779,049 | 728,690 | 742,438 |
| Alcoholic Beverage Tax | 25,710 | 12,339 | 13,191 | 11,185 | 9,878 |
| Licenses and Permits | 4,884,431 | 2,987,884 | 2,084,203 | 1,284,074 | 1,068,879 |
| Intergovernmental | 780,980 | 204,441 | 4,332,525 | 871,688 | 1,372,133 |
| Fines and Forfeitures | 332,964 | 396,129 | 407,678 | 341,300 | 379,145 |
| Charges for Services - Sanitation | 1,127,402 | 1,875,123 | 790,286 | 654,699 | 550,359 |
| Interest | 764,703 | 667,797 | 63,545 | 23,120 | 77,730 |
| Miscellaneous | 331,119 | 81,141 | 77,107 | 77,720 | 188,186 |
| Total Revenues | <u>\$ 23,720,285</u> | <u>\$ 19,360,474</u> | <u>\$ 19,912,971</u> | <u>\$ 13,942,392</u> | <u>\$ 13,251,705</u> |
| <u>Expenditures:</u> | | | | | |
| General Government | \$ 3,502,335 | \$ 2,385,656 | \$ 1,930,982 | \$ 1,678,326 | \$ 1,610,525 |
| Public Safety | 11,634,125 | 11,296,775 | 9,165,129 | 8,303,211 | 8,072,461 |
| Public Works | 3,488,778 | 2,690,803 | 2,185,645 | 2,016,707 | 1,971,561 |
| Cultural and Recreational | 1,730,269 | 1,527,966 | 1,126,605 | 853,375 | 704,904 |
| Economic Development | 2,500 | 36,352 | - | - | - |
| Interest and Fiscal Charges | 3,484 | 10,578 | - | - | 22,100 |
| Principal Retirement | 140,357 | 140,948 | - | - | - |
| Bond Issuance Costs | - | 42,958 | 58,768 | 88,106 | - |
| Capital Outlay | 3,374,422 | 3,446,037 | 1,400,922 | 1,721,787 | 521,132 |
| Total Expenditures | <u>\$ 23,876,270</u> | <u>\$ 21,578,073</u> | <u>\$ 15,868,051</u> | <u>\$ 14,661,512</u> | <u>\$ 12,902,683</u> |
| Excess (Deficiency) of Revenues | | | | | |
| Over (Under) Expenditures | \$ (155,985) | \$ (2,217,599) | \$ 4,044,920 | \$ (719,120) | \$ 349,022 |
| Total Other Financing Sources (Uses) | 1,000,523 | 2,925,375 | 4,505,102 | 1,260,331 | 1,527,225 |
| Net Change in Fund Balance | \$ 844,538 | \$ 707,776 | \$ 8,550,022 | \$ 541,211 | \$ 1,876,247 |
| Prior Period Adjustment | - | - | - | - | - |
| Beginning Fund Balance | 14,754,038 | 14,046,262 | 5,496,240 | 4,955,029 | 3,078,782 |
| Ending Fund Balance | <u>\$ 15,598,576</u> | <u>\$ 14,754,038</u> | <u>\$ 14,046,262</u> | <u>\$ 5,496,240</u> | <u>\$ 4,955,029</u> |

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TABLE 12- MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. 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. In January 1993, the voters of the City also approved the imposition of additional sales and use taxes totaling one-half of one percent (½% of 1%) for Red Oak Industrial Development Corporation. Voters also approved the imposition of an additional sales and use taxes totaling one-half of one percent (½% of 1%) for Red Oak Economic Development Corporation (Type B), effective October of 1996. The sales taxes for economic development are collected solely for the benefit of Red Oak Industrial Development Corporation and Red Oak Economic Development Corporation, respectively, and may be pledged to secure payment of sales tax revenue bonds issued by the corporations.

| Fiscal Year Ended 9/30 | 1% Sales Tax Collected ⁽¹⁾ | % of Ad Valorem Tax Levy | Equivalent of Ad Valorem Tax Rate | Per Capita |
|---------------------------------|--|--------------------------------|--|---------------|
| 2021 | \$ 3,086,900 | 35.61% | \$ 0.2425 | \$ 189.10 |
| 2022 | 3,544,233 | 35.95% | 0.2444 | 189.81 |
| 2023 | 3,778,853 | 30.39% | 0.2058 | 217.23 |
| 2024 | 4,138,629 | 25.66% | 0.1710 | 222.22 |
| 2025 | 4,142,846 ⁽²⁾ | 22.65% | 0.1530 ⁽²⁾ | 212.45 |

(1) Does not include the ½% sales tax for the 4A Corporation or the ½% sales tax for the 4B Corporation which is not available for the City's general use.

(2) Collections through September 2025 (unaudited). As reported by the Texas Comptroller of Public Accounts.

The sales tax breakdown for the City is as follows:

| | |
|------------------------------------|-------|
| Industrial Development Corporation | 0.50% |
| Economic Development Corporation | 0.50% |
| City Sales & Use Tax | 1.00% |
| State Sales & Use Tax | 6.25% |
| Total | 8.25% |

INVESTMENTS

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

LEGAL INVESTMENTS... Under State law, the City is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "PFIA"), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) certificates of deposit where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever

located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above or clause (12) below, which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with SEC Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the SEC that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party designated by the City, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less; and (17) 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.

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

INVESTMENT POLICIES. . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio and (6) yield.

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

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, ending market value and the fully accrued interest of each pooled fund group for the reporting period, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was

acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

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

TABLE 13 - CURRENT INVESTMENTS

As of September 1, 2025 the City's investable funds were invested in the following categories:

| Type of Investment | Market Value | Book Value |
|--------------------|----------------------|----------------------|
| LOGIC | \$ 52,326,849 | \$ 52,326,849 |
| TexPool | 10,033,350 | 10,033,350 |
| TexStar | 2,945,531 | 2,945,531 |
| Total | <u>\$ 65,305,730</u> | <u>\$ 65,305,730</u> |

TAX MATTERS

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the facilities financed or refinanced with the proceeds of the Certificates. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No

assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the 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 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 Certificates should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount 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 an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt 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 CERTIFICATES BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

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

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Certificates, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent

such gain does not exceed the accrued market discount of such Certificates; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system to make such continuing disclosure information available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.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 5 and 7 through 13 within six months after the end of each fiscal year ending in or after 2025. The City will additionally provide audited financial statements when and if available, after the end of each fiscal year ending in or after 2025. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, the City must provide updated information included in the above-referenced tables by March 31 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 Website or filed with the Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”).

NOTICE OF CERTAIN EVENTS. . . The City will also provide the following to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed

Issue (IRS Form 5702-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material, (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. In addition, the City will provide to the MSRB, in a timely manner, notice of any failure by the City to provide the required annual financial information described above under "Annual Reports" and any notices of events in accordance with this section.

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. For the purposes of the above describe event (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a financial obligation shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

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

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of 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 holders and beneficial owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City so amends its continuing disclosure agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS. . . A notice of incurrence of a financial obligation was not posted to EMMA in connection with the issuance of the City's Tax Note, Series 2020 on February 11, 2020. The City made corrective filings on September 28, 2020 noting the failure to timely file the required information, and has implemented procedures to ensure timely filing of notices related to financial obligations. Except as stated above, during the last five years, the City believes that it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATING

The Certificates have been rated "AA" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), without regard to credit enhancement. The rating reflects only the views of such organization and the City makes no representation

as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of said company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

LITIGATION

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

CYBERSECURITY RISK MANAGEMENT

The City, like other entities in the State, utilizes technology in conducting its operations. As a user of technology, the City faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the City may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the City. The City employs a multi-layered approach to combating cybersecurity threats. While the City deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the City's finances or operations. The costs of remedying such breaches or protecting against future cyberattacks could be substantial and there is no assurance that these costs will be covered by insurance. Further, cybersecurity breaches could expose the City to litigation and other legal risks, which could cause the City to incur other costs related to such legal claims or proceedings.

WEATHER EVENTS

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

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

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

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

LEGAL OPINIONS

The City will furnish 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 Initial Certificate 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 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. In its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Notice of Sale and Bidding Instructions, the Official Bid Form and this Official Statement to verify that such information conforms to the provisions of the Ordinance. In connection with the transactions described in the Official Statement, Bond Counsel represents only the City. The City expects to pay the legal fees of Bond Counsel for services rendered in connection with the issuance of the Certificates from proceeds of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. McCall, Parkhurst & Horton L.L.P. is also serving as Disclosure Counsel to the City in connection with the issuance of the Certificates. The City expects to pay the legal fees of Disclosure Counsel for services rendered in connection with the issuance of the Certificates from proceeds of the Certificates.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and 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.

MUNICIPAL ADVISOR

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

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

INITIAL PURCHASER FOR THE CERTIFICATES

The Initial Purchaser has agreed, subject to certain conditions, to purchase the Certificates from the City, at a price equal to \$16,918,107.00, which represents the par amount of the Certificates, plus an original issue reoffering premium of \$753,746.95 and less an underwriting discount of \$50,639.95. The Initial Purchaser will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Initial Purchaser and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Initial Purchaser.

CERTIFICATION AS TO OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the Initial Purchaser will be furnished a certificate executed by a proper City official acting in such person's official capacity, to the effect that: (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 the sale of the Certificates, and on 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 statement therein, in light of the circumstances under which they were made, not misleading; (c) to the best of such person's knowledge, insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City and its activities, contained in the Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since September 30, 2024, the date of the last audited financial statements of the City, portions of which appear in the Official Statement.

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 authorizing the issuance of the Certificates 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.

MARK STANFILL, DVM

Mayor

City of Red Oak, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

The City of Red Oak (the "City" or "Red Oak") is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Home Rule Charter in 1997. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The Mayor and City Councilmembers are elected for staggered three-year terms. The City Manager is the chief administrative officer for the City. The 2000 Census population for the City was 5,235, The 2010 Census population for Red Oak was 10,769, the 2020 Census population was 14,22 and North Central Texas Council of Governments (NCTCOG) projects by the year 2030, Red Oak's population will grow to 63,329. The estimated 2026 population is 20,000. The City covers approximately 15.22 square miles.

The City is located in northern Ellis County, 20 miles south of downtown Dallas and is served by a major interstate highway I-35E bisecting the City, and I-20 located nine miles north. Red Oak is also bisected by state highways 664 and 342 giving easy access in all directions. Red Oak is uniquely situated to provide easy accessibility to the entire North Texas area. The close proximity to job opportunities in Dallas, Fort Worth and the Mid-Cities continues to contribute to growth in the City. The City is a member of the Best-Southwest Communities, which also consists of Cedar Hill, Desoto, Duncanville and Lancaster.

INDUSTRY AND TRADE

The City major employers are as follows:

| Name of Firm | Type of Business | Approximate Number of Employees |
|-------------------------------------|------------------------|---------------------------------------|
| Red Oak Independent School District | Education | 1,028 |
| Bombardier US Aerospace Corporation | Industry | 583 |
| Qarbon Aerospace | Military Manufacturer | 425 |
| Walmart Supercenter | General Retail/Grocery | 185 |
| Chick-Fil-A | Restaurant | 150 |
| City of Red Oak | Local Government | 140 |
| John Houston Custom Homes | Home Builder | 134 |
| Schneider | Industry | 125 |
| Red Oak Health & Rehab | Medical | 112 |
| Brookshire Grocery | Grocery and Pharmacy | 98 |

Source: City Staff

The City is home to three business parks. Additionally, there are two industrial parks that total 390 acres. All are convenient to I-35E.

EDUCATION

The Red Oak Independent School District (the "District") has a total enrollment of approximately 5,900 students and consists of 1 high school serving grades 9 through 12; 1 middle school serving grades 6-8; and 5 elementary schools serving Pre-K through 5. The District employs 838 persons. Quality instruction is provided by a qualified teaching staff, with a student-teacher ratio of 15:1. The District earned 11 Academic Distinctions and a B rating in 2018. The District has many programs for students that prepare them for the future, including dual credit classes to allow students to receive high school and college credits at the same time.

Texas State Technical College - North Texas campus located in Red Oak ("TSTC North Texas") features a campus of more than 100,000 square feet that opened in September 2014. This campus houses many of TSTC's high-tech, advanced workforce programs with state-of-the-art labs for students to develop skills that are critical in the workplace. Located in the heart of Ellis County, this campus is ready to serve the businesses and students of the Dallas-Fort Worth Metroplex.

The City is readily accessible to higher education facilities with many junior colleges, colleges and universities within commuting distance. In addition, an adult education program is provided within the City in conjunction with Navarro College, a two-year accredited, state-supported, community college with Ellis County district campuses located in Waxahachie and Midlothian.

LABOR FORCE

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

| | August | Average Annual | | | |
|----------------------|---------|----------------|---------|---------|---------|
| | 2025 | 2024 | 2023 | 2022 | 2021 |
| Civilian Labor Force | 124,008 | 122,199 | 119,429 | 112,368 | 105,132 |
| Total Employed | 118,716 | 117,674 | 115,125 | 108,519 | 100,509 |
| Total Unemployed | 5,292 | 4,525 | 4,304 | 3,849 | 4,623 |
| Unemployment Rate | 4.3% | 3.7% | 3.6% | 3.4% | 4.4% |

HOUSING

Because Red Oak is strategically located within the Dallas-Fort Worth Motorplex, our community is a preferred residential location for individuals and families. A number of new single family residential developments within Red Oak totaling approximately 1,800 new lots have been constructed or will be constructed over the next few years. These new residential developments include: Brothers Blvd. Townhomes (12 lots - Complete and 100% Occupied), Camden Park of Red Oak (167 lots - Complete and 100% Occupied), Cole Manor (71 lots - Complete and 100% Occupied), The Cove at Hickory Creek (60 lots - Complete and 100% Occupied), Creek Bend (152 lots - Complete and 100% Occupied), Crystal Lake (90 lots - Complete and 100% Occupied), Harmony Estates (134 lots - Complete and 100% Occupied), Hickory Creek Estates, Phases 2 and 3 (216 lots - Complete and 100% Occupied), The Woods of Red Oak (132 lots - Complete and 100% Occupied), Oakmont, Phases 1, 2 & 3 (510 lots - 80% Complete and 50% Occupied), Meadow Ridge (232 lots - Currently Under Construction), Red Oak Gardens (24 lots - Currently in Design Phase).

In addition, Legacy Oaks of Red Oak, a stratified senior living facility features 20 single story cottages, 87 independent living units in a two-story structure, and 80 assisted living and memory care units in a single-story structure (Complete and 100% Occupied).

SERVICES AVAILABLE WITHIN THE COMMUNITY

Six banks presently offer quality services to the citizens of Red Oak and the surrounding areas.

Red Oak residents are indeed fortunate that world-class hospitals and healthcare centers are readily available. Conveniently located within a 10-minute drive time at the intersection of IH-35E and US 287, the Baylor Scott & White Medical Center - North Texas provides superior medical and special services from allergists to urologists. In addition, Baylor Medical Center at Lancaster, located 6 miles away, and Methodist Medical Center, a major healthcare facility in Dallas County is located 20 miles away. Hospital Corporation of America/Arlington Medical Center is currently constructing a 20,400 square foot multiple component health care facility which will include an emergency room, women's services, imaging, and internal medicine

Three hotels are available to visitors to the Red Oak and North Texas area.

The City operates two municipal parks and a nature center. Several lakes are within an hour's drive of the City. Joe Pool Lake is located 30 minutes away and is a multi-purpose water resource project covering approximately 7,500 acres. Cedar Hill State Park adjoins Joe Pool Lake with abundant camping, hiking, and picnicking facilities. Several religious faiths are represented in the nine churches established in the City.

The Metroplex offers a wide array of entertainment, cultural and sports activities, including the Dallas Zoo, Fort Worth Zoo, Dallas World Aquarium, Six Flags Over Texas, Dallas Symphony Orchestra, Dallas Theater Center, and many museums. Within driving distance, professional and college football, baseball, basketball, hockey, and soccer games are available for area residents to attend.

Numerous other services are available to the citizens of Red Oak and the surrounding area, as well. This growing community has something for everyone. The City Council works with staff and community leaders, striving to anticipate and meet the needs of all residents in order to ensure that once they arrive in Red Oak, they will want to stay!

APPENDIX B

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

The information contained in this Appendix consists of excerpts from the City of Red Oak, Texas, Annual Financial Report for the Year Ended September 30, 2024, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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City of Red Oak, Texas

Annual Comprehensive Financial Report

*for the Fiscal Year Ended
September 30, 2024*

Prepared by the Finance Department



CITY OF RED OAK, TEXAS

YEAR ENDED SEPTEMBER 30, 2024

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INTRODUCTORY SECTION

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April 30, 2025

**To the Honorable Mayor, City Council
and Citizens of the City of Red Oak, Texas**

Submitted herewith is the Annual Comprehensive Financial Report (the “ACFR”) of the City of Red Oak (the “City”) for the fiscal year ended September 30, 2024. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects. The data is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. To enable the reader to gain an understanding of the City’s financial activities, all necessary disclosures have been included.

The ACFR is prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America established by the Governmental Accounting Standards Board (GASB). The ACFR is presented in three sections: introductory, financial and statistical. The introductory section includes this transmittal letter, the City’s organizational chart, and a list of principal officials. The financial section includes the management’s discussion and analysis (MD&A), the government-wide and fund financial statements, notes to basic financial statements, required supplemental information, other supplemental information, as well as the independent auditor’s report on the basic financial statements. The Statistical section includes selected financial and demographic information which is presented on a multi-year basis.

The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. The MD&A can be found immediately following the independent auditor’s report. This transmittal is designed to complement the MD&A and should be read in conjunction with it.

THE REPORTING ENTITY

The City was incorporated in 1849 under the general laws of the State of Texas. The City operates under a council-manager form of government. The City provides a full range of municipal services authorized by statute or charter. These services include police and fire protection, water and wastewater services, the construction and maintenance of streets, infrastructure and other related facilities, code enforcement, building inspections, parks and recreation, library, public improvements, planning and zoning, economic development, and general administrative services.

The ACFR includes all funds of the City. This report includes all government activities, organizations and functions for which the City is financially accountable. The criteria used in determining activities to be reported within the City’s basic financial statements are based upon and consistent with those set forth by the GASB.



THE CITY

The City of Red Oak (the “City” or “Red Oak”) is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City first adopted its Home Rule Charter in 1997. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The Mayor and City Council members are elected for staggered three-year terms. The City Manager is the chief administrative officer for the City. The 2000 Census population for the City was 5,235, the 2010 Census population for Red Oak was 10,769, the 2020 Census population for the City was 14,222, and the 2024 Census population for the city was 18,624. North Central Texas Council of Governments (NCTCOG) projects by the year 2030, Red Oak’s population will grow to 63,329. The City covers approximately 15.22 square miles.

The City is located in northern Ellis County, 20 miles south of downtown Dallas and is served by a major interstate highway I-35E bisecting the City, and I-20 located nine miles north. Red Oak is also bisected by state highways 664 and 342 giving easy access in all directions. Red Oak is uniquely situated to provide easy accessibility to the entire North Texas area. The close proximity to job opportunities in Dallas, Fort Worth and the Mid-Cities continues to contribute to growth in the City. The City is a member of the Best-Southwest Communities, which also consists of Cedar Hill, Desoto, Duncanville and Lancaster.

As a result of the exponential growth and development taking place in Red Oak and vicinity, the Texas Department of Transportation (TxDOT) is in the process of improving the public transportation network. Construction work has commenced on the improvements and widening to FM 664/Ovilla Road. These improvements and widening include the expansion of FM 664/Ovilla Road to six lanes extending from I-45 to at the City of Ferris to US 287 at its intersection with FM 64/Ovilla Road at the City of Waxahachie. In addition, an overpass will be constructed along I-45 to the south of Ferris which will facilitate the flow of traffic along FM 664/Ovilla Road. Also, the FM 664/Ovilla Road overpass located at I-35E will be reconstructed to improve traffic flows and increase the capacity of the overpass. This expansion and construction is necessary as current data shows that the intersection of FM 664 and I-35E in Red Oak is currently one of the busiest intersections in Ellis County.

