OFFICIAL STATEMENT

Dated August 10, 2026

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

NEW ISSUE - Book-Entry-Only

Interest on the Bonds is not excludable from gross income for federal tax purposes under existing law. See "TAX MATTERS" herein.

$14,710,000
CITY OF RED OAK, TEXAS
(Ellis County)
GENERAL OBLIGATION PENSION BONDS, TAXABLE SERIES 2026

Dated Date: August 15, 2026 **Due: February 15, as shown on page 2**
Interest to accrue from the date of initial delivery

PAYMENT TERMS . . . Interest on the $14,710,000 City of Red Oak, Texas, General Obligation Pension Bonds, Taxable Series 2026 (the "Bonds"), will accrue from the date of the initial delivery to the underwriter thereof (the "Underwriter"), will be payable February 15 and August 15 of each year commencing February 15, 2027, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds 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 Bonds may be acquired in denominations of $5,000 or any integral multiple thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds 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 Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is Wilmington Trust, National Association, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 107, Texas Local Government Code, as amended and Chapter 1371, Texas Government Code, as amended, and are direct obligations of the City of Red Oak, Texas (the "City"), payable from a direct and continuing annual ad valorem tax levied upon all taxable property within the City, within the limits prescribed by law, as provided in an ordinance adopted by the City Council of the City on July 13, 2026 authorizing the issuance of the Bonds (the "Bond Ordinance") which delegated to an authorized officer of the City (the "Pricing Officer") the authority to execute a pricing certificate for the Bonds (referred to herein as the "Pricing Certificate" and together with the Bond Ordinance, the "Ordinance") that completed the sale of the Bonds (see "THE BONDS - Authority for Issuance of the Bonds").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to provide funds to: (