Due to the growth and development of the Red Oak vicinity and the related traffic congestion, the long anticipated South Loop 9 is complete! Loop 9 connects I-45 with I-35E. The route for the South Loop 9 project will closely follow along the northern boundary line for Ellis County and the southern boundary line for Dallas County.

Red Oak is a growing, thriving community with good challenges. The population is increasing and exceptional quality homes and developments are being built in Red Oak to accommodate this growth. In addition, due to the growth in the City and the surrounding area, retail development has been rising, and is expected to continue to do so. The median household income for 2024 is \$105,309. Red Oak’s population in 2024 was an estimated 18,624 which is an increase of 26% since the 2020 Census.

In Fiscal Year 2024, General Fund property tax revenues increased by \$1,782,763 from the previous year. At the same time, sales taxes revenues increased in the General Fund by \$495,849 because of growth in population and retail services available within the community.

Growth in the city has also created the need for additional public infrastructure. More on this topic will be included in Management’s Discussion and Analysis, which starts on page 3.



HOUSING – RESIDENTIAL DEVELOPMENT

The City of Red Oak is strategically located within the Dallas-Fort Worth Metroplex. Therefore, Red Oak is a preferred residential location for individuals and families. A number of new single-family residential developments within the Red Oak community are planned for construction during FY 2025. The average permitted valuation per single family residence is approximately \$306,552. New residential developments include the Emerson Apartments, Legacy Square Apartments, Oakpointe Apartments, and single-family residential developments such as Creek Bend, Crystal Lake, Meadow Ridge, Oakmont, Summerwood, and The Oaks.

COMMERCIAL AND RETAIL DEVELOPMENT

The Red Oak Legacy Square development is a major mixed-use commercial retail and upper-scale multifamily living facility. The project is being developed by Victron Energy Group, one of the largest fuel distributorships in the United States. Red Oak Legacy Square is located on approximately 68 acres at the northwest quadrant of the I-35E and FM 664/Ovilla Road intersection.

The Red Oak Legacy Square Development began construction of the Marriott Towne Place Suites the 1st quarter of 2024. This luxury hotel will have 85 rooms.

Victron Group and B&B Theatres, the 6th largest theatre chain in North America, have partnered in the primary anchor for Red Oak Legacy Square. The B&B Theatres Family Entertainment Center is the new upscale, state-of-the-art theater complex which features 12 theaters and some of B&B's most innovative theatrical concepts. The Grand Screen is an unbelievable 70 feet wide, making it one of the largest screens in the nation!

INDUSTRY

In 2021, it was announced that Alamo Mission, LLC was selected by Trade & Industry Development™ as one of fifteen National Corporate Investment winners of the prestigious CiCi Award for Technology/R&D. The datacenter project in Red Oak was nominated for the CiCi Award by the Office of Texas Governor Greg Abbott. In mid-2019, it was announced that the company's newest hyperscale data center will be located in Red Oak, Texas in a project that will cover 166 acres at the intersection of State Highway 342 and Ovilla Road, about 20 miles south of Dallas. The land was previously used for agricultural purposes. Dallas-Fort Worth is one of the biggest data center markets in the world. The construction of the new data center is expected to create 40 direct jobs and additional indirect employment within the Red Oak area, both during construction and permanently.

In 2021, Compass Datacenters/Red Oak was awarded the "Best Datacenter Project" during D-CEO's 9th Annual Commercial Real Estate Awards program. Compass Data Centers prestigious award reaffirms the fact that Red Oak is well on its way to becoming the next major crossroads on the information superhighway. Compass Datacenters' 225-acre data center is a huge part of that fact. Compass Datacenters "Red Oak I" facility is a 6MW data center and the first facility of 16 to be built on the campus that will bring the first 50 of 800 jobs expected to be created by the center. Compass Datacenters Red Oak development features a 252 Megawatt campus that sits on 225 acres along Houston School Road featuring an on-site sub-station serviced by multiple fiber paths to offer substantial room for future growth. Compass Datacenters Red Oak is developing its 225 acre campus to include multiple datacenter buildings for globally competitive high technology corporations. Phase 1 of construction is complete with five individual data center buildings. The data centers are 250,000 square foot per individual data center. Phase 2 of construction commenced during the 1st quarter of 2024.



In 2021, Triumph Aerospace Structures, LLC was acquired by Arlington Capital Partners, a Washington, DC-area private equity firm. Subsequently, the business name for the Triumph Aerospace Structures in Red Oak was changed to Qarbon Aerospace. Qarbon Aerospace is a premier manufacturer of cutting-edge composite components and assemblies at all levels of complexity, with products installed on the industry's most advanced commercial and military aircraft. Qarbon Aerospace Red Oak facility is uniquely situated amid a thriving aerospace & defense marketplace. Leaning on a rich legacy extending over 100-years, the factory has a dominant military portfolio (Northrop Grumman HALE, Boeing V-22, Boeing T-7A, and Pratt & Whitney F135), while staying balanced with commercial (Boeing 767, Bell 525 Relentless) and business (Gulfstream G600) products. Adding to the robust manufacturing capabilities, the site integrates a Thermoplastics Center of Excellence and structural test capabilities that offer differentiating capabilities to our customers in the commercial, defense, space, eVTOL, and UAM marketplaces.

Bombardier Aerospace Red Oak is the home for the industry's flagship Global 7500 aircraft. The Global 7500 aircraft stands alone as the world's largest and longest range business jet. Within its luxurious interior are four true living spaces, a full-size kitchen and a dedicated crew suite. Elevate your flight experience and discover the uninhibited freedom and tailored luxury of the Global 7500 aircraft—a new class of business jet. Bombardier Aerospace Red Oak. Bombardier Aerospace Red Oak has partnered with Texas State Technical College North Texas in Red Oak (TSTC) in developing and implementing a two-year Bombardier Aviation Apprenticeship Program (BAAP). This innovative apprenticeship program offers students a chance to enter the high-tech aerospace sector with no formal qualifications. It challenges them to present a winning attitude and develop mechanical dexterity and sound logic skills to be able to pass an entry-level aptitude test. In turn, Bombardier and TSTC offer expert training in conjunction with TSTC's excellent facilities, allowing students to benefit at no-cost from industry-tailored modules, experienced instructors, tools and equipment and financial support. The Bombardier apprenticeship training program and its association with Texas State Technical College (TSTC) in Red Oak, Texas, has gained official registration by the US Department of Labor. With this important designation, Bombardier can expand its search for talented individuals from across the USA to maximize its talent pool and drive regional aerospace growth for the manufacture of the advanced metallic wing for the Global 7500 aircraft at its Red Oak facility.

EDUCATION AND INDUSTRY PARTNERSHIPS

The City of Red Oak Industrial Development Corporation ("CROIDC") partnered with Texas State Technical College North Texas in Red Oak ("TSTC") to provide scholarships to Red Oak students planning to attend TSTC in Red Oak. The ROIDC scholarship to TSTC provides financial assistance to Red Oak students for attaining upward mobility and improving the quality of life for our students and their families. In addition, the TSTC North Texas campus provides students the opportunity to receive state-of-the-art higher education technical and vocational workforce training in Red Oak so they may be better prepared for success well into the future. The ROIDC scholarship is available to students living within Red Oak's city limits and may be used for TSTC school-related expenses. The recipient must attend the North Texas campus to be eligible. Students may be traditional or non-traditional students and attend school on a full time or part time basis. The scholarship is open to new and current students and all students must be in good academic and behavioral standing to be eligible. The college's staff awards the scholarship, which may be presented to recipients in multiple semesters. Scholarships in the amount up to \$1,000 are awarded to students.

FINANCIAL PLANNING AND FISCAL POLICIES

The City continues to update the master plans to guide the City's long-term growth and financial planning. These plans are used to determine budget allocations to the various departments and activities of the City.

The City's fiscal management policy requires a minimum fund balance for numerous funds. The fund balance reserve plan is guiding the City to meeting the fund balance reserve plans for each of the funds.



ACCOUNTING SYSTEM AND BUDGETARY CONTROL

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. Management must also ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of the control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework.

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues recognized when measurable and available, and expenditures recorded when the liability is incurred. Proprietary operations are maintained on full accrual basis.

The objective of budgetary controls is to ensure compliance with legal provisions contained in the annual budget approved by the City Council. Activities of the general fund, special revenue funds and debt service funds are included in the annual budget. The budget is developed and controlled at the department level although appropriations are set at the fund level, and encumbrances are entered at the time a purchase order is issued. Outstanding encumbrance's lapse at fiscal year-end, and the subsequent year's budget must absorb the expenditures when incurred. Separate multi-year budgets are developed for the capital projects funds.

OTHER INFORMATION

Independent Audit:

The City Charter requires an annual audit of the accounting financial records and transactions of all departments of the City. The City charter specifies that such audit be conducted by independent auditors selected by the City Council. Pattillo, Brown & Hill, L.L.P. was selected by the City Council to conduct this year's audit. The independent auditor's report on the basic financial statements is included in the financial section of this report.

Certificate of Achievement:

This is the eleventh year the City has submitted the annual comprehensive financial report ("ACFR") to the Government Finance Officers Association of the United States and Canada (GFOA) to be reviewed for the Certificate of Achievement. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Annual Report, whose contents conform to program standards. The Annual Comprehensive Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The City has received the Certificate of Achievement for the Fiscal Years 2012 - 2023. We believe the current report continues to conform to the Certificate of Achievement program requirements, and we are submitting the 2024 Annual Comprehensive Financial Report to GFOA to determine its eligibility for another certificate.



ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished on a timely basis without the dedication and efficiency of the entire staff of the Finance Department. We would like to express our appreciation to all City employees who assisted and contributed to its presentation.

Additionally, we would also like to thank the members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully,



Ashley K. Tierney, CFE, CGFM
Director of Finance



Tori Strhan
Assistant Finance Director





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Red Oak
Texas**

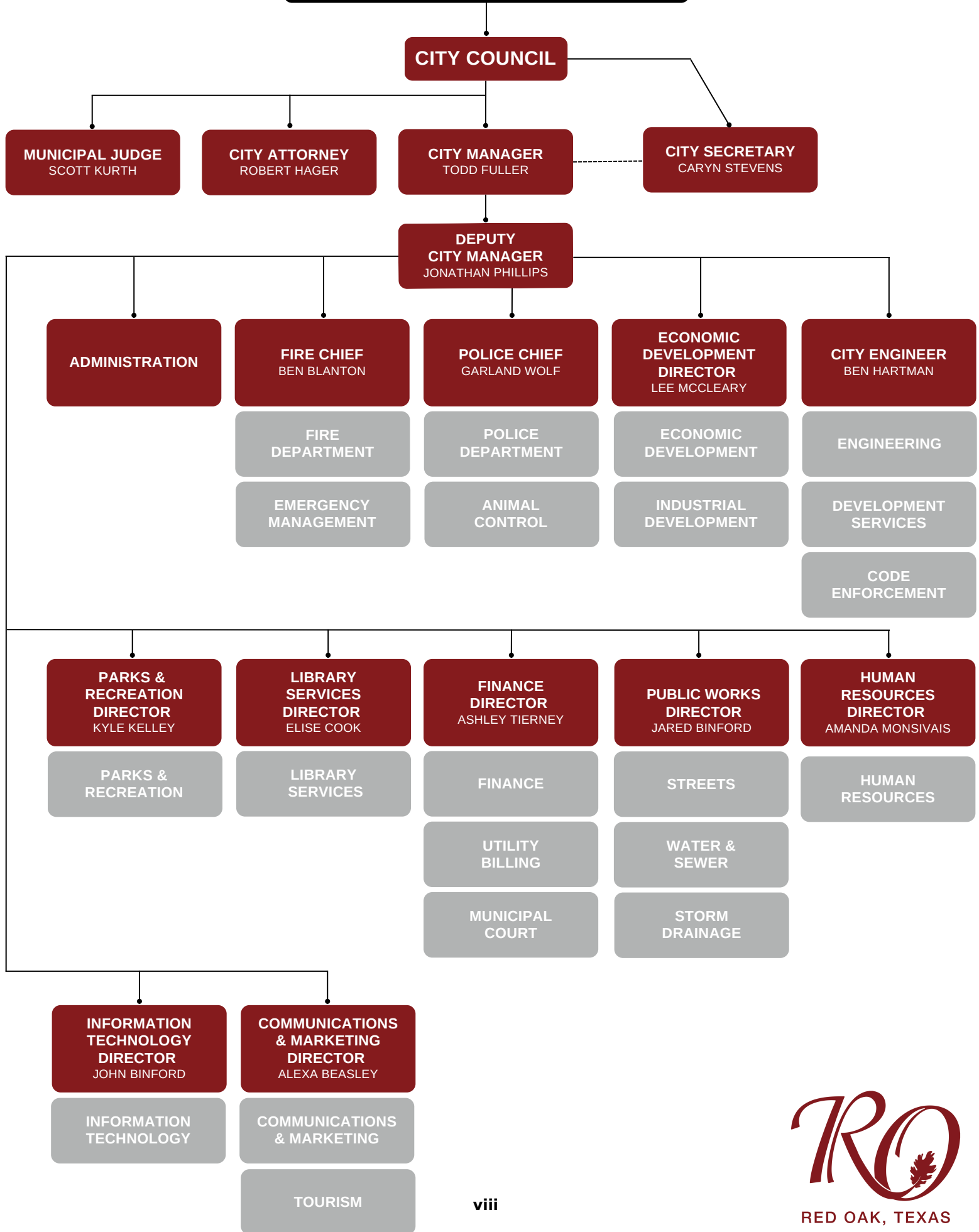
For its Annual Comprehensive
Financial Report
for the Fiscal Year Ended

September 30, 2023

Christopher P. Morrell

Executive Director/CEO

CITIZENS OF RED OAK, TEXAS



CITY OF RED OAK, TEXAS

CITY OFFICIALS

FISCAL YEAR 2024

Mark L. Stanfill, DVM

Mayor

Jeffrey Smith

Mayor Pro Tem

Willie G. Franklin Jr.

Council Member — Place 1

Ben Goodwyn

Council Member — Place 2

Ricardo Miller

Council Member — Place 3

Tim Lightfoot

Council Member — Place 4

City Manager

Todd Fuller

Deputy City Manager

Jonathan Phillips

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
and Members of City Council
City of Red Oak, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Red Oak, Texas, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Red Oak, Texas' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Red Oak, Texas as of September 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in the notes to the basic financial statements, during the year ended September 30, 2024, the City of Red Oak, Texas implemented Governmental Accounting Standards Board (GASB) Statement No. 100, Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62. Our opinions are not modified with respect to this matter

OFFICE LOCATIONS

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

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 of Red Oak, Texas' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Red Oak, Texas' 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 of Red Oak, Texas' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

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

The responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Comprehensive Financial Report

Management is responsible for the other information included in the annual comprehensive financial report (ACFR). The other information comprises the introductory section, and statistical section but does not include the financial statements and our auditor's report thereon. Our opinions on the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2025, on our consideration of the City of Red Oak, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Red Oak, Texas's internal control over financial reporting and compliance.

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

Waco, Texas
April 30, 2025

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Red Oak, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2024. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found preceding this report.

FINANCIAL HIGHLIGHTS

- On a government-wide basis, the assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$100,003,788 (Net Position). Of this amount, \$396,324 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- On a government-wide basis, the City's total net position increased by \$15,948,772. This increase is attributable largely to property tax revenues, capital contributions, and investment earnings.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$106,525,973. Approximately 12.2% of this total amount, \$12,951,999 is unassigned and available for use at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$12,951,999 or 54.2% of the total General Fund expenditures.
- The City's outstanding debt increased by \$34,102,949 or 46.7% during the current fiscal year due to the continued payment of principal and interest requirements on long term debt.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The Statement of Net Position presents information on all of the City's assets, deferred outflows, liabilities and deferred inflows, with the difference between these 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 Activities presents information showing how the City's Net Position changed during the most recent fiscal year. All changes in Net Position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, cultural and recreational, public works, industrial development and economic development. The business-type activities of the City include utility operations. The Red Oak Economic Development Corporation and Red Oak Industrial Development Corporation, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 13-15 of this report.

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

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

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

The City maintains nine individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Industrial Development Corporation, and Economic Development Corporation funds, all of which are considered to be major funds. Data from the other five funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Annual appropriated budgets are adopted for the General Fund, Industrial Development Corporation and the Economic Development Corporation. A budgetary comparison schedule has been provided for the General Fund Industrial Development Corporation and the Economic Development Corporation, to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 16-21 of this report.

Proprietary Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses two enterprise funds to account for its utility operations, one for water and sewer utilities and the other is for storm water utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 22-25 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 can be found on pages 25-46 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with non-major governmental funds. Combining and individual statements and schedules can be found on pages 55-58 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, Net Position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$100,003,788 as of September 30, 2024.

Net Position

| | Governmental Activities | | Business-type Activities | | Totals | |
|----------------------------------|-------------------------|---------------|--------------------------|---------------|----------------|---------------|
| | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| Current and other assets | \$ 110,891,593 | \$ 71,706,774 | \$ 6,365,088 | \$ 8,310,547 | \$ 117,256,681 | \$ 80,017,321 |
| Capital assets | 60,240,372 | 51,541,845 | 36,471,154 | 31,134,641 | 96,711,526 | 82,676,486 |
| Total assets | 171,131,965 | 123,248,619 | 42,836,242 | 39,445,188 | 213,968,207 | 162,693,807 |
| Deferred outflows of resources | 1,111,484 | 1,425,034 | 453,739 | 579,191 | 1,565,223 | 2,004,225 |
| Long-term liabilities | 96,167,786 | 60,617,240 | 12,769,086 | 14,627,640 | 108,936,872 | 75,244,880 |
| Other liabilities | 4,412,807 | 2,223,635 | 1,794,982 | 2,793,757 | 6,207,789 | 5,017,392 |
| Total liabilities | 100,580,593 | 62,840,875 | 14,564,068 | 17,421,397 | 115,144,661 | 80,262,272 |
| Deferred inflows of resources | 283,701 | 243,340 | 101,280 | 137,404 | 384,981 | 380,744 |
| Net position: | | | | | | |
| Net investment in capital assets | 21,077,642 | 12,684,326 | 24,257,061 | 17,193,151 | 45,334,703 | 29,877,477 |
| Restricted | 51,291,853 | 48,117,820 | 2,980,908 | 2,142,656 | 54,272,761 | 50,260,476 |
| Unrestricted | (990,340) | 787,292 | 1,386,664 | 3,129,771 | 396,324 | 3,917,063 |
| Total net position | \$ 71,379,155 | \$ 61,589,438 | \$ 28,624,633 | \$ 22,465,578 | \$ 100,003,788 | \$ 84,055,016 |

A portion of the City's Net Position, \$45,334,703 or 45.3%, reflects its investments in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's Net Position (\$54,236,243 or 54.2%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted Net Position (\$396,324 or 0.4%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report a positive Net Position, both for the government as a whole, as well as for its separate categories - governmental activities and business-type activities.

Analysis of the City's Operations: The following table provides a summary of the City's operations for the year ended September 30, 2024. On a government-wide basis, governmental activities increased the City's Net Position by \$9,789,717 and business-type activities increased the City's Net Position by \$6,159,055.

Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Totals | |
|------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 7,387,254 | \$ 5,454,942 | \$ 12,097,051 | \$ 11,197,350 | \$ 19,484,305 | \$ 16,652,292 |
| Operating grants and contributions | 147,877 | 204,421 | - | - | 147,877 | 204,421 |
| Capital grants and contributions | 1,099,323 | 3,394,276 | 5,974,875 | 4,542,818 | 7,074,198 | 7,937,094 |
| General revenues: | | | | | | |
| Property tax | 16,693,539 | 12,821,642 | - | - | 16,693,539 | 12,821,642 |
| Sales tax | 8,548,167 | 7,556,468 | - | - | 8,548,167 | 7,556,468 |
| Franchise tax | 914,576 | 855,832 | - | - | 914,576 | 855,832 |
| Hotel occupancy tax | 390,824 | 363,106 | - | - | 390,824 | 363,106 |
| Alcoholic beverage tax | 25,710 | 12,339 | - | - | 25,710 | 12,339 |
| Investment earnings | 3,210,513 | 1,968,752 | 94,143 | 208,250 | 3,304,656 | 2,177,002 |
| Miscellaneous | 333,817 | 101,674 | - | - | 333,817 | 101,674 |
| Gain on sale of assets | - | - | - | - | - | - |
| Total revenues | <u>38,751,600</u> | <u>32,733,452</u> | <u>18,166,069</u> | <u>15,948,418</u> | <u>56,917,669</u> | <u>48,681,870</u> |
| Expenses: | | | | | | |
| General government | 4,084,448 | 2,858,917 | - | - | 4,084,448 | 2,858,917 |
| Public safety | 12,682,547 | 12,081,171 | - | - | 12,682,547 | 12,081,171 |
| Culture and recreation | 2,488,660 | 2,127,725 | - | - | 2,488,660 | 2,127,725 |
| Public works | 5,296,687 | 3,786,941 | - | - | 5,296,687 | 3,786,941 |
| Industrial development | 370,285 | 222,610 | - | - | 370,285 | 222,610 |
| Economic development | 214,731 | 338,680 | - | - | 214,731 | 338,680 |
| Interest on long-term debt | 3,700,225 | 2,058,827 | - | - | 3,700,225 | 2,058,827 |
| Utility | - | - | 11,625,388 | 10,636,522 | 11,625,388 | 10,636,522 |
| Storm water | - | - | 505,926 | 704,169 | 505,926 | 704,169 |
| Total expenses | <u>28,837,583</u> | <u>23,474,871</u> | <u>12,131,314</u> | <u>11,340,691</u> | <u>40,968,897</u> | <u>34,815,562</u> |
| Transfers | <u>(124,300)</u> | <u>(2,963,800)</u> | <u>124,300</u> | <u>2,963,800</u> | <u>-</u> | <u>-</u> |
| Change in net position | 9,789,717 | 6,294,781 | 6,159,055 | 7,571,527 | 15,948,772 | 13,866,308 |
| Net position, beginning | <u>61,589,438</u> | <u>55,073,846</u> | <u>22,465,578</u> | <u>14,853,121</u> | <u>84,055,016</u> | <u>69,926,967</u> |
| Prior period adjustment | - | 220,811 | - | 40,930 | - | 261,741 |
| Net position, ending | <u>\$ 71,379,155</u> | <u>\$ 61,589,438</u> | <u>\$ 28,624,633</u> | <u>\$ 22,465,578</u> | <u>\$100,003,788</u> | <u>\$ 84,055,016</u> |

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$106,525,973. Approximately 12.2% of this total amount, \$12,951,999 is unassigned fund balance. The remainder of the fund balance is not available for new spending because it has already been restricted or assigned for other purposes.

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 \$12,951,999, while total fund balance reached \$15,598,576. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 54.2% of total General Fund expenditures, while total fund balance represents 65.3% of that same amount.

The fund balance of the City's General Fund has a net increase of \$844,538 during the current fiscal year adjustment. The overall operating revenues increased in the fiscal year by \$4,359,811. Property tax revenues increased \$1,782,763 and Licenses & permits increased \$1,896,547. Both increased are a result of going in property values and building permits issued. Expenditures increased over the prior year in the amount of \$2,298,197 as a result of increased personnel costs. Bonds were issued in the amount of \$3,045,000 for capital projects started during the year. Capital costs were offset in part by issuance of bonds and transfers.

The Industrial Development Corporation fund has a total fund balance of \$40,999,652. The net increase in fund balance during the current year in the Industrial Development Corporation fund was \$7,645,985 and mostly attributable to the issuance of revenue bonds.

The Economic Development Corporation fund has a total fund balance of \$14,009,059. The net increase in fund balance during the current year in the Economic Development Corporation fund was \$570,581. The increase is largely attributable to an increase in sales taxes and investment earnings.

The Debt Service fund ended the year with total fund balance of \$408,188, an increase of \$244,010. The increase was caused by property tax revenues slightly exceeding debt service requirements for the year.

The Capital Projects UHL Road fund ended the year with a total fund balance of \$1,966,835. \$2,049,125 was transferred in for capital projects. \$186,222 was spent in capital outlay and expected to increase in the future.

The 2023 CO Bond Fund has a total ending fund balance of \$28,373,307. Bonds were issued during the fiscal year in the amount of \$29,540,000. Construction started for the related capital projects. \$3,852,237 was spent for capital outlay.

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

Unrestricted Net Position of the Utility Fund at the end of the year amounted to \$1,069,743. Net Position increased by a net amount of \$5,241,046. The increase is caused by capital contributions from developers and capital grants totaling \$2,456,332. Operating income made up of charges for services increased by \$546,789. The majority of increases to net position resulted from non-operating revenues and capital contributions. The resulting increase was \$5,776,714.

Unrestricted Net Position of the Storm Water Fund at the end of the year amounted to \$316,921. Net Position increased by \$918,009. The increase is caused by capital contributions in the amount of \$1,023,323.

General Fund Budgetary Highlights - Actual revenues collected exceeded management's original estimate of the General Fund's revenues by \$3,762,672, mostly caused by larger than expected grant revenues, tax revenues and licenses and permits. Revenue budget amendments during the year included an increase to fire inspection fee revenue, fire department donations and miscellaneous revenues. Expenditures were less than appropriations by \$122,713 due to reduced personnel and benefits costs due to staff turnovers during the year. Significant budget amendments included increases to public safety vehicle maintenance, increases to general government, public safety, and public works fuel costs, and increases to capital outlay.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2024 amounts to \$60,240,372 and \$36,471,154, respectively (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure.

Significant additions to capital assets included:

- Decreases in construction in progress of \$283 thousand,
- Increases in machinery and equipment of \$4.2 million,
- Increases in improvements of \$11.3 million,
- Increases in infrastructure of \$2.3 million, and
- Increases in buildings of \$1.9 million.

| | Governmental Activities | | Business-type Activities | | Totals | |
|--------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| Land | \$ 2,814,940 | \$ 2,654,742 | \$ 1,241,293 | \$ 1,241,293 | \$ 4,056,233 | \$ 3,896,035 |
| Construction in progress | 12,447,811 | 8,951,725 | 2,246,665 | 6,025,972 | 14,694,476 | 14,977,697 |
| Buildings | 16,509,549 | 14,617,047 | 101,181 | 101,181 | 16,610,730 | 14,718,228 |
| Improvements | 823,489 | 599,375 | 54,441,845 | 43,290,971 | 55,265,334 | 43,890,346 |
| Machinery and equipment | 19,329,054 | 15,223,198 | 2,681,313 | 2,545,724 | 22,010,367 | 17,768,922 |
| Infrastructure | 32,978,083 | 30,700,783 | - | - | 32,978,083 | 30,700,783 |
| Right to use - equipment | 94,163 | 94,163 | - | - | 94,163 | 94,163 |
| Right to use - SBITAs | 391,485 | 1,059,288 | - | 117,630 | 391,485 | 1,176,918 |
| Accumulated depreciation | (25,148,202) | (22,358,476) | (24,241,143) | (22,188,130) | (49,389,345) | (44,546,606) |
| Total | <u>\$60,240,372</u> | <u>\$51,541,845</u> | <u>\$36,471,154</u> | <u>\$31,134,641</u> | <u>\$96,711,526</u> | <u>\$82,676,486</u> |

Additional information on the City of Red Oak capital assets can be found in note V in the notes to the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the City had long-term debt obligations as follows. The full amount of bonded debt is backed by the full faith and credit of the government.

| | Governmental Activities | | Business-type Activities | | Totals | |
|----------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| General obligations | \$ 3,565,000 | \$ 4,125,000 | \$ 7,960,000 | \$ 9,115,000 | \$ 11,525,000 | \$ 13,240,000 |
| Certificates of obligation | 42,777,000 | 13,960,000 | 3,730,000 | 4,100,000 | 46,507,000 | 18,060,000 |
| Revenue bonds | 35,969,000 | 28,827,000 | - | - | 35,969,000 | 28,827,000 |
| Tax notes | 7,897,000 | 8,542,000 | 142,000 | 211,000 | 8,039,000 | 8,753,000 |
| Premiums | 3,209,089 | 1,579,802 | 688,842 | 802,495 | 3,897,931 | 2,382,297 |
| Compensated absences | 940,483 | 913,069 | 42,547 | 36,269 | 983,030 | 949,338 |
| Leases payable | 51,722 | 84,446 | - | - | 51,722 | 84,446 |
| SBITA payable | 203,068 | 705,986 | - | 70,735 | 203,068 | 776,721 |
| Total | <u>\$ 94,612,362</u> | <u>\$ 58,737,303</u> | <u>\$ 12,563,389</u> | <u>\$ 14,335,499</u> | <u>\$107,175,751</u> | <u>\$ 73,072,802</u> |

Additional information on the City of Red Oak long term-debt can be found in note VII in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2025 Budget, General Fund operating revenues are budgeted to increase by 8% from the fiscal year 2024 revenue collections with ad valorem taxes making up 52% of the General Fund budgeted revenues. Average taxable home values from the certified assessed valuations, increased 7.5% and certified assessed valuations overall increased 11% for the fiscal year 2025 budget from the previous year's values. The Fiscal Year 2025 budget was based on a property tax rate of 0.696886 per \$100 of assessed value with 0.458991 for operations and 0.237895 for interest and principal on outstanding debt. Sales taxes are the second highest revenue source making up 18.1% of budgeted operating revenues and are budgeted to increase by 4% from fiscal year 2024 revenue collections.

There was a rate increase budgeted for Water and Sewer in the fiscal year 2025 budget. Additionally, a rate study is planned for FY 2025 to ensure rates cover costs of operations and increased water purchase rates. A decrease of 13% in Water and Sewer revenues from the fiscal year 2024 amended budget is budgeted in fiscal year 2025 due to one-time grant proceeds received in the prior year.

The state and local economy in this area continues to boom. Red Oak is poised to attract new retail and industrial development. The City's proximity to the DFW Metroplex and presence on 1-35E, along with the availability of quality retail and industrial property locations, ensure that the economic outlook for Red Oak will remain good for many years to come. Red Oak still has ample space available for future expansions in all sectors of the economy.

In the fiscal year 2025 budget, all funds were presented with balanced budgets meaning expenditures were equal or less than revenues plus available funds on hand. Revenue estimates and expenses were conservative and consistent with established policies. The budget for the upcoming year sets a foundation for prudent fiscal management of City operations for the coming years and ensures that the City will have the tools to achieve the City Council's goals.

BUILDING FOR THE FUTURE

The City of Red Oak is creating a solid foundation for the future. The foundation is one that is driven by community needs and Council's vision of the future. The first step is to identify the goals that can guide policy makers and decision makers over the long-term. The City Council has identified critical goals to establish that foundation through decisions and the Strategic Planning process. The Strategic Planning Goals are outlined below.

- Enhance and Maintain Public Safety
- Enhance the Quality of life through Parks and other projects
- Improve the City's Infrastructure
- Enhance Economic Development
- Develop, Retain and Attract Quality Staff
- Improve long-term Financial Sustainability

These goals were the foundation for the Fiscal Year 2025 Budget. These goals serve as a guide to future budgets and a new era of economic stability. How we spend our money today will impact future citizens of Red Oak.

The City recently completed an update to the master plans to guide the City's long-term growth and financial planning. Significant master planning activity includes: 1) Comprehensive land use and thoroughfare plan, 2) Parks master plan, and 3) Strategic Plan. Utilizing these plans, the City annually updates a rolling five-year capital improvement schedule. The City also maintains a police and fire department staffing plan as part of the strategic plan. These plans were used to determine budget allocations to the various departments and activities of the City.

Distinguished Budget Award

The City submitted its Annual Budget to the Government Finance Officer Association for the last eight consecutive years and has received the Distinguished Budget Presentation Award for each year. The award is valid for one year only. The City has submitted the Annual Budget for the fiscal year beginning October 1, 2024 and plans to continue to submit for the award in future years. This represents the continued effort by the City Council and staff to prepare a budget document that reflects the transparency and professionalism of the City to its Citizens, bondholders, and rating agencies.

Bond Ratings

The City's bond ratings provide evidence of its financial strength. Fitch Ratings has assigned a rating of "AA", with a stable outlook, and Standard and Poors (S&P) has also assigned a rating of "AA" with a stable outlook, raised from AA-, during fiscal year 2021 and re-affirmed in fiscal year 2024. These investment ratings indicate excellent investment quality. More information about the City's bond ratings is included in the notes to the basic financial statements.

Reserves

Another measure of the City's financial strength is the level of its fund balance, or operating reserves. Operating reserves are maintained by organizations to ensure services can be delivered during economic downturns, to address unforeseen expenditures in the case of an emergency or other event, and to take advantage of opportunities that may materialize outside of the budget processes. It is important to maintain operating cash reserves so that service delivery will not be negatively impacted if the economy takes a downturn, as approximately 70% of the City's General Fund budgeted revenue is generated by combined sales taxes and property taxes. Policy guidelines adopted by the Council require reserve fund balances to be maintained at 30 days operating expenditures in the General Fund and Water & Sewer Utility Fund. This requirement was met, and exceeded, during Fiscal Year 2024. The operating reserve budgeted for FY 2025 is one hundred and forty three days (143) of operating expenditures in the General Fund and one hundred and seven days (107) of operating expenses in the Water and Sewer Utility Fund.

Development Corporation Reserves Operating reserves are maintained by the development corporations at 25% of sales tax revenue for the year. As sales tax is the only revenue source for the development corporations, 25% of revenue is held in reserve as contingency amount should economic downturn occur. This requirement was met, and exceeded, during Fiscal Year 2024.

Capital Projects

Capital project funds were added to the budget to facilitate the following Strategic Planning Goals; Improve and Expand City Offices and other Facilities; Enhance the Quality of life through Parks and other projects; and to Improve the City's Infrastructure. The FY 2025 budget includes capital budgeted in the General Fund and other governmental capital projects funds in the amount of \$40,918,905. These include the purchase of vehicles and equipment for Public Safety, Public Works, Parks and Recreation, and Information Technology; facility improvements for Parks and Recreation, Public Safety, Public Works and General Government. The Water and Sewer Fund, Storm Water Drainage Fund, and Water and Sewer Capital Project Fund budgets include capital costs for the FY 2025 year totaling \$2,176,761. The capital projects budgeted in these funds include, utility relocates and replacements, drainage improvements, and various other projects.

City Employees

Staffing levels for FY 2025 will increase by two (2) positions from the previous fiscal year. New budgeted positions include a Parks and Recreation Maintenance Tech and a Public Works Street Crew Leader. With these added positions, budgeted full-time positions will total one hundred and forty nine (149) for FY 2025.

Salary Adjustments

The City strongly believes in the importance in having the ability to recruit and retain valuable staff by ensuring competitive compensation rates with our surrounding areas. The City budgeted annual increases for staff at 3% for uniformed and non-uniformed employees on April 1, contingent upon performance review.

Benefits

Health insurance rates for employees and the City remained flat for the Fiscal Year 2025 Budget. The City continued to offer additional health plan options for employees. These included a high deductible health plan along with a corresponding health savings account which the City contributes to on behalf of employees, a buy-up plan and base PPO.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, P.O. Box 393, Red Oak, Texas 75154.

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BASIC FINANCIAL STATEMENTS

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CITY OF RED OAK, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2024

| | Primary Government | | |
|--|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 6,582,663 | \$ 422,598 | \$ 7,005,261 |
| Investments | 19,814,588 | 212,752 | 20,027,340 |
| Accounts receivable (net) | 1,994,754 | 3,520,157 | 5,514,911 |
| Inventory | 54,838 | 169,733 | 224,571 |
| Prepays | 36,872 | 7,856 | 44,728 |
| Internal balances | 1,182,017 | (1,182,017) | - |
| Restricted assets: | | | |
| Cash | 36,683,456 | 3,213,909 | 39,897,365 |
| Investments | 12,914,459 | 100 | 12,914,559 |
| Land held for resale | 31,627,946 | - | 31,627,946 |
| Capital assets, net of accumulated depreciation: | | | |
| Non-depreciable | 15,262,751 | 3,487,958 | 18,750,709 |
| Depreciable | 44,977,621 | 32,983,196 | 77,960,817 |
| Total Assets | <u>171,131,965</u> | <u>42,836,242</u> | <u>213,968,207</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charge on refunding | - | 306,749 | 306,749 |
| Pension related | 1,055,310 | 139,561 | 1,194,871 |
| OPEB related | 56,174 | 7,429 | 63,603 |
| Total Deferred Outflows of Resources | <u>1,111,484</u> | <u>453,739</u> | <u>1,565,223</u> |
| LIABILITIES | | | |
| Accounts payable | 1,213,565 | 1,239,166 | 2,452,731 |
| Accrued liabilities | 397,996 | 52,696 | 450,692 |
| Accrued interest payable | 433,837 | 47,336 | 481,173 |
| Customer deposits payable | 2,367,409 | 455,784 | 2,823,193 |
| Noncurrent liabilities: | | | |
| Due within one year | | | |
| Long-term debt | 4,577,116 | 1,589,522 | 6,166,638 |
| Total OPEB liability | 3,985 | 527 | 4,512 |
| Due in more than one year | | | |
| Long-term debt | 90,035,246 | 10,973,867 | 101,009,113 |
| Net pension liability | 1,349,843 | 178,512 | 1,528,355 |
| Total OPEB liability | 201,596 | 26,658 | 228,254 |
| Total Liabilities | <u>100,580,593</u> | <u>14,564,068</u> | <u>115,144,661</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension related | 138,568 | 18,325 | 156,893 |
| OPEB related | 92,945 | 12,291 | 105,236 |
| Lease related | 52,188 | 70,664 | 122,852 |
| Total Deferred Inflows of Resources | <u>283,701</u> | <u>101,280</u> | <u>384,981</u> |
| NET POSITION | | | |
| Net investment in capital assets | 21,077,642 | 24,257,061 | 45,334,703 |
| Restricted for: | | | |
| Debt service | 36,518 | - | 36,518 |
| Public safety | 19,790 | - | 19,790 |
| Culture and recreation | 1,050,962 | - | 1,050,962 |
| Industrial development | 32,957,134 | - | 32,957,134 |
| Economic development | 14,009,059 | - | 14,009,059 |
| Capital projects | 3,218,390 | 2,980,908 | 6,199,298 |
| Unrestricted | (990,340) | 1,386,664 | 396,324 |
| Total Net Position | <u>\$ 71,379,155</u> | <u>\$ 28,624,633</u> | <u>\$ 100,003,788</u> |

The notes to the financial statements are an integral part of these financial statements.

CITY OF RED OAK, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| Functions/Programs | Expenses | Program Revenues | |
|--------------------------------|----------------------|-------------------------|--|
| | | Charges for Services | Operating Grants and Contributions |
| Primary government: | | | |
| Governmental activities: | | | |
| General government | \$ 4,084,448 | \$ - | \$ - |
| Public safety | 12,682,547 | 2,984,878 | 140,092 |
| Culture and recreation | 2,488,660 | 3,441,896 | 7,785 |
| Public works | 5,296,687 | 960,480 | - |
| Industrial development | 370,285 | - | - |
| Economic development | 214,731 | - | - |
| Interest and fiscal charges | 3,700,225 | - | - |
| Total governmental activities | <u>28,837,583</u> | <u>7,387,254</u> | <u>147,877</u> |
| Business-type activities: | | | |
| Utility | 11,625,388 | 11,696,971 | - |
| Storm water | 505,926 | 400,080 | - |
| Total business-type activities | <u>12,131,314</u> | <u>12,097,051</u> | <u>-</u> |
| Total primary government | <u>\$ 40,968,897</u> | <u>\$ 19,484,305</u> | <u>\$ 147,877</u> |

General revenues:

Property taxes
Sales taxes
Franchise tax
Hotel occupancy tax
Alcoholic beverage tax
Investment earnings
Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

| Program Revenues Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position | | |
|---|---|-----------------------------|-----------------------|
| | Primary Government | | |
| | Governmental Activities | Business-type Activities | Total |
| \$ - | \$ (4,084,448) | \$ - | \$ (4,084,448) |
| - | (9,557,577) | - | (9,557,577) |
| - | 961,021 | - | 961,021 |
| 1,099,323 | (3,236,884) | - | (3,236,884) |
| - | (370,285) | - | (370,285) |
| - | (214,731) | - | (214,731) |
| - | (3,700,225) | - | (3,700,225) |
| <u>1,099,323</u> | <u>(20,203,129)</u> | <u>-</u> | <u>(20,203,129)</u> |
| 4,951,552 | - | 5,023,135 | 5,023,135 |
| <u>1,023,323</u> | <u>-</u> | <u>917,477</u> | <u>917,477</u> |
| <u>5,974,875</u> | <u>-</u> | <u>5,940,612</u> | <u>5,940,612</u> |
| <u>\$ 7,074,198</u> | <u>(20,203,129)</u> | <u>5,940,612</u> | <u>(14,262,517)</u> |
| | 16,693,539 | - | 16,693,539 |
| | 8,548,167 | - | 8,548,167 |
| | 914,576 | - | 914,576 |
| | 390,824 | - | 390,824 |
| | 25,710 | - | 25,710 |
| | 3,210,513 | 94,143 | 3,304,656 |
| | 333,817 | - | 333,817 |
| | (124,300) | 124,300 | - |
| | <u>29,992,846</u> | <u>218,443</u> | <u>30,211,289</u> |
| | 9,789,717 | 6,159,055 | 15,948,772 |
| | <u>61,589,438</u> | <u>22,465,578</u> | <u>84,055,016</u> |
| | <u>\$ 71,379,155</u> | <u>\$ 28,624,633</u> | <u>\$ 100,003,788</u> |

CITY OF RED OAK, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2024

| | | Special Revenue | |
|--|----------------------|--|--|
| | General Fund | Industrial Development Corporation | Economic Development Corporation |
| ASSETS | | | |
| Cash and cash equivalents | \$ 364,595 | \$ 849,837 | \$ 1,614,025 |
| Investments | 9,921,186 | 5,044,446 | 4,812,463 |
| Accounts receivable (net) | 1,162,522 | 366,305 | 366,305 |
| Due from other funds | 1,313,583 | - | - |
| Prepaid items | 36,872 | - | - |
| Inventory | 54,838 | - | - |
| Land held for resale | - | 25,226,120 | 6,401,826 |
| Restricted assets: | | | |
| Cash | 1,695,193 | 92,462 | 95,282 |
| Investments | <u>2,668,812</u> | <u>9,451,164</u> | <u>794,483</u> |
| Total assets | <u>17,217,601</u> | <u>41,030,334</u> | <u>14,084,384</u> |
| LIABILITIES | | | |
| Accounts payable | 903,610 | 23,470 | 1,185 |
| Accrued liabilities | 390,932 | - | - |
| Due to other funds | - | 7,212 | 74,140 |
| Customer deposits | - | - | - |
| Escrow deposits | - | - | - |
| Total liabilities | <u>1,294,542</u> | <u>30,682</u> | <u>75,325</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Lease related | 52,188 | - | - |
| Unavailable revenue - property taxes | 239,789 | - | - |
| Unavailable revenue - fines & fees | <u>32,506</u> | <u>-</u> | <u>-</u> |
| Total inflows of resources | <u>324,483</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | |
| Nonspendable: | | | |
| Prepaid items | 36,872 | - | - |
| Inventory | 54,838 | - | - |
| Restricted: | | | |
| Debt service | - | - | - |
| Culture and recreation | - | - | - |
| Industrial development | - | 40,999,652 | - |
| Economic development | - | - | 14,009,059 |
| Capital projects | 268,003 | - | - |
| Other public safety | 19,790 | - | - |
| Committed: | | | |
| Capital projects | - | - | - |
| Assigned: | | | |
| Subsequent year's budget | 2,267,074 | - | - |
| Unassigned | <u>12,951,999</u> | <u>-</u> | <u>-</u> |
| Total fund balances | <u>15,598,576</u> | <u>40,999,652</u> | <u>14,009,059</u> |
| Total liabilities, deferred inflows and fund balances | <u>\$ 17,217,601</u> | <u>\$ 41,030,334</u> | <u>\$ 14,084,384</u> |

The notes to the financial statements are an integral part of these financial statements.

| Debt Service | Capital Projects UHL Road | 2023 CO Bond Fund | Other Governmental Funds | Total Governmental Funds |
|-------------------|---------------------------------|----------------------|--------------------------------|--------------------------------|
| \$ 403,578 | \$ - | \$ 39,732 | \$ 3,310,896 | \$ 6,582,663 |
| - | - | - | 36,493 | 19,814,588 |
| 68,291 | - | - | 31,331 | 1,994,754 |
| - | - | - | - | 1,313,583 |
| - | - | - | - | 36,872 |
| - | - | - | - | 54,838 |
| - | - | - | - | 31,627,946 |
| - | 4,327,804 | 28,556,107 | 1,916,608 | 36,683,456 |
| - | - | - | - | 12,914,459 |
| <u>471,869</u> | <u>4,327,804</u> | <u>28,595,839</u> | <u>5,295,328</u> | <u>111,023,159</u> |
| 1,514 | - | 132,726 | 151,060 | 1,213,565 |
| - | - | - | 7,064 | 397,996 |
| - | - | 50,074 | 140 | 131,566 |
| - | - | - | 6,440 | 6,440 |
| - | 2,360,969 | - | - | 2,360,969 |
| <u>1,514</u> | <u>2,360,969</u> | <u>182,800</u> | <u>164,704</u> | <u>4,110,536</u> |
| - | - | - | - | 52,188 |
| 62,167 | - | - | - | 301,956 |
| - | - | - | - | 32,506 |
| <u>62,167</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>386,650</u> |
| - | - | - | - | 36,872 |
| - | - | - | - | 54,838 |
| 408,188 | - | - | - | 408,188 |
| - | - | - | 1,050,962 | 1,050,962 |
| - | - | - | - | 40,999,652 |
| - | - | - | - | 14,009,059 |
| - | 1,966,835 | 28,413,039 | 3,097,645 | 33,745,522 |
| - | - | - | - | 19,790 |
| - | - | - | 982,017 | 982,017 |
| - | - | - | - | 2,267,074 |
| - | - | - | - | 12,951,999 |
| <u>408,188</u> | <u>1,966,835</u> | <u>28,413,039</u> | <u>5,130,624</u> | <u>106,525,973</u> |
| <u>\$ 471,869</u> | <u>\$ 4,327,804</u> | <u>\$ 28,595,839</u> | <u>\$ 5,295,328</u> | <u>\$ 111,023,159</u> |

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CITY OF RED OAK, TEXAS

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

SEPTEMBER 30, 2024

Total Fund Balances - Governmental Funds \$ 106,525,973

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.

| | |
|--------------------------|--------------|
| Capital assets | 85,388,574 |
| Accumulated depreciation | (25,148,202) |

Long-term liabilities, including bonds payable, that are not due and payable in the current period, and, therefore are not reported as liabilities in the funds.

| | |
|--|--------------|
| Revenue bonds | (35,969,000) |
| Certificates of obligation | (42,777,000) |
| General obligation bonds | (3,565,000) |
| Tax notes | (7,897,000) |
| Leases | (51,722) |
| Subscription-Based IT Arrangements | (203,068) |
| Accrued interest payable on long-term debt | (433,837) |
| Compensated absences | (940,483) |
| Net pension liability | (1,349,843) |
| Total OPEB liability | (205,581) |

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

334,462

Governmental funds report the effect of premiums, discounts, and refundings and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

| | |
|------------------|-------------|
| Premium on bonds | (3,209,089) |
|------------------|-------------|

Differences between expected and actual experiences, assumption changes and 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 | 1,055,310 |
| Deferred outflows - OPEB related | 56,174 |
| Deferred inflows - pension related | (138,568) |
| Deferred inflows - OPEB related | (92,945) |

Net Position of Governmental Activities \$ 71,379,155

CITY OF RED OAK, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | | <u>Special Revenue</u> | |
|--|-------------------------|---|---|
| | <u>General Fund</u> | <u>Industrial Development Corporation</u> | <u>Economic Development Corporation</u> |
| REVENUES | | | |
| Property taxes | \$ 10,284,317 | \$ - | \$ - |
| Sales taxes | 4,274,083 | 2,137,042 | 2,137,042 |
| Franchise tax | 914,576 | - | - |
| PID assessments | - | - | - |
| Hotel occupancy tax | - | - | - |
| Alcoholic beverage tax | 25,710 | - | - |
| Intergovernmental | 780,980 | - | - |
| Licenses and permits | 4,884,431 | - | - |
| Fines and forfeitures | 332,964 | - | - |
| Charges for services | 1,127,402 | - | - |
| Investment earnings | 764,703 | 604,580 | 300,236 |
| Miscellaneous | 331,119 | 2,636 | - |
| Total revenues | <u>23,720,285</u> | <u>2,744,258</u> | <u>2,437,278</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 3,502,335 | - | - |
| Public safety | 11,634,125 | - | - |
| Culture and recreation | 1,730,269 | - | - |
| Public works | 3,488,778 | - | - |
| Industrial development | - | 370,285 | - |
| Economic development | 2,500 | - | 212,231 |
| Capital outlay | 3,374,422 | 627,217 | - |
| Debt service: | | | |
| Principal | 140,357 | 268,631 | 381,631 |
| Interest and fiscal charges | 3,484 | 855,592 | 217,635 |
| Issuance costs | - | 186,508 | - |
| Total expenditures | <u>23,876,270</u> | <u>2,308,233</u> | <u>811,497</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(155,985)</u> | <u>436,025</u> | <u>1,625,781</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Issuance of bonds | - | 7,905,000 | - |
| Premium on issuance of bonds | - | - | - |
| Issuance of SBITA | 179,244 | - | - |
| Insurance recovery | 144,464 | - | - |
| Transfers in | 1,625,940 | - | - |
| Transfers out | (949,125) | (695,040) | (1,055,200) |
| Total other financing sources (uses) | <u>1,000,523</u> | <u>7,209,960</u> | <u>(1,055,200)</u> |
| CHANGE IN FUND BALANCE | 844,538 | 7,645,985 | 570,581 |
| FUND BALANCE - BEGINNING, AS PREVIOUSLY REPORTED | <u>14,754,038</u> | <u>33,353,667</u> | <u>13,438,478</u> |
| FUND BALANCE ADJUSTMENTS | | | |
| Change within the reporting entity | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE, BEGINNING, AS RESTATED | <u>14,754,038</u> | <u>33,353,667</u> | <u>13,438,478</u> |
| FUND BALANCE - ENDING | <u>\$ 15,598,576</u> | <u>\$ 40,999,652</u> | <u>\$ 14,009,059</u> |

*Formerly a major fund

The notes to the financial statements are an integral part of these financial statements.

| Debt Service | Capital Projects UHL Road | 2023 CO Bond Fund | 2021 CO Bond Fund* | Other Governmental Funds | Total Governmental Funds |
|-------------------|---------------------------------|----------------------|-----------------------|--------------------------------|--------------------------------|
| \$ 5,966,428 | \$ - | \$ - | | \$ - | \$ 16,250,745 |
| - | - | - | | - | 8,548,167 |
| - | - | - | | - | 914,576 |
| - | - | - | | 396,796 | 396,796 |
| - | - | - | | 390,824 | 390,824 |
| - | - | - | | - | 25,710 |
| - | - | - | | 7,785 | 788,765 |
| - | - | - | | - | 4,884,431 |
| - | - | - | | - | 332,964 |
| - | - | - | | 406,462 | 1,533,864 |
| 1,713 | 103,932 | 1,300,326 | | 135,023 | 3,210,513 |
| - | - | - | | 62 | 333,817 |
| <u>5,968,141</u> | <u>103,932</u> | <u>1,300,326</u> | | <u>1,336,952</u> | <u>37,611,172</u> |
| - | - | - | | - | 3,502,335 |
| - | - | - | | - | 11,634,125 |
| - | - | 35,613 | | 342,842 | 2,108,724 |
| - | - | - | | 14,397 | 3,503,175 |
| - | - | - | | - | 370,285 |
| - | - | - | | - | 214,731 |
| - | 186,222 | 3,852,237 | | 4,073,229 | 12,113,327 |
| 3,875,000 | - | - | | 123,967 | 4,789,586 |
| 1,849,131 | - | - | | 198,693 | 3,124,535 |
| - | - | 406,542 | | 41,134 | 634,184 |
| <u>5,724,131</u> | <u>186,222</u> | <u>4,294,392</u> | | <u>4,794,262</u> | <u>41,995,007</u> |
| <u>244,010</u> | <u>(82,290)</u> | <u>(2,994,066)</u> | | <u>(3,457,310)</u> | <u>(4,383,835)</u> |
| - | - | 29,540,000 | | 1,954,000 | 39,399,000 |
| - | - | 1,867,105 | | - | 1,867,105 |
| - | - | - | | - | 179,244 |
| - | - | - | | - | 144,464 |
| - | 2,049,125 | - | | 339,920 | 4,014,985 |
| - | - | - | | (1,439,920) | (4,139,285) |
| - | <u>2,049,125</u> | <u>31,407,105</u> | | <u>854,000</u> | <u>41,465,513</u> |
| 244,010 | 1,966,835 | 28,413,039 | | (2,603,310) | 37,081,678 |
| <u>164,178</u> | <u>-</u> | <u>-</u> | <u>181,923</u> | <u>7,552,011</u> | <u>69,444,295</u> |
| - | - | - | (181,923) | 181,923 | - |
| <u>164,178</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,733,934</u> | <u>69,444,295</u> |
| <u>\$ 408,188</u> | <u>\$ 1,966,835</u> | <u>\$ 28,413,039</u> | <u>\$ -</u> | <u>\$ 5,130,624</u> | <u>\$ 106,525,973</u> |

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CITY OF RED OAK, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Total net change in Fund Balances - Governmental Funds \$ 37,081,678

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

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the current year capital outlays is to increase net position. 11,292,785

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. (3,114,765)

The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.
Disposals of capital assets (8,516)
Donation of capital assets 1,099,323

The issuance of long-term debt (e.g. bonds, loans, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net position.
Issuance of CO Bonds (29,540,000)
Premium on issuance of CO Bonds (1,867,105)
Issuance of tax notes (1,954,000)
Issuance of revenue bonds (7,905,000)
Issuance of subscription-based IT arrangements (179,244)
Principal paid on long term debt 4,789,586

Revenues and expenditures in the statement of activities that do not provide or use current financial resources are not reported as revenues and expenses in the governmental funds.
Fines and fees (4,893)
Property taxes 45,998

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.
Accrued interest on long-term debt (179,324)
Amortization of deferred loss on refunding 237,818
Compensated absences (27,414)
Changes in pension liabilities and related deferred outflows/inflows 34,369
Changes in OPEB liabilities and related deferred outflows/inflows (11,579)

Total change in net position of Governmental Activities \$ 9,789,717

CITY OF RED OAK, TEXAS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

SEPTEMBER 30, 2024

| | Business-type Activities - Enterprise | | |
|---------------------------------------|---------------------------------------|---------------------|-------------------------------|
| | Utility Fund | Storm Water Fund | Total Proprietary Funds |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 66,384 | \$ 356,214 | \$ 422,598 |
| Investments | 212,752 | - | 212,752 |
| Accounts receivable (net) | 3,494,908 | 25,249 | 3,520,157 |
| Inventory | 167,602 | 2,131 | 169,733 |
| Prepaid items | 7,856 | - | 7,856 |
| Restricted assets: | | | |
| Cash | 3,213,909 | - | 3,213,909 |
| Investments | 100 | - | 100 |
| Total current assets | <u>7,163,511</u> | <u>383,594</u> | <u>7,547,105</u> |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Nondepreciable | 3,487,958 | - | 3,487,958 |
| Depreciable, net | <u>26,785,637</u> | <u>6,197,559</u> | <u>32,983,196</u> |
| Total noncurrent assets | <u>30,273,595</u> | <u>6,197,559</u> | <u>36,471,154</u> |
| Total assets | <u>37,437,106</u> | <u>6,581,153</u> | <u>44,018,259</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related | 126,895 | 12,666 | 139,561 |
| OPEB related | 6,755 | 674 | 7,429 |
| Deferred charge on refunding | <u>306,749</u> | <u>-</u> | <u>306,749</u> |
| Total deferred outflows of resources | <u>440,399</u> | <u>13,340</u> | <u>453,739</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 1,205,624 | 33,542 | 1,239,166 |
| Accrued liabilities | 48,100 | 4,596 | 52,696 |
| Customer deposits payable | 455,784 | - | 455,784 |
| Due to other funds | 1,172,739 | 9,278 | 1,182,017 |
| Accrued interest payable | 46,696 | 640 | 47,336 |
| Due within one year: | | | |
| Long-term debt | 1,494,895 | 94,627 | 1,589,522 |
| Total OPEB liability | <u>479</u> | <u>48</u> | <u>527</u> |
| Total current liabilities | <u>4,424,317</u> | <u>142,731</u> | <u>4,567,048</u> |
| Noncurrent liabilities: | | | |
| Long-term debt | 10,900,102 | 73,765 | 10,973,867 |
| Net pension liability | 162,311 | 16,201 | 178,512 |
| Total OPEB liability | <u>24,239</u> | <u>2,419</u> | <u>26,658</u> |
| Total noncurrent liabilities | <u>11,086,652</u> | <u>92,385</u> | <u>11,179,037</u> |
| Total liabilities | <u>15,510,969</u> | <u>235,116</u> | <u>15,746,085</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension related | 16,662 | 1,663 | 18,325 |
| OPEB related | 11,176 | 1,115 | 12,291 |
| Lease related | <u>70,664</u> | <u>-</u> | <u>70,664</u> |
| Total deferred inflows of resources | <u>98,502</u> | <u>2,778</u> | <u>101,280</u> |
| NET POSITION | | | |
| Net investment in capital assets | 18,217,383 | 6,039,678 | 24,257,061 |
| Restricted for capital projects | 2,980,908 | - | 2,980,908 |
| Unrestricted | <u>1,069,743</u> | <u>316,921</u> | <u>1,386,664</u> |
| Total net position | <u>\$ 22,268,034</u> | <u>\$ 6,356,599</u> | <u>\$ 28,624,633</u> |

The notes to the financial statements are an integral part of these financial statements.

CITY OF RED OAK, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Business-type Activities - Enterprise | | |
|--|---------------------------------------|---------------------|-------------------------------|
| | Utility Fund | Storm Water Fund | Total Proprietary Funds |
| OPERATING REVENUES | | | |
| Charges for services: | | | |
| Water charges | \$ 4,367,495 | \$ 400,080 | \$ 4,767,575 |
| Sewer charges | 6,752,140 | - | 6,752,140 |
| Tap fees and reconnects | 326,852 | - | 326,852 |
| Penalties | 158,357 | - | 158,357 |
| Miscellaneous | 92,127 | - | 92,127 |
| Total revenues | <u>11,696,971</u> | <u>400,080</u> | <u>12,097,051</u> |
| OPERATING EXPENSES | | | |
| Personnel services | 1,554,042 | 145,832 | 1,699,874 |
| Insurance | 179,768 | 32,454 | 212,222 |
| Materials and supplies | 607,033 | 12,273 | 619,306 |
| Contractual services | 6,831,894 | 8,003 | 6,839,897 |
| Maintenance | 64,996 | 11,639 | 76,635 |
| Other operating costs | 242,908 | - | 242,908 |
| Depreciation | 1,824,358 | 291,628 | 2,115,986 |
| Total expenses | <u>11,304,999</u> | <u>501,829</u> | <u>11,806,828</u> |
| Operating income (loss) | <u>391,972</u> | <u>(101,749)</u> | <u>290,223</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest earnings | 93,611 | 532 | 94,143 |
| Interest and fiscal charges | <u>(320,389)</u> | <u>(4,097)</u> | <u>(324,486)</u> |
| Total non-operating revenues (expenses) | <u>(226,778)</u> | <u>(3,565)</u> | <u>(230,343)</u> |
| Income (loss) before capital contributions and transfers | 165,194 | (105,314) | 59,880 |
| CAPITAL CONTRIBUTIONS AND TRANSFERS | | | |
| Capital contributions - developer contributions | 2,044,841 | 1,023,323 | 3,068,164 |
| Capital contributions - impact fees | 814,886 | - | 814,886 |
| Capital contributions - capital grant | 2,091,825 | - | 2,091,825 |
| Transfers in | 124,300 | - | 124,300 |
| Total capital contributions and transfers | <u>5,075,852</u> | <u>1,023,323</u> | <u>6,099,175</u> |
| CHANGE IN NET POSITION | 5,241,046 | 918,009 | 6,159,055 |
| NET POSITION - BEGINNING | <u>17,026,988</u> | <u>5,438,590</u> | <u>22,465,578</u> |
| NET POSITION - END OF YEAR | <u>\$ 22,268,034</u> | <u>\$ 6,356,599</u> | <u>\$ 28,624,633</u> |

The notes to the financial statements are an integral part of these financial statements.

CITY OF RED OAK, TEXAS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Business-type Activities | | |
|--|--------------------------|---------------------|-------------------------------|
| | Utility Fund | Storm Water Fund | Total Proprietary Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers and users | \$ 10,761,713 | \$ 396,159 | \$ 11,157,872 |
| Payments to suppliers | (7,140,417) | (35,583) | (7,176,000) |
| Payments to employees | (1,577,672) | (151,673) | (1,729,345) |
| Net cash provided (used) by operating activities | <u>2,043,624</u> | <u>208,903</u> | <u>2,252,527</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Payments from other funds | 227,064 | - | 227,064 |
| Payments to other funds | (750,000) | (82,524) | (832,524) |
| Net cash provided (used) by noncapital financing activities | <u>(522,936)</u> | <u>(82,524)</u> | <u>(605,460)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Principal paid on bonds | (1,468,000) | (87,000) | (1,555,000) |
| Interest and fiscal charges paid on bonds | (497,930) | (5,240) | (503,170) |
| Capital grants | 2,906,711 | - | 2,906,711 |
| Acquisition and construction of capital assets | (4,360,775) | (23,560) | (4,384,335) |
| Net cash provided (used) by capital and related financing activities | <u>(3,419,994)</u> | <u>(115,800)</u> | <u>(3,535,794)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest on investments | 93,611 | 532 | 94,143 |
| Proceeds from sale and maturities of securities | 2,230,106 | - | 2,230,106 |
| Net cash provided (used) by investing activities | <u>2,323,717</u> | <u>532</u> | <u>2,324,249</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 424,411 | 11,111 | 435,522 |
| CASH AND CASH EQUIVALENTS, BEGINNING | <u>2,855,882</u> | <u>345,103</u> | <u>3,200,985</u> |
| CASH AND CASH EQUIVALENTS, ENDING | <u>\$ 3,280,293</u> | <u>\$ 356,214</u> | <u>\$ 3,636,507</u> |

CITY OF RED OAK, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Business-type Activities | | |
|--|--------------------------|---------------------|-------------------------------|
| | Utility Fund | Storm Water Fund | Total Proprietary Funds |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | |
| Operating income (loss) | \$ 391,972 | \$ (101,749) | \$ 290,223 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation and amortization | 1,824,358 | 291,628 | 2,115,986 |
| (Increase) decrease in: | | | |
| Accounts receivable | (961,599) | (3,921) | (965,520) |
| Inventory | (88,765) | (184) | (88,949) |
| Prepaid | 12,365 | - | 12,365 |
| Deferred outflows of resources | 63,434 | 11,027 | 74,461 |
| Increase (decrease) in: | | | |
| Accounts payable | (297,792) | 28,970 | (268,822) |
| Other liabilities | 12,159 | 199 | 12,358 |
| Compensated absences | 8,485 | (2,207) | 6,278 |
| Customer deposits | 13,976 | - | 13,976 |
| Developer deposits | (28,927) | - | (28,927) |
| Due to other funds | 1,172,739 | - | 1,172,739 |
| Deferred inflows of resources | (5,815) | (1,382) | (7,197) |
| Net pension liability | (73,120) | (12,908) | (86,028) |
| Net OPEB liability | 154 | (570) | (416) |
| Total adjustments | <u>1,651,652</u> | <u>310,652</u> | <u>1,962,304</u> |
| Net cash provided (used) by operating activities | <u>\$ 2,043,624</u> | <u>\$ 208,903</u> | <u>\$ 2,252,527</u> |
| SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Contributions of capital assets | <u>\$ 2,044,841</u> | <u>\$ 1,023,323</u> | <u>\$ 3,068,164</u> |

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CITY OF RED OAK, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Red Oak, Texas (the "City") was incorporated in 1949, and operates under a Council-Manager form of government. 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

The City of Red Oak Economic Development Corporation, Inc. (Economic Development Corporation) is responsible for collecting and disbursing the one-half percent sales tax to be used for economic development within and for the benefit of the City. The City Council is the governing board for the Corporation. The members of the Corporation's board are appointed by the City. The City holds operational responsibility for the Corporation. The Corporation is presented as a governmental fund type and has a September 30 year-end.

The City of Red Oak Industrial Development Corporation, Inc. (Industrial Development Corporation) is responsible for collecting and disbursing the one-half percent sales tax to be used for economic development within and for the benefit of the City. The City Council is the governing board for the Corporation. The members of the Corporation's board are appointed by the City. The City holds operational responsibility for the Corporation. The Corporation is presented as a governmental fund type and has a September 30 year-end.

Separate financial statements for the component units are not issued.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the primary government and its blended component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, inventories of materials and supplies are considered expenditures when used and debt service expenditures, as well as expenditures related to accumulated unpaid sick pay, are recorded only when payment is due.

Property and taxpayer-assessed taxes estimated to be collectible within sixty days after balance sheet date, interest, and expenditure driven grants are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Industrial Development Corporation Fund** is responsible for collecting and disbursing the one-half cent sales tax to be used for industrial development within the City.

The **Economic Development Corporation Fund** is responsible for collecting and disbursing the one-half cent sales tax to be used for economic development within the City.

The **Debt Service Fund** accounts for the property tax revenues received which were specifically levied for the purpose of covering debt service requirements.

The **Capital Projects UHL Road Fund** is used to account for part an interlocal agreement with The City of Glenn Heights.

The **2023 Certificates of Obligation Bond Fund** is used to account for the proceeds from the bonds issued for major capital projects.

The City reports the following major proprietary funds:

The **Utility Fund** accounts for the activities of the sewage treatment plant, sewage pumping stations and collection systems, and the water distribution system.

The **Storm Water Drainage Fund** accounts for the City's storm water revenues and related projects.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's utility function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

D. Cash, Deposits and Investments

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

The Economic Development Corporation and Industrial Development Corporation are authorized by their governing boards to invest in obligations of the U.S. Treasury and local government investment pools (TexPool and LOGIC).

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

E. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivables in excess of sixty days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is based on historical collection experience.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Ellis Central Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Ellis County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time, substantially all property taxes are collected.

F. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Certain costs applicable to future accounting periods are recorded as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

G. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of Net Position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond construction" account is used to report those proceeds of bond issuances that are restricted for use in construction. The "interest and sinking" account is used to segregate resources accumulated for debt service payments over the next twelve months.

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset Type</u> | <u>Number of Years</u> |
|------------------------------|------------------------|
| Buildings | 10-30 |
| Improvements | 10-50 |
| Machinery and equipment | 5-15 |
| Infrastructure | 10-40 |
| Right to use - equipment | Agreement Term |
| Right to use - subscriptions | Agreement Term |

I. Land Held for Sale

Land held for sale in the IDC and EDC Funds consist of properties that are owned by the City which are being held for redevelopment. These assets are valued at estimated realizable value or historical cost, whichever is less. For the year ended September 30, 2024, land held for resale was valued at \$31,627,946.

J. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Vacation leave shall be taken during the year following its accumulation.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Changes in actuarial assumptions – These changes are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category.

- Unavailable revenue is reported only in the governmental funds balance sheet – These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

L. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Leases and Subscription-Based Information Technology Arrangements

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

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

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

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate.
- The agreement term includes the noncancellable period of the lease or SBITA.
- The agreed upon payments included in the measurement of the liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

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

These right to use assets are reported with other capital assets and liabilities are reported with long term debt on the statement of net position.

N. Pensions

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

O. Other Post-Employment Benefits

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

P. Net Position and Fund Balance

In the government-wide and proprietary fund financial statements, the City reports restrictions of net position for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Net investment in capital assets represents the City's investment in the book value of capital assets, less any unspent proceeds from capital-related debt issuances. Unrestricted net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

In the fund financial statements, governmental funds report fund balance categorized as follows:

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid items.

Restricted fund balance includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes the child nutrition program, retirement of long-term debt, construction programs and other federal and state grants.

Committed fund balance includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the City Council. This classification includes campus activity funds, local special revenue funds and potential litigation, claims and judgments.

Assigned fund balance includes fund balance amounts that are self-imposed by the City to be used for a particular purpose. Fund balance can be assigned by the City Council, the City Manager, or the Finance Director. This classification includes insurance deductibles, encumbrances, program start-up costs, projected budget deficit for subsequent years and other legal uses.

Unassigned fund balance includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

Net Position Flow Assumption

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 Flow Assumption

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

Change in Accounting Principle

During fiscal year 2024, the City adopted the following new accounting guidance:

GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62, was adopted effective October 1, 2023. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Control

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General, IDC, EDC, Tourism, and Debt Service funds. The capital projects funds are appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means controls the use of resources. The annual budget for the utility fund is prepared on the budgetary basis of accounting. All annual appropriations lapse at fiscal year-end. The legal level of budgetary control is the fund level.

III. DEPOSITS AND INVESTMENTS

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, municipal bonds, managed public fund investment pools, and certificates of deposit. The Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "Act"), provide for the creation of public funds investment pools, such as Texas Short-term Reserve Fund ("TexStar"), Local Government Investment Cooperative ("LOGIC"), TexasDAILY, TexPool, and Lone Star Investment Pool ("Lone Star"), through which political subdivisions and other entities may invest public funds.

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

The City's investments as of September 30, 2024 are:

| | Credit Rating | Carrying Value | Weighted Average Maturity (days) |
|------------------|------------------|----------------------|--|
| Investment Pool: | | | |
| TexPool | AAAm | \$ 5,111,377 | 26 |
| TexSTAR | AAAm | 2,828,383 | 24 |
| LOGIC | AAAm | 61,973,951 | 48 |
| Total | | <u>\$ 69,913,711</u> | |
| Portfolio | | | 45 |

Interest rate risk: In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk: The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2024, the City's investment in investment pools were rated AAAm and AAA by Standard & Poor's.

Custodial credit risk — deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2024, the market values of pledged securities and FDIC insurance exceeded bank balances.

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

IV. RECEIVABLES

Amounts are aggregated into a single accounts receivable (net of allowance for doubtful accounts) line for certain funds and aggregated columns. Below is the detail of receivables for the major and nonmajor governmental funds in the aggregate, including the applicable allowances for doubtful accounts:

| | General Fund | Industrial Development Corporation | Economic Development Corporation | Debt Service | Nonmajor Governmental | Total |
|---|---------------------|--|--|------------------|--------------------------|---------------------|
| Property taxes | \$ 193,806 | \$ - | \$ - | \$ 78,801 | \$ - | \$ 272,607 |
| Sales taxes | 732,609 | 366,305 | 366,305 | - | - | 1,465,219 |
| Other taxes | 32,747 | - | - | - | 31,331 | 64,078 |
| Leases | 52,188 | - | - | - | - | 52,188 |
| Fines & forfeitures | 325,063 | - | - | - | - | 325,063 |
| Accounts | 29,619 | - | - | - | - | 29,619 |
| Miscellaneous | <u>132,546</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>132,546</u> |
| Gross receivables | 1,498,578 | 366,305 | 366,305 | 78,801 | 31,331 | 2,341,320 |
| Less: allowance for uncollectible accounts | <u>(336,056)</u> | <u>-</u> | <u>-</u> | <u>(10,510)</u> | <u>-</u> | <u>(346,566)</u> |
| Net receivables | <u>\$ 1,162,522</u> | <u>\$ 366,305</u> | <u>\$ 366,305</u> | <u>\$ 68,291</u> | <u>\$ 31,331</u> | <u>\$ 1,994,754</u> |

Below is the detail of receivables for the proprietary funds in the aggregate, including the applicable allowances for doubtful accounts:

| | Utility | Storm Water | Total |
|---|---------------------|------------------|---------------------|
| Accounts | \$ 1,948,402 | \$ 13,223 | \$ 1,961,625 |
| Leases | 70,664 | - | 70,664 |
| Intergovernmental | 2,091,871 | - | 2,091,871 |
| Miscellaneous | <u>157,660</u> | <u>12,026</u> | <u>169,686</u> |
| Gross receivables | 4,268,597 | 25,249 | 4,293,846 |
| Less: allowance for uncollectible accounts | <u>(773,689)</u> | <u>-</u> | <u>(773,689)</u> |
| Net receivables | <u>\$ 3,494,908</u> | <u>\$ 25,249</u> | <u>\$ 3,520,157</u> |

V. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2024 was as follows:

| | Beginning Balance | Transfers/ Additions | Transfers/ Retirements | Ending Balance |
|--|----------------------|-------------------------|---------------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,654,742 | \$ 160,198 | \$ - | \$ 2,814,940 |
| Construction in progress | <u>8,951,725</u> | <u>4,361,270</u> | <u>(865,184)</u> | <u>12,447,811</u> |
| Total capital assets not being depreciated | <u>11,606,467</u> | <u>4,521,468</u> | <u>(865,184)</u> | <u>15,262,751</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 14,617,047 | 1,892,502 | - | 16,509,549 |
| Improvements | 599,375 | 224,114 | - | 823,489 |
| Machinery and equipment | 15,223,198 | 4,105,856 | - | 19,329,054 |
| Infrastructure | 30,700,783 | 2,277,300 | - | 32,978,083 |
| Right to use - equipment | 94,163 | - | - | 94,163 |
| Right to use - subscriptions | <u>1,059,288</u> | <u>236,052</u> | <u>(903,855)</u> | <u>391,485</u> |
| Total assets being depreciated | <u>62,293,854</u> | <u>8,735,824</u> | <u>(903,855)</u> | <u>70,125,823</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (4,085,603) | (491,321) | - | (4,576,924) |
| Improvements | (344,290) | (36,210) | - | (380,500) |
| Machinery and equipment | (10,715,156) | (972,399) | - | (11,687,555) |
| Infrastructure | (7,049,946) | (1,254,405) | - | (8,304,351) |
| Right to use - equipment | (14,502) | (30,893) | - | (45,395) |
| Right to use - subscriptions | <u>(148,979)</u> | <u>(329,537)</u> | <u>325,039</u> | <u>(153,477)</u> |
| Total accumulated depreciation | <u>(22,358,476)</u> | <u>(3,114,765)</u> | <u>325,039</u> | <u>(25,148,202)</u> |
| Total capital assets being depreciated, net | <u>39,935,378</u> | <u>5,621,059</u> | <u>(578,816)</u> | <u>44,977,621</u> |
| Governmental activities capital assets, net | <u>\$ 51,541,845</u> | <u>\$ 10,142,527</u> | <u>\$ (1,444,000)</u> | <u>\$ 60,240,372</u> |

| | Beginning Balance | Additions | Transfers/ Retirements | Ending Balance |
|--|----------------------|---------------|---------------------------|-------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,241,293 | \$ - | \$ - | \$ 1,241,293 |
| Construction in progress | 6,025,972 | 2,785,257 | (6,564,564) | 2,246,665 |
| Total capital assets, not being depreciated | 7,267,265 | 2,785,257 | (6,564,564) | 3,487,958 |
| Capital assets being depreciated: | | | | |
| Buildings | 101,181 | - | - | 101,181 |
| Improvements | 43,290,971 | 11,150,874 | - | 54,441,845 |
| Machinery and equipment | 2,545,724 | 151,667 | (16,078) | 2,681,313 |
| Right to use - subscriptions | 117,630 | - | (117,630) | - |
| Total assets being depreciated | 46,055,506 | 11,302,541 | (133,708) | 57,224,339 |
| Less accumulated depreciation for: | | | | |
| Buildings | (57,958) | (5,033) | - | (62,991) |
| Improvements | (20,254,707) | (1,889,516) | - | (22,144,223) |
| Machinery and equipment | (1,862,882) | (187,125) | 16,078 | (2,033,929) |
| Right to use - subscriptions | (12,583) | (34,312) | 46,895 | - |
| Total accumulated depreciation | (22,188,130) | (2,115,986) | 62,973 | (24,241,143) |
| Total capital assets being depreciated, net | 23,867,376 | 9,186,555 | (70,735) | 32,983,196 |
| Business-type activities capital assets, net | \$ 31,134,641 | \$ 11,971,812 | \$ (6,635,299) | \$ 36,471,154 |

Depreciation expense for the year ended September 30, 2024 was charged to functions/programs of the primary government as follows:

| | |
|----------------------------------|---------------------|
| <u>Governmental activities:</u> | |
| General government | \$ 531,970 |
| Public safety | 818,864 |
| Culture and recreation | 339,731 |
| Public works | 1,424,200 |
| Total | <u>\$ 3,114,765</u> |
| <u>Business-type activities:</u> | |
| Utility | \$ 1,824,358 |
| Storm Water | 291,628 |
| Total | <u>\$ 2,115,986</u> |

VI. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transfers made during the fiscal year were as follows:

| Transfer From | Transfer To | Amount |
|------------------------------------|-----------------------|---------------------|
| Industrial Development Corporation | General Fund | \$ 695,040 |
| Economic Development Corporation | General Fund | 930,900 |
| General Fund | UHL Road Fund | 949,125 |
| Nonmajor Governmental | UHL Road Fund | 1,100,000 |
| Nonmajor Governmental | Nonmajor Governmental | 339,920 |
| Economic Development Corporation | Utility Fund | 124,300 |
| Total | | <u>\$ 4,139,285</u> |

The transfers are for the cost incurred from IDC/EDC to be covered by general fund. Transfers to the UHL Road Fund from the General Fund and Nonmajor Governmental Funds were to transfer funds related to capital projects.

Interfund receivables and payables as of September 30, 2024 were as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|------------------------------------|---------------------|
| General Fund | Industrial Development Corporation | \$ 7,212 |
| General Fund | Economic Development Corporation | 74,140 |
| General Fund | 2023 CO Bond Fund | 50,074 |
| General Fund | Nonmajor Governmental | 140 |
| General Fund | Storm Water Fund | 9,278 |
| General Fund | Utility Fund | <u>1,172,739</u> |
| Total | | <u>\$ 1,313,583</u> |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

VII. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2024, was as follows:

| | Beginning Balance | Issued | Refunded/ Retired | Ending Balance | Amount Due Within One Year |
|---|----------------------|----------------------|-----------------------|----------------------|-------------------------------|
| Governmental activities: | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | \$ 4,125,000 | \$ - | \$ (560,000) | \$ 3,565,000 | \$ 595,000 |
| Certificates of obligation | 13,705,000 | 29,540,000 | (700,000) | 42,545,000 | 970,000 |
| Certificates of obligation (private placement) | 255,000 | - | (23,000) | 232,000 | 23,000 |
| Revenue bonds | 7,470,000 | 7,905,000 | (380,000) | 14,995,000 | 495,000 |
| Revenue bonds (private placement) | 15,820,000 | - | (260,000) | 15,560,000 | 265,000 |
| Tax notes | 845,000 | - | (140,000) | 705,000 | 150,000 |
| Tax notes (private placement) | 7,697,000 | 1,954,000 | (2,459,000) | 7,192,000 | 1,589,000 |
| Special assessment revenue revenue bonds (private placement) | 5,537,000 | - | (123,000) | 5,414,000 | 127,000 |
| Issuance premium | 1,579,802 | 1,867,105 | (237,818) | 3,209,089 | - |
| Total bonds payable | <u>57,033,802</u> | <u>41,266,105</u> | <u>(4,882,818)</u> | <u>93,417,089</u> | <u>4,214,000</u> |
| Leases | 84,446 | - | (32,724) | 51,722 | 32,805 |
| Subscription based IT arrangements | 705,986 | 179,244 | (682,162) | 203,068 | 95,190 |
| Compensated absences | 913,069 | - | 27,414 | 940,483 | 235,121 |
| Total governmental | <u>\$ 58,737,303</u> | <u>\$ 41,445,349</u> | <u>\$ (5,570,290)</u> | <u>\$ 94,612,362</u> | <u>\$ 4,577,116</u> |
| Business-type activities: | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | \$ 9,115,000 | \$ - | \$ (1,155,000) | \$ 7,960,000 | \$ 1,250,000 |
| Certificates of obligation | 3,595,000 | - | (125,000) | 3,470,000 | 130,000 |
| Certificates of obligation (private placement) | 505,000 | - | (245,000) | 260,000 | 129,000 |
| Tax notes (private placement) | 211,000 | - | (69,000) | 142,000 | 70,000 |
| Issuance premium | 802,495 | - | (113,653) | 688,842 | - |
| Total bonds payable | <u>14,228,495</u> | <u>-</u> | <u>(1,707,653)</u> | <u>12,520,842</u> | <u>1,579,000</u> |
| Subscription based IT arrangements | 70,735 | - | (70,735) | - | - |
| Compensated absences | 36,269 | 34,720 | (28,442) | 42,547 | 10,522 |
| Total business-type | <u>\$ 14,335,499</u> | <u>\$ 34,720</u> | <u>\$ (1,806,830)</u> | <u>\$ 12,563,389</u> | <u>\$ 1,589,522</u> |

Bond Reserve Fund

For the Industrial Development Corporation's 2022 Sales Tax Revenue Refunding bonds and Economic Development Corporation's 2019 Sales Tax Revenue Refunding bonds, this section requires maintaining in the reserve fund the lesser of: (i) the maximum annual principal and interest requirement of the Bonds; (ii) 1.25 times the average annual principal and interest requirement of the Bonds; or (iii) 10 percent of the aggregate proceeds of the Bonds. This fund shall be used to pay principal of and/or interest on these bonds falling due at any time when moneys in the interest and sinking fund are insufficient for such purpose and to retire the last of the bonds that are outstanding.

Total amounts required to be restricted compared to actual funds for the Industrial Development Corporation and Economic Development Corporation's bonds are as follows:

| | Required at 9/30/2024 | Actual at 9/30/2024 | Excess or (Deficiency) |
|--------------------------------------|--------------------------|------------------------|---------------------------|
| <u>Interest and Sinking:</u> | | | |
| Sales Tax Revenue Refunding Bonds | | | |
| Series 2022 - Industrial Development | \$ 92,364 | \$ 92,364 | \$ - |
| Total | <u>\$ 92,364</u> | <u>\$ 92,364</u> | <u>\$ -</u> |
| <u>Bond Reserve:</u> | | | |
| Sales Tax Revenue Refunding Bonds | | | |
| Series 2022 - Industrial Development | \$ 1,122,295 | \$ 1,122,295 | \$ - |
| Total | <u>\$ 1,122,295</u> | <u>\$ 1,122,295</u> | <u>\$ -</u> |
| <u>Interest and Sinking:</u> | | | |
| Sales Tax Revenue Refunding Bonds | | | |
| Series 2019A - Economic Development | \$ 7,355 | \$ 7,355 | \$ - |
| Series 2019B - Economic Development | 42,011 | 42,011 | - |
| Total | <u>\$ 49,366</u> | <u>\$ 49,366</u> | <u>\$ -</u> |
| <u>Bond Reserve:</u> | | | |
| Sales Tax Revenue Refunding Bonds | | | |
| Series 2019A - Economic Development | \$ 286,618 | \$ 286,618 | \$ - |
| Series 2019B - Economic Development | 507,865 | 507,865 | - |
| Total | <u>\$ 794,483</u> | <u>\$ 794,483</u> | <u>\$ -</u> |

Tax Notes

The City issues tax notes to provide funds for the acquisition of equipment. Tax notes have been issued for both governmental and business-type activities. Tax notes are direct obligations and pledge the full faith and credit of the government.

In the current year, the City issued Tax Notes, Series 2024, in the amount of \$1,954,000. The notes carry interest rates of 3.65% and mature in fiscal year 2031. The proceeds will be used public improvements.

Bonds Outstanding

The City issues general obligation bonds, certificates of obligation bonds, and revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are direct obligations and pledge the full faith and credit of the government.

In the current year, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2023 in the amount of \$29,540,000. The bonds carry interest rates between 4.375% and 5% and mature in fiscal year 2043. The bonds will be used for public improvements related to public roads, the municipal senior center, and public safety.

The City also issued Sales Tax Revenue Bonds, Series 2024 in the amount of \$7,905,000. The bonds carry an interest rate of 5.6%. The purpose of the bonds will be for public improvements related to the Industrial Development Corporation.

Compensated Absences

The compensated absence liabilities are generally liquidated by the General, Utility, and Storm Water Funds depending on the assignment of an employment at termination.

Other Information

Should the City default on its outstanding bonds, any registered owner of the certificates is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring specific performance from the City.

Bonds payable currently outstanding and reported as liabilities of the City's governmental activities are:

| Description | Interest Rate | Maturity Date | Amounts Original Issue | Amounts Outstanding |
|---|---------------|---------------|------------------------|----------------------|
| Governmental activities: | | | | |
| Certificates of obligation: | | | | |
| Certificates of Obligation, Series 2015 | 1.806% | 2/15/2026 | \$ 506,000 | \$ 232,000 |
| Certificates of Obligation, Series 2017 | 3.00-4.00% | 2/15/2031 | 1,575,000 | 1,060,000 |
| Certificates of Obligation, Series 2018 | 4.00-5.00% | 2/15/2038 | 4,910,000 | 4,115,000 |
| Certificates of Obligation, Series 2019 | 3.00-4.00% | 2/15/2039 | 5,115,000 | 4,610,000 |
| Certificates of Obligation, Series 2021 | 2.00-5.00% | 2/15/2041 | 3,685,000 | 3,535,000 |
| Certificates of Obligation, Series 2023 | 4.375-5.00% | 2/15/2043 | 29,540,000 | 29,225,000 |
| Total | | | <u>45,331,000</u> | <u>42,777,000</u> |
| General obligation: | | | | |
| General Obligation Bonds, Series 2014 | 3.00-3.50% | 2/15/2030 | 3,680,000 | 1,740,000 |
| General Obligation Bonds, Series 2017 | 3.00-4.00% | 2/15/2027 | 945,000 | 465,000 |
| General Obligation Bonds, Series 2020 | 3.00% | 2/15/2030 | 1,830,000 | 1,360,000 |
| Total | | | <u>6,455,000</u> | <u>3,565,000</u> |
| Revenue bonds: | | | | |
| Revenue Bonds, Series 2019A | 2.75-3.00% | 8/15/2039 | 2,990,000 | 2,990,000 |
| Revenue Bonds, Series 2019B | 2.45-3.35% | 8/15/2034 | 5,680,000 | 4,100,000 |
| Revenue Bonds, Series 2022 | 3.55%-5.65% | 8/15/2052 | 15,820,000 | 15,560,000 |
| Revenue Bonds, Series 2024 | 5.60% | 8/15/2055 | 7,905,000 | 7,905,000 |
| Total | | | <u>32,395,000</u> | <u>30,555,000</u> |
| Tax notes: | | | | |
| Tax Notes, Series 2020 | 1.80% | 2/15/2026 | 683,000 | 194,000 |
| Tax Notes, Series 2021A | 4.00-5.00% | 2/15/2028 | 1,095,000 | 705,000 |
| Tax Notes, Series 2021 | 1.15% | 2/15/2027 | 835,000 | 321,000 |
| Tax Notes, Series 2022 | 3.09% | 2/15/2029 | 5,279,000 | 3,286,000 |
| Tax Notes, Series 2023 | 4.43% | 2/15/2030 | 3,045,000 | 1,437,000 |
| Tax Notes, Series 2024 | 3.65% | 2/15/2031 | 1,954,000 | 1,954,000 |
| Total | | | <u>12,891,000</u> | <u>7,897,000</u> |
| Special Assessment Bonds: | | | | |
| Special Assessment Bonds, Series 2021 | 2.625-4.00% | 9/15/2051 | 5,657,000 | 5,414,000 |
| Total | | | <u>5,657,000</u> | <u>5,414,000</u> |
| Total governmental activities | | | <u>\$ 102,729,000</u> | <u>\$ 90,208,000</u> |

Bonds payable currently outstanding and reported as liabilities of the City's business-type activities are:

| Description | Interest Rate | Maturity Date | Amounts Original Issue | Amounts Outstanding |
|---|---------------|---------------|------------------------|----------------------|
| Business-type activities: | | | | |
| Certificates of obligation: | | | | |
| Certificates of Obligation, Series 2015 | 1.806% | 2/15/2026 | \$ 1,904,000 | \$ 167,000 |
| Certificates of Obligation, Series 2016 | 1.74% | 8/15/2026 | 435,000 | 93,000 |
| Certificates of Obligation, Series 2017 | 4.00% | 2/15/2034 | 1,760,000 | 1,760,000 |
| Certificates of Obligation, Series 2018 | 5.00% | 2/15/2025 | 345,000 | 40,000 |
| Certificates of Obligation, Series 2020 | 2.00% | 2/15/2040 | 2,020,000 | 1,670,000 |
| Total | | | <u>6,464,000</u> | <u>3,730,000</u> |
| General obligation: | | | | |
| General Obligation Bonds, Series 2014 | 3.00% | 2/15/2025 | 1,980,000 | 265,000 |
| General Obligation Bonds, Series 2017 | 3.00-4.00% | 2/15/2030 | 3,340,000 | 2,700,000 |
| General Obligation Bonds, Series 2020 | 3.00% | 2/15/2029 | 5,330,000 | 4,995,000 |
| Total | | | <u>10,650,000</u> | <u>7,960,000</u> |
| Tax notes: | | | | |
| Tax Notes, Series 2020 | 1.80% | 2/15/2026 | 501,000 | 142,000 |
| Total | | | <u>501,000</u> | <u>142,000</u> |
| Total business-type activities | | | <u>\$ 17,615,000</u> | <u>\$ 11,832,000</u> |

Annual debt service requirements for the City's bonds are as follows:

| Certificates of Obligation (Publicly Sold) | | | | | | |
|--|-------------------------|----------------------|--------------------------|-------------------|----------------------|----------------------|
| Year Ended September 30, | Governmental Activities | | Business-Type Activities | | Total | Total |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2025 | \$ 970,000 | \$ 1,901,481 | \$ 130,000 | \$ 103,900 | \$ 1,100,000 | \$ 2,005,381 |
| 2026 | 945,000 | 1,857,181 | 90,000 | 101,100 | 1,035,000 | 1,958,281 |
| 2027 | 985,000 | 1,812,506 | 95,000 | 99,250 | 1,080,000 | 1,911,756 |
| 2028 | 1,210,000 | 1,762,781 | 95,000 | 97,350 | 1,305,000 | 1,860,131 |
| 2029 | 1,400,000 | 1,704,381 | 95,000 | 95,450 | 1,495,000 | 1,799,831 |
| 2030-2034 | 12,285,000 | 6,988,881 | 2,275,000 | 276,450 | 14,560,000 | 7,265,331 |
| 2035-2039 | 14,475,000 | 3,954,631 | 570,000 | 41,000 | 15,045,000 | 3,995,631 |
| 2040-2044 | 10,275,000 | 923,903 | 120,000 | 1,200 | 10,395,000 | 925,103 |
| Total | <u>\$ 42,545,000</u> | <u>\$ 20,905,745</u> | <u>\$ 3,470,000</u> | <u>\$ 815,700</u> | <u>\$ 46,015,000</u> | <u>\$ 21,721,445</u> |

| Certificates of Obligation (Private Placement) | | | | | | |
|--|-------------------------|-----------------|--------------------------|-----------------|-------------------|------------------|
| Year Ended September 30, | Governmental Activities | | Business-Type Activities | | Total | Total |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2025 | \$ 23,000 | \$ 3,982 | \$ 129,000 | \$ 3,885 | \$ 152,000 | \$ 7,867 |
| 2026 | 209,000 | 1,887 | 131,000 | 1,576 | 340,000 | 3,463 |
| Total | <u>\$ 232,000</u> | <u>\$ 5,869</u> | <u>\$ 260,000</u> | <u>\$ 5,461</u> | <u>\$ 492,000</u> | <u>\$ 11,330</u> |

| General Obligations (Publicly Sold) | | | | | | |
|-------------------------------------|-------------------------|-------------------|--------------------------|-------------------|----------------------|---------------------|
| Year Ended September 30, | Governmental Activities | | Business-Type Activities | | Total | Total |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2025 | \$ 595,000 | \$ 107,250 | \$ 1,250,000 | \$ 238,900 | \$ 1,845,000 | \$ 346,150 |
| 2026 | 680,000 | 87,438 | 1,285,000 | 200,875 | 1,965,000 | 288,313 |
| 2027 | 725,000 | 64,038 | 1,410,000 | 157,000 | 2,135,000 | 221,038 |
| 2028 | 565,000 | 42,313 | 1,390,000 | 111,550 | 1,955,000 | 153,863 |
| 2029 | 495,000 | 24,913 | 1,430,000 | 69,250 | 1,925,000 | 94,163 |
| 2030-2034 | 505,000 | 8,363 | 1,195,000 | 23,900 | 1,700,000 | 32,263 |
| Total | <u>\$ 3,565,000</u> | <u>\$ 334,315</u> | <u>\$ 7,960,000</u> | <u>\$ 801,475</u> | <u>\$ 11,525,000</u> | <u>\$ 1,135,790</u> |

| Tax Notes (Publicly Sold) | | | |
|-----------------------------|-------------------|------------------|--|
| Governmental Activities | | | |
| Year Ended September 30, | Principal | Interest | |
| 2025 | \$ 150,000 | \$ 27,550 | |
| 2026 | 160,000 | 19,800 | |
| 2027 | 195,000 | 11,900 | |
| 2028 | 200,000 | 4,000 | |
| Total | <u>\$ 705,000</u> | <u>\$ 63,250</u> | |

| Tax Notes (Private Placement) | | | | | | |
|-------------------------------|-------------------------|-------------------|--------------------------|-----------------|---------------------|-------------------|
| Year Ended September 30, | Governmental Activities | | Business-Type Activities | | Total | Total |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2025 | \$ 1,589,000 | \$ 211,132 | \$ 70,000 | \$ 1,926 | \$ 1,659,000 | \$ 213,058 |
| 2026 | 1,135,000 | 173,339 | 72,000 | 648 | 1,207,000 | 173,987 |
| 2027 | 1,148,000 | 136,617 | - | - | 1,148,000 | 136,617 |
| 2028 | 1,198,000 | 97,068 | - | - | 1,198,000 | 97,068 |
| 2029 | 1,397,000 | 52,442 | - | - | 1,397,000 | 52,442 |
| 2030-2034 | 725,000 | 22,777 | - | - | 725,000 | 22,777 |
| Total | <u>\$ 7,192,000</u> | <u>\$ 693,375</u> | <u>\$ 142,000</u> | <u>\$ 2,574</u> | <u>\$ 7,334,000</u> | <u>\$ 695,949</u> |

| Year Ended September 30, | Revenue Bonds | | | | | |
|-----------------------------|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | | | | |
| | Publicly Sold | | | Private Placement | | |
| | Principal | Interest | Principal | Interest | Total Principal | Total Interest |
| 2025 | \$ 495,000 | \$ 585,528 | \$ 265,000 | \$ 843,365 | \$ 760,000 | \$ 1,428,893 |
| 2026 | 635,000 | 624,857 | 95,000 | 833,958 | 730,000 | 1,458,815 |
| 2027 | 470,000 | 603,673 | 290,000 | 829,825 | 760,000 | 1,433,498 |
| 2028 | 480,000 | 589,761 | 305,000 | 817,210 | 785,000 | 1,406,971 |
| 2029 | 500,000 | 575,196 | 315,000 | 803,943 | 815,000 | 1,379,139 |
| 2030-2034 | 2,725,000 | 2,624,501 | 1,815,000 | 3,785,775 | 4,540,000 | 6,410,276 |
| 2035-2039 | 3,230,000 | 2,129,813 | 2,350,000 | 3,248,725 | 5,580,000 | 5,378,538 |
| 2040-2044 | 660,000 | 1,734,430 | 3,075,000 | 2,526,433 | 3,735,000 | 4,260,863 |
| 2045-2049 | 860,000 | 1,532,440 | 4,035,000 | 1,561,095 | 4,895,000 | 3,093,535 |
| 2050-2054 | 3,425,000 | 1,202,040 | 3,015,000 | 346,910 | 6,440,000 | 1,548,950 |
| 2055-2059 | 1,515,000 | 84,840 | - | - | 1,515,000 | 84,840 |
| Total | <u>\$ 14,995,000</u> | <u>\$ 12,287,079</u> | <u>\$ 15,560,000</u> | <u>\$ 15,597,239</u> | <u>\$ 30,555,000</u> | <u>\$ 27,884,318</u> |

| Year Ended September 30, | Special Assessment Bonds | |
|-----------------------------|--------------------------|---------------------|
| | Governmental Activities | |
| | Principal | Interest |
| 2025 | \$ 127,000 | \$ 195,460 |
| 2026 | 130,000 | 192,126 |
| 2027 | 133,000 | 188,714 |
| 2028 | 137,000 | 184,558 |
| 2029 | 142,000 | 180,276 |
| 2030-2034 | 779,000 | 830,891 |
| 2035-2039 | 921,000 | 691,375 |
| 2040-2044 | 1,096,000 | 520,608 |
| 2045-2049 | 1,335,000 | 287,280 |
| 2050-2054 | 614,000 | 37,080 |
| Total | <u>\$ 5,414,000</u> | <u>\$ 3,308,368</u> |

Leases

For the year ended September 30, 2024, the financial statements include the adoption of GASB Statement No. 87, Leases. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For additional information, refer to the disclosures below.

| Purpose of Lease | Interest Rate | Initial Year of Lease | Terms in Months | Amount of Initial Liability | Interest Current Year | Amounts Outstanding 09/30/24 | Amounts Due Within One Year |
|------------------|------------------|-----------------------------|--------------------|-----------------------------------|-----------------------------|------------------------------------|-----------------------------------|
| Right to Use: | | | | | | | |
| Copiers | 0.2380 | 4/12/2023 | 36 | \$ 94,163 | \$ 165 | \$ 51,722 | \$ 32,805 |
| Totals | | | | | <u>\$ 165</u> | <u>\$ 51,722</u> | <u>\$ 32,805</u> |

Annual principal and interest requirements for the City's leases are as follows:

| Year Ending September 30, | Leases Payable | | Total Requirements |
|------------------------------|------------------|---------------|-----------------------|
| | Principal | Interest | |
| 2025 | \$ 32,805 | \$ 87 | \$ 32,892 |
| 2026 | 18,917 | 15 | 18,932 |
| Total | <u>\$ 51,722</u> | <u>\$ 102</u> | <u>\$ 51,824</u> |

Subscription-Based IT Arrangements (SBITA)

For the year ended September 30, 2024, the financial statements include the adoption of GASB Statement No. 96, Subscription-Based Information Technology Arrangements. The primary objective of this statement is to enhance the relevance and consistency of information about governments' subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize a subscription liability and an intangible right-to-use subscription asset.

| Purpose of Subscription | Governmental Activities | | | | | | |
|-------------------------|-------------------------|-----------------------|-----------------|-----------------------------|-----------------------|------------------------------|-----------------------------|
| | Interest Rate | Initial Year of Lease | Terms in Months | Amount of Initial Liability | Interest Current Year | Amounts Outstanding 09/30/24 | Amounts Due Within One Year |
| Right to Use: | | | | | | | |
| Cellhawk | 2.786% | 11/1/2023 | 45 | \$ 10,985 | \$ 197 | \$ 6,190 | \$ 3,006 |
| CivicHR | 3.305% | 7/5/2022 | 60 | 24,090 | 610 | 12,684 | 6,142 |
| CivicRec Mgmt. | 3.305% | 10/2/2022 | 60 | 25,634 | 683 | 16,146 | 4,936 |
| Cloud- Based Enterprise | 3.238% | 11/18/2022 | 36 | 41,053 | 926 | 14,530 | 14,530 |
| DebtBook | 2.901% | 8/16/2023 | 37 | 26,560 | 91 | 23,939 | 11,306 |
| LeadsOnline Platform | 3.238% | 7/1/2022 | 36 | 10,554 | 228 | 3,623 | 3,623 |
| NeoGov HR | 2.901% | 7/1/2024 | 27 | 36,436 | - | 32,427 | 3,774 |
| Rppro Software | 2.901% | 3/20/2024 | 36 | 12,248 | - | 8,048 | 3,967 |
| SentinelOne | 3.018% | 10/2/2023 | 24 | 57,327 | - | 37,647 | 18,544 |
| VectorLMS | 3.238% | 10/31/2022 | 36 | 13,764 | 292 | 4,586 | 4,586 |
| Vertosoft | 2.901% | 10/16/2023 | 36 | 62,248 | - | 43,248 | 20,776 |
| Totals | | | | | <u>\$ 3,027</u> | <u>\$ 203,068</u> | <u>\$ 95,190</u> |

Annual principal and interest requirements for the City's subscription-based IT arrangements are as follows:

| Year Ending September 30, | Governmental Activities | | Total Requirements |
|------------------------------|-------------------------|-----------------|-----------------------|
| | Principal | Interest | |
| 2025 | \$ 95,190 | \$ 5,416 | \$ 100,606 |
| 2026 | 87,510 | 3,220 | 90,730 |
| 2027 | <u>20,368</u> | <u>614</u> | <u>20,982</u> |
| Total | <u>\$ 203,068</u> | <u>\$ 9,250</u> | <u>\$ 212,318</u> |

VIII. DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 936 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report that can be obtained at www.TMRS.org.

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

Benefits Provided

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

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

Members can retire at ages 60 and above with five or more years of service or with 20 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

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

| | |
|-----------------------------------|---|
| Employee deposit rate | 7% |
| Matching ratio (City to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility | 20 years at any age, 5 years at age 60 and above |
| Updated service credit | 0% |
| Annuity increase to retirees | 0% of CPI |

Employees Covered by Benefit Terms

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

| | |
|--|-------------------|
| Inactive employees or beneficiaries currently receiving benefits | 46 |
| Inactive employees entitled to but not yet receiving benefits | 114 |
| Active employees | <u>138</u> |
| Total | <u><u>298</u></u> |

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.43% and 6.46% in calendar years 2023 and 2024, respectively. The City's contributions to TMRS for the year ended September 30, 2024, were \$806,259, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

| | |
|---------------------------|---|
| Inflation | 2.50% per year |
| Overall payroll growth | 2.75% per year |
| Investment Rate of Return | 6.75% net of pension plan investment expense, expense, including inflation |

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates return for each major asset class in fiscal year 2024 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------------------|-------------------|---|
| | | (Arithmetic) |
| Global Public Equity | 35.00% | 6.7% |
| Core Fixed Income | 6.00% | 4.7% |
| Non-Core Fixed Income | 20.00% | 8.0% |
| Other Public and Private Markets | 12.00% | 8.0% |
| Real Estate | 12.00% | 7.6% |
| Hedge Funds | 5.00% | 6.4% |
| Private Equity | 10.00% | 11.6% |
| Total | <u>100.00%</u> | |

Discount Rate

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

Changes in Net Pension Liability

| | Increase (Decrease) | | |
|---|--------------------------------|------------------------------------|----------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balance at 12/31/2022 | \$ 15,690,811 | \$ 13,723,966 | \$ 1,966,845 |
| Changes for the year: | | | |
| Service cost | 1,411,278 | - | 1,411,278 |
| Interest | 1,095,246 | - | 1,095,246 |
| Difference between expected and actual experience | 241,615 | - | 241,615 |
| Contributions - employer | - | 725,381 | (725,381) |
| Contributions - employee | - | 789,684 | (789,684) |
| Net investment income | - | 1,597,055 | (1,597,055) |
| Benefit payments, including refunds of employee contributions | (341,167) | (341,167) | - |
| Administrative expense | - | (10,105) | 10,105 |
| Other changes | (84,686) | (72) | (84,614) |
| Net changes | <u>2,322,286</u> | <u>2,760,775</u> | <u>(438,490)</u> |
| Balance at 12/31/2023 | <u>\$ 18,013,097</u> | <u>\$ 16,484,741</u> | <u>\$ 1,528,355</u> |

The City's net pension liability is generally liquidated by the General Fund and Proprietary Funds depending on an employee's assignment at termination.

Discount Rate Sensitivity Analysis

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

| | 1% Decrease in Discount Rate (5.75%) | Current Single Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|--------------------------------------|---|---|---|
| City's net pension liability (asset) | \$ 4,395,213 | \$ 1,528,355 | \$ (810,983) |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained electronically at www.TMRS.org.

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

For the year ended September 30, 2024, the City recognized pension expense in the governmental and business-type activities of \$668,039 and \$88,346, respectively.

At September 30, 2024, 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 | \$ 240,560 | \$ 90,943 |
| Changes in actuarial assumptions | 927 | 65,950 |
| Difference between projected and actual investment earnings | 326,193 | - |
| Contributions subsequent to the measurement date | 627,191 | - |
| Total | <u>\$ 1,194,871</u> | <u>\$ 156,893</u> |

The City reported \$627,191 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| For the Year Ended September 30, | |
|-------------------------------------|-----------|
| 2025 | \$ 93,994 |
| 2026 | 130,422 |
| 2027 | 302,454 |
| 2028 | (116,084) |

IX. DEFINED OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN – TMRS SUPPLEMENTAL DEATH BENEFITS FUND

Plan Description

The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The Plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. SDBF includes coverage for both active and retired members, and assets are commingled for the payment of such benefits. Therefore, the Plan does not qualify as an OPEB Trust in accordance with paragraph 4 of GASB Statement No. 75.

Benefits Provided

The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

| | |
|--|-------------------|
| Inactive employees or beneficiaries currently receiving benefits | 36 |
| Inactive employees entitled to but not yet receiving benefits | 19 |
| Active employees | <u>138</u> |
| Total | <u><u>193</u></u> |

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.20% for 2023 and 0.20% for 2024, of which 0.04% and 0.07%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2023 and 2024 were \$4,329 and \$7,910 respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Total OPEB Liability

The City's Net OPEB Liability (TOL) was measured as of December 31, 2023 and was determined by an actuarial valuation as of that date.

Actuarial assumptions

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

| | |
|------------------|-------------------------------------|
| Inflation rate | 2.50% |
| Salary increases | 3.60% to 11.85% including inflation |
| Discount rate | 3.77% |

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor. Administrative expenses for the SDBF are paid through the TMRS Pension Trust Fund and are wholly accounted for under the provisions of GASB Statement No. 68.

Changes in assumptions reflect the annual change in the municipal bond rate. The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Discount Rate

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 3.77% was used to measure the Total OPEB Liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2023.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|---|-------------------------|
| Balance at 12/31/2022 | \$ 205,233 |
| Changes for the year: | |
| Service cost | 12,409 |
| Interest | 8,472 |
| Difference between expected and actual experience | (2,632) |
| Changes of assumptions | 13,796 |
| Benefit payments | (4,512) |
| Net changes | 27,533 |
| Balance at 12/31/2023 | <u>\$ 232,766</u> |

Discount Rate Sensitivity Analysis

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.77%, 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 2.77% or 1 percentage-point higher 4.77% than the current rate:

| | 1% Decrease 2.77% | Current Discount Rate 3.77% | 1% Increase 4.77% |
|----------------------|----------------------|--------------------------------|----------------------|
| Total OPEB Liability | \$ 287,643 | \$ 232,766 | \$ 191,012 |

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

For the year ended September 30, 2024, the City recognized OPEB expense in the governmental activities and business-type activities of \$13,846 and \$1,831, respectively.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience | \$ 2,013 | \$ 10,586 |
| Changes in actuarial assumptions | 54,794 | 94,650 |
| Contributions subsequent to the measurement date | 6,796 | - |
| Total | <u>\$ 63,603</u> | <u>\$ 105,236</u> |

The City reported \$6,796 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| For the Year Ended September 30, | |
|-------------------------------------|------------|
| 2025 | \$ (5,203) |
| 2026 | (6,948) |
| 2027 | (7,031) |
| 2028 | (12,921) |
| 2029 | (17,524) |
| Thereafter | 1,198 |

X. COMMITMENTS AND CONTINGENCIES

Wastewater Treatment Services

The City has entered into a contract with the Trinity River Authority of Texas - Red Oak Creek Regional Wastewater System to obtain wastewater treatment services, which has no expiration date. In the contract, the Authority agreed to acquire and construct a regional wastewater treatment system to serve the City and other contractual parties, in the area of the watershed or drainage basin of Red Oak Creek, being a tributary of the Trinity River, and located in Ellis and Dallas Counties, Texas. The Trinity River Authority is a governmental agency, which is controlled by directors appointed by the governor.

The City is responsible for a proportionate share of the system's annual operation, maintenance and debt service costs for the term of the contract. These costs are determined annually and are payable in monthly installments. Actual payments for the year ended September 30, 2024 were \$5,090,359. The payments to be received from the City of Red Oak are used as collateral for the bonds issued by TRA to construct the facility.

Complete separate financial statements for the Trinity River Authority may be obtained at Trinity River Authority of Texas, 5300 South Collins, P.O. Box 60, Arlington, Texas 76004.

Water Purchases

The City has entered into a contract with the City of Dallas, Texas to obtain treated water. The rates charged by Dallas are adjusted on an annual basis. Actual payments for the year ended September 30, 2024 were \$1,008,093.

Police Dispatching Services

The City has entered into a contract with the City of Midlothian, Texas to combine dispatching services for both cities, effective October 1, 2009. In May 2020, the contract was extended another five years. In the contract, the City of Midlothian will assume and provide all dispatching services.

The City of Red Oak is responsible for their respective portion of the shared costs relating to the operation and maintenance of the Ellis Countywide Radio System (ECRS). During the current year, the City of Red Oak contributed \$1,021,195 for their portion of shared costs and are committed for \$1,088,073 in the next fiscal year.

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

XI. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

XII. TAX ABATEMENTS

The City enters into economic development agreements designed to promote development and redevelopment within the City, spur economic improvement, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of the City. A portion of the City's economic development agreements are authorized under Chapter 312 (Property Redevelopment and Tax Abatement) of the Texas Tax Code. The economic development agreements are designed to support the creation of new businesses, the expansion and retention of existing businesses within the City, and the attraction of companies that offer high impact jobs and share the community's values. Recipients may be eligible to receive economic assistance based on the employment, or community impact of the project requesting assistance. Recipients generally commit to building or remodeling real property and related infrastructures, redeveloping properties, expanding operations or bringing targeted businesses to the City. These agreements have no formal recapture provisions. For FY 2024, the City abated \$1,286,929 in taxes.

The City enters into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. The City benefits from 380 agreements through the promotion of economic development activity, job creation, increased tax revenues, increased opportunity for input into new development construction of city/county projects, creation of new businesses, infrastructure commitments, and streamlining implementation. These development incentives typically take the form of property tax abatements, loans or grants, commitments for infrastructure, or payments of portions of the sales tax generated by the project. For FY 2024, the City did not rebate any taxes.

XIV. SUBSEQUENT EVENT

In December 2024, the City issued Combination Tax & Revenue Certificates of Obligation, Series 2024 in the amount of \$6,085,000. The bonds have an interest rate between 4% and 5% in fiscal year 2043. These bonds will be used for public improvements. In January 2025, the City issued Sales Tax Revenue Bonds, Series 2025 in the amount of \$12,000,000. The bonds have an interest rate between 5.05% and 5.55%. These bonds will be used for public improvements related to the Economic Development Corporation.

XV. SIGNIFICANT FORTHCOMING STANDARDS

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

GASB Statement No. 101, *Compensated Absences* – The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

GASB Statement No. 102, *Certain Risk Disclosures* – The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2024, and the impact has not yet been determined.

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. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF RED OAK, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|----------------------|---------------------|----------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 10,283,955 | \$ 10,283,955 | \$ 10,284,317 | \$ 362 |
| Sales taxes | 4,267,503 | 3,996,509 | 4,274,083 | 277,574 |
| Franchise tax | 790,000 | 790,000 | 914,576 | 124,576 |
| Alcoholic beverage tax | 12,000 | 12,000 | 25,710 | 13,710 |
| Intergovernmental | 918,100 | 1,011,331 | 780,980 | (230,351) |
| Licenses and permits | 1,952,000 | 1,952,000 | 4,884,431 | 2,932,431 |
| Fines and forfeitures | 415,802 | 415,802 | 332,964 | (82,838) |
| Charges for services | 860,300 | 860,300 | 1,127,402 | 267,102 |
| Investment earnings | 200,040 | 200,040 | 764,703 | 564,663 |
| Miscellaneous | 76,962 | 435,676 | 331,119 | (104,557) |
| Total revenues | <u>19,776,662</u> | <u>19,957,613</u> | <u>23,720,285</u> | <u>3,762,672</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 3,702,340 | 3,728,115 | 3,502,335 | 225,780 |
| Public safety | 12,258,754 | 12,259,755 | 11,634,125 | 625,630 |
| Culture and recreation | 1,914,032 | 1,779,058 | 1,730,269 | 48,789 |
| Public works | 2,972,418 | 3,221,536 | 3,488,778 | (267,242) |
| Economic development | - | - | 2,500 | (2,500) |
| Capital outlay | 3,591,622 | 2,955,519 | 3,374,422 | (418,903) |
| Debt service: | | | | |
| Principal | 55,000 | 55,000 | 140,357 | (85,357) |
| Interest and fiscal charges | - | - | 3,484 | (3,484) |
| Total expenditures | <u>24,494,166</u> | <u>23,998,983</u> | <u>23,876,270</u> | <u>122,713</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(4,717,504)</u> | <u>(4,041,370)</u> | <u>(155,985)</u> | <u>3,885,385</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of bonds | - | 1,962,000 | - | (1,962,000) |
| Issuance of SBITA | - | - | 179,244 | 179,244 |
| Insurance recovery | - | 134,114 | 144,464 | 10,350 |
| Transfers in | 1,025,940 | (1,675,940) | 1,625,940 | 3,301,880 |
| Transfers out | - | (1,418,000) | (949,125) | 468,875 |
| Sale of Capital Assets | 233,100 | 10,000 | - | (10,000) |
| Total other financing sources (uses) | <u>1,259,040</u> | <u>(987,826)</u> | <u>1,000,523</u> | <u>1,988,349</u> |
| CHANGE IN FUND BALANCE | <u>(3,458,464)</u> | <u>(5,029,196)</u> | <u>844,538</u> | <u>5,873,734</u> |
| FUND BALANCE - BEGINNING | <u>14,754,038</u> | <u>14,754,038</u> | <u>14,754,038</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$ 11,295,574</u> | <u>\$ 9,724,842</u> | <u>\$ 15,598,576</u> | <u>\$ 5,873,734</u> |

CITY OF RED OAK, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (BUDGET BASIS) AND ACTUAL
INDUSTRIAL DEVELOPMENT CORPORATION

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|----------------------|----------------------|----------------------|---|
| REVENUES | | | | |
| Sales taxes | \$ 2,127,702 | \$ 2,127,702 | \$ 2,137,042 | \$ 9,340 |
| Investment earnings | 38,000 | 38,000 | 604,580 | 566,580 |
| Miscellaneous | - | - | 2,636 | 2,636 |
| Total revenues | <u>2,165,702</u> | <u>2,165,702</u> | <u>2,744,258</u> | <u>578,556</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Industrial development | 15,223,999 | 14,387,305 | 370,285 | 14,017,020 |
| Capital outlay | - | 811,694 | 627,217 | 184,477 |
| Debt service: | | | | |
| Principal | 267,000 | 267,000 | 268,631 | (1,631) |
| Interest and fiscal charges | <u>855,584</u> | <u>855,584</u> | <u>855,592</u> | <u>(8)</u> |
| Bond Issuance Cost | - | - | 186,508 | (186,508) |
| Total expenditures | <u>16,346,583</u> | <u>16,321,583</u> | <u>2,308,233</u> | <u>14,013,350</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(14,180,881)</u> | <u>(14,155,881)</u> | <u>436,025</u> | <u>14,591,906</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of bonds | - | - | 7,905,000 | 7,905,000 |
| Transfers out | <u>(682,540)</u> | <u>(707,540)</u> | <u>(695,040)</u> | <u>12,500</u> |
| Total other financing sources (uses) | <u>(682,540)</u> | <u>(707,540)</u> | <u>7,209,960</u> | <u>7,917,500</u> |
| CHANGE IN FUND BALANCE | <u>(14,863,421)</u> | <u>(14,863,421)</u> | <u>7,645,985</u> | <u>22,509,406</u> |
| FUND BALANCE - BEGINNING | <u>33,353,667</u> | <u>33,353,667</u> | <u>33,353,667</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$ 18,490,246</u> | <u>\$ 18,490,246</u> | <u>\$ 40,999,652</u> | <u>\$ 22,509,406</u> |

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CITY OF RED OAK, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (BUDGET BASIS) AND ACTUAL
ECONOMIC DEVELOPMENT CORPORATION

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|----------------------|---|
| REVENUES | | | | |
| Sales taxes | \$ 2,127,702 | \$ 2,127,702 | \$ 2,137,042 | \$ 9,340 |
| Investment earnings | 60,000 | 60,000 | 300,236 | 240,236 |
| Total revenues | <u>2,187,702</u> | <u>2,187,702</u> | <u>2,437,278</u> | <u>249,576</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Economic development | 5,855,482 | 5,205,482 | 212,231 | 4,993,251 |
| Debt service: | | | | |
| Principal | 596,128 | 596,128 | 381,631 | 214,497 |
| Interest and fiscal charges | - | - | 217,635 | (217,635) |
| Total expenditures | <u>6,451,610</u> | <u>5,801,610</u> | <u>811,497</u> | <u>4,990,113</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(4,263,908)</u> | <u>(3,613,908)</u> | <u>1,625,781</u> | <u>5,239,689</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of leases | - | - | - | - |
| Transfers out | (417,700) | (1,067,700) | (1,055,200) | 12,500 |
| Total other financing sources (uses) | <u>(417,700)</u> | <u>(1,067,700)</u> | <u>(1,055,200)</u> | <u>12,500</u> |
| CHANGE IN FUND BALANCE | <u>(4,681,608)</u> | <u>(4,681,608)</u> | <u>570,581</u> | <u>5,252,189</u> |
| FUND BALANCE - BEGINNING | <u>13,438,478</u> | <u>13,438,478</u> | <u>13,438,478</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$ 8,756,870</u> | <u>\$ 8,756,870</u> | <u>\$ 14,009,059</u> | <u>\$ 5,252,189</u> |

CITY OF RED OAK, TEXAS

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| Measurement year December 31, | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---|---------------------|---------------------|---------------------|---------------------|
| Total pension liability | | | | |
| Service cost | \$ 440,988 | \$ 512,394 | \$ 580,682 | \$ 626,818 |
| Interest (on the total pension liability) | 357,338 | 407,518 | 468,608 | 534,454 |
| Change in benefit terms including substantively automatic status | - | - | - | - |
| Difference between expected and actual experience | (15,961) | 34,307 | 46,944 | (21,482) |
| Changes in assumptions | - | 251,468 | - | - |
| Benefit payments, including refunds of employee contributions | <u>(85,321)</u> | <u>(117,105)</u> | <u>(121,238)</u> | <u>(166,370)</u> |
| Net change in total pension liability | 697,044 | 1,088,582 | 974,996 | 973,420 |
| Total pension liability - beginning | <u>4,926,991</u> | <u>5,624,035</u> | <u>6,712,617</u> | <u>7,687,613</u> |
| Total pension liability - ending (a) | <u>\$ 5,624,035</u> | <u>\$ 6,712,617</u> | <u>\$ 7,687,613</u> | <u>\$ 8,661,033</u> |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 180,299 | \$ 230,360 | \$ 278,291 | \$ 332,845 |
| Contributions - employee | 277,399 | 289,761 | 314,449 | 343,776 |
| Net investment income | 264,491 | 7,757 | 382,950 | 903,473 |
| Benefit payments, including refunds of employee contributions | (85,321) | (117,105) | (121,238) | (166,370) |
| Administrative expenses | (2,760) | (4,722) | (4,321) | (4,677) |
| Other | <u>(227)</u> | <u>(234)</u> | <u>(234)</u> | <u>(237)</u> |
| Net change in plan fiduciary net position | 633,881 | 405,817 | 849,897 | 1,408,810 |
| Plan fiduciary net position - beginning | <u>4,621,888</u> | <u>5,255,769</u> | <u>5,661,586</u> | <u>6,511,483</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 5,255,769</u> | <u>\$ 5,661,586</u> | <u>\$ 6,511,483</u> | <u>\$ 7,920,293</u> |
| Net Pension Liability (a) - (b) | <u>\$ 368,266</u> | <u>\$ 1,051,031</u> | <u>\$ 1,176,130</u> | <u>\$ 740,740</u> |
| Plan fiduciary net position as a percentage of total pension liability | 93.45% | 84.34% | 84.70% | 91.45% |
| Covered payroll | \$ 4,623,070 | \$ 4,719,828 | \$ 5,113,962 | \$ 5,634,270 |
| Net pension liability as a percentage of covered payroll | 7.97% | 22.27% | 23.00% | 13.15% |

| 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|--|--|---|
| \$ 823,175 613,494 147,850 (33,117) - | \$ 921,228 690,759 - 105,672 10,591 | \$ 949,953 784,454 - (154,487) - | \$ 1,004,034 868,813 - (146,649) - | \$ 1,155,767 964,141 - 76,077 - | \$ 1,411,278 1,095,246 - 241,615 (84,686) |
| <u>(263,334)</u> | <u>(352,505)</u> | <u>(356,560)</u> | <u>(357,842)</u> | <u>(421,736)</u> | <u>(341,167)</u> |
| 1,288,068 | 1,375,745 | 1,223,360 | 1,368,356 | 1,774,249 | 2,322,286 |
| <u>8,661,033</u> | <u>9,949,101</u> | <u>11,324,846</u> | <u>12,548,206</u> | <u>13,916,562</u> | <u>15,690,811</u> |
| <u>\$ 9,949,101</u> | <u>\$11,324,846</u> | <u>\$12,548,206</u> | <u>\$13,916,562</u> | <u>\$15,690,811</u> | <u>\$18,013,097</u> |
| \$ 409,733 401,432 (237,587) (263,334) (4,585) (240) | \$ 516,348 503,403 1,274,464 (352,505) (7,186) (215) | \$ 540,005 532,399 773,124 (356,560) (4,990) (195) | \$ 544,657 563,160 1,522,914 (357,842) (7,023) 46 | \$ 606,986 646,712 (1,019,412) (421,736) (8,786) 10,485 | \$ 725,381 789,684 1,597,055 (341,167) (10,105) (72) |
| 305,419 | 1,934,309 | 1,483,783 | 2,265,912 | (185,751) | 2,760,776 |
| <u>7,920,293</u> | <u>8,225,712</u> | <u>10,160,021</u> | <u>11,643,804</u> | <u>13,909,717</u> | <u>13,723,966</u> |
| <u>\$ 8,225,712</u> | <u>\$10,160,021</u> | <u>\$11,643,804</u> | <u>\$13,909,716</u> | <u>\$13,723,966</u> | <u>\$16,484,742</u> |
| <u>\$ 1,723,389</u> | <u>\$ 1,164,825</u> | <u>\$ 904,402</u> | <u>\$ 6,846</u> | <u>\$ 1,966,845</u> | <u>\$ 1,528,355</u> |
| 82.68% | 89.71% | 92.79% | 99.95% | 87.46% | 91.52% |
| \$ 6,386,149 | \$ 7,191,473 | \$ 7,605,707 | \$ 8,045,143 | \$ 9,238,747 | \$11,283,293 |
| 26.99% | 16.20% | 11.89% | 0.09% | 21.29% | 13.55% |

CITY OF RED OAK, TEXAS

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| Fiscal year ended September 30, | 2015 | 2016 | 2017 | 2018 |
|---|----------------|----------------|----------------|----------------|
| Actuarially determined contribution | \$ 220,318 | \$ 270,906 | \$ 325,033 | \$ 380,870 |
| Contribution in relation to the actuarially determined contribution | <u>220,318</u> | <u>270,906</u> | <u>325,033</u> | <u>380,870</u> |
| Contribution deficiency | - | - | - | - |
| Covered payroll | \$ 4,719,828 | \$ 5,113,962 | \$ 5,631,270 | \$ 6,173,535 |
| Contributions as a percentage of covered payroll | 4.67% | 5.30% | 5.77% | 6.17% |

Notes to Schedule

Valuation date 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 | 22 Years (longest) |
| Asset Valuation Method | 10 year smoothed market: 12% soft |
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.85% including |
| 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. The rates are projected on a fully generational basis by the most recent scale MP-2021. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and General Employee table used for females. The rates are projected on a fully generational basis by the most recent scale MP-2021

Other information:

Notes There were no benefit changes during the year.

| <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> |
|----------------|----------------|----------------|----------------|----------------|----------------|
| \$ 511,496 | \$ 544,685 | \$ 540,444 | \$ 586,625 | \$ 699,206 | \$ 806,258 |
| <u>511,496</u> | <u>544,685</u> | <u>540,444</u> | <u>586,625</u> | <u>699,206</u> | <u>806,258</u> |
| - | - | - | - | - | - |
| \$ 7,012,203 | \$ 7,419,342 | \$ 8,281,387 | \$ 8,869,309 | \$ 10,823,498 | \$ 12,493,714 |
| 7.29% | 7.34% | 6.53% | 6.61% | 6.46% | 6.45% |

CITY OF RED OAK, TEXAS

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| Measurement year December 31, | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--|-------------------|-------------------|-------------------|-------------------|
| Total OPEB liability | | | | |
| Service cost | \$ 10,313 | \$ 12,772 | \$ 12,226 | \$ 16,733 |
| Interest (on the total OPEB liability) | 4,945 | 5,340 | 6,072 | 6,114 |
| Difference between expected and actual experience | - | (1,035) | (2,388) | (754) |
| Changes in assumptions | 14,611 | (13,762) | 41,224 | 42,482 |
| Benefit payments, including refunds of employee contributions | <u>(573)</u> | <u>(639)</u> | <u>(720)</u> | <u>(760)</u> |
| Net change in total OPEB liability | 29,296 | 2,676 | 56,414 | 63,815 |
| Total OPEB liability - beginning | <u>125,953</u> | <u>155,249</u> | <u>157,925</u> | <u>214,339</u> |
| Total OPEB liability - ending (a) | <u>\$ 155,249</u> | <u>\$ 157,925</u> | <u>\$ 214,339</u> | <u>\$ 278,154</u> |
| Covered-employee payroll | \$ 5,634,270 | \$ 6,386,149 | \$ 7,191,473 | \$ 7,605,707 |
| Total OPEB liability as a percentage of covered-employee payroll | 2.755% | 2.473% | 2.980% | 3.657% |

Notes to schedule:

1. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.
2. The actuarial assumptions and other inputs used to calculate the total OPEB liability are described in the notes to the financial statements.
3. This schedule is required to have 10 years of information, but the information prior to 2017 is not available.
4. Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

| <u>2021</u> | <u>2022</u> | <u>2023</u> |
|--------------------|----------------------|--------------------|
| \$ 20,113 5,740 | \$ 23,097 6,008 | \$ 12,409 8,472 |
| 3,456 11,797 | (9,615) (127,408) | (2,632) 13,796 |
| <u>(2,414)</u> | <u>(3,695)</u> | <u>(4,512)</u> |
| 38,692 | (111,613) | 27,533 |
| <u>278,154</u> | <u>316,846</u> | <u>205,233</u> |
| <u>\$ 316,846</u> | <u>\$ 205,233</u> | <u>\$ 232,766</u> |
| \$ 8,045,143 | \$ 9,238,723 | \$ 11,283,293 |
| 3.938% | 2.221% | 2.063% |

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COMBINING SCHEDULES

CITY OF RED OAK, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2024

| | <u>Special Revenue</u> | | |
|-------------------------------------|------------------------|------------------------------|-------------------|
| | <u>Tourism</u> | <u>Park Improvements</u> | <u>PID</u> |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,051,538 | \$ 836,499 | \$ 177,197 |
| Investments | - | 33,150 | - |
| Accounts receivable (net) | 31,331 | - | - |
| Restricted assets: | | | |
| Cash | - | - | - |
| Total assets | <u>1,082,869</u> | <u>869,649</u> | <u>177,197</u> |
| LIABILITIES | | | |
| Accounts payable | 18,403 | - | - |
| Accrued liabilities | 7,064 | - | - |
| Due to other funds | - | - | 140 |
| Customer deposits | <u>6,440</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>31,907</u> | <u>-</u> | <u>140</u> |
| FUND BALANCES | | | |
| Restricted: | | | |
| Culture and recreation | 1,050,962 | - | - |
| Capital projects | - | 869,649 | 177,057 |
| Committed: | | | |
| Capital projects | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fund balances | <u>1,050,962</u> | <u>869,649</u> | <u>177,057</u> |
| Total liabilities and fund balances | <u>\$ 1,082,869</u> | <u>\$ 869,649</u> | <u>\$ 177,197</u> |

| Capital Projects | | | | |
|------------------|--------------------------------|----------------------|----------------------|---|
| 2019 CO Bond | General Capital Projects | 2021 CO Bond Fund | Tax Notes 2024 | Total Nonmajor Governmental Funds |
| \$ 6,687 | \$ 1,114,674 | \$ 124,301 | \$ - | \$ 3,310,896 |
| 3,343 | - | - | - | 36,493 |
| - | - | - | - | 31,331 |
| - | - | - | 1,916,608 | 1,916,608 |
| 10,030 | 1,114,674 | 124,301 | 1,916,608 | 5,295,328 |
| - | 132,657 | - | - | 151,060 |
| - | - | - | - | 7,064 |
| - | - | - | - | 140 |
| - | - | - | - | 6,440 |
| - | 132,657 | - | - | 164,704 |
| - | - | - | - | 1,050,962 |
| 10,030 | - | 124,301 | 1,916,608 | 3,097,645 |
| - | 982,017 | - | - | 982,017 |
| 10,030 | 982,017 | 124,301 | 1,916,608 | 5,130,624 |
| \$ 10,030 | \$ 1,114,674 | \$ 124,301 | \$ 1,916,608 | \$ 5,295,328 |

CITY OF RED OAK, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | <u>Special Revenue</u> | | |
|---|------------------------|------------------------------|--------------------|
| | <u>Tourism</u> | <u>Park Improvements</u> | <u>PID</u> |
| REVENUES | | | |
| Hotel occupancy tax | \$ 390,824 | \$ - | \$ - |
| Charges for services | 78,783 | 327,679 | - |
| Investment earnings | 29,615 | 29,587 | 51,143 |
| Intergovernmental | - | 7,785 | - |
| Miscellaneous | - | 62 | - |
| PID Assessments | - | - | 396,796 |
| Total revenues | <u>499,222</u> | <u>365,113</u> | <u>447,939</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Culture and recreation | 303,247 | - | 39,595 |
| Public works | - | 14,397 | - |
| Capital outlay | - | 399,722 | 3,023,627 |
| Debt service: | | | |
| Principal | 967 | - | 123,000 |
| Interest and fiscal charges | 5 | - | 198,688 |
| Issuance costs | - | - | - |
| Total expenditures | <u>304,219</u> | <u>414,119</u> | <u>3,384,910</u> |
| Excess (deficiency) of revenues over expenditures | <u>195,003</u> | <u>(49,006)</u> | <u>(2,936,971)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Issuance of bonds | - | - | - |
| Transfers in | - | - | - |
| Transfers out | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| CHANGE IN FUND BALANCE | 195,003 | (49,006) | (2,936,971) |
| FUND BALANCE - BEGINNING, AS PREVIOUSLY REPORTED | <u>855,959</u> | <u>918,655</u> | <u>3,114,028</u> |
| FUND BALANCE ADJUSTMENTS | | | |
| Change within the reporting entity | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE, BEGINNING, AS RESTATED | <u>855,959</u> | <u>918,655</u> | <u>3,114,028</u> |
| FUND BALANCE - ENDING | <u>\$ 1,050,962</u> | <u>\$ 869,649</u> | <u>\$ 177,057</u> |

| Capital Projects | | | | |
|------------------|--------------------------------|-----------------------|----------------------|---|
| 2019 CO Bond | General Capital Projects | 2021 CO Bond Fund* | Tax Notes 2024 | Total Nonmajor Governmental Funds |
| \$ - | \$ - | \$ - | \$ - | \$ 390,824 |
| - | - | - | - | 406,462 |
| - | 11,134 | 9,802 | 3,742 | 135,023 |
| - | - | - | - | 7,785 |
| - | - | - | - | 62 |
| - | - | - | - | 396,796 |
| - | 11,134 | 9,802 | 3,742 | 1,336,952 |
| - | - | - | - | 342,842 |
| - | - | - | - | 14,397 |
| - | 582,456 | 67,424 | - | 4,073,229 |
| - | - | - | - | 123,967 |
| - | - | - | - | 198,693 |
| - | - | - | 41,134 | 41,134 |
| - | 582,456 | 67,424 | 41,134 | 4,794,262 |
| - | (571,322) | (57,622) | (37,392) | (3,457,310) |
| - | - | - | 1,954,000 | 1,954,000 |
| - | 339,920 | - | - | 339,920 |
| (339,920) | (1,100,000) | - | - | (1,439,920) |
| (339,920) | (760,080) | - | 1,954,000 | 854,000 |
| (339,920) | (1,331,402) | (57,622) | 1,916,608 | (2,603,310) |
| 349,950 | 2,313,419 | - | - | 7,552,011 |
| - | - | 181,923 | - | 181,923 |
| 349,950 | 2,313,419 | 181,923 | - | \$ 7,733,934 |
| \$ 10,030 | \$ 982,017 | \$ 124,301 | \$ 1,916,608 | \$ 5,130,624 |

CITY OF RED OAK, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Original Budget | Final Budget | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|--------------------|-------------------|-------------------------|---|
| REVENUES | | | | |
| Hotel occupancy tax | \$ 387,325 | \$ 387,325 | \$ 390,824 | \$ 3,499 |
| Charges for services | 50,000 | 50,000 | 78,783 | 28,783 |
| Investment earnings | 2,000 | 2,000 | 29,615 | 27,615 |
| Total revenues | <u>439,325</u> | <u>439,325</u> | <u>499,222</u> | <u>59,897</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Culture and recreation | 315,675 | 322,395 | 303,247 | 19,148 |
| Debt service: | | | | |
| Principal | - | - | 967 | (967) |
| Interest and fiscal charges | - | - | 5 | (5) |
| Total expenditures | <u>315,675</u> | <u>322,395</u> | <u>304,219</u> | <u>18,176</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>123,650</u> | <u>116,930</u> | <u>195,003</u> | <u>78,073</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (50,000) | (50,000) | - | 50,000 |
| Total other financing sources (uses) | <u>(50,000)</u> | <u>(50,000)</u> | <u>-</u> | <u>50,000</u> |
| CHANGE IN FUND BALANCE | 73,650 | 66,930 | 195,003 | 128,073 |
| FUND BALANCE - BEGINNING | <u>855,959</u> | <u>855,959</u> | <u>855,959</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$ 929,609</u> | <u>\$ 922,889</u> | <u>\$ 1,050,962</u> | <u>\$ 128,073</u> |

CITY OF RED OAK, TEXAS**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (BUDGET BASIS) AND ACTUAL
DEBT SERVICE**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Original Budget | Final Budget | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|---------------------------------|--------------------|-------------------|-------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 5,724,901 | \$ 5,724,901 | \$ 5,966,428 | \$ 241,527 |
| Investment earnings | - | - | 1,713 | 1,713 |
| Total revenues | <u>5,724,901</u> | <u>5,724,901</u> | <u>5,968,141</u> | <u>243,240</u> |
| EXPENDITURES | | | | |
| Debt service: | | | | |
| Principal | 3,502,837 | 3,875,000 | 3,875,000 | - |
| Interest and fiscal charges | <u>2,235,963</u> | <u>1,863,800</u> | <u>1,849,131</u> | <u>14,669</u> |
| Total expenditures | <u>5,738,800</u> | <u>5,738,800</u> | <u>5,724,131</u> | <u>14,669</u> |
| CHANGE IN FUND BALANCE | (13,899) | (13,899) | 244,010 | 228,571 |
| FUND BALANCE - BEGINNING | <u>164,178</u> | <u>164,178</u> | <u>164,178</u> | <u>164,178</u> |
| FUND BALANCE - ENDING | <u>\$ 150,279</u> | <u>\$ 150,279</u> | <u>\$ 408,188</u> | <u>\$ 392,749</u> |

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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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 RED OAK, TEXAS,
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2025**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$16,215,000

AS BOND COUNSEL for the City of Red Oak, 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,

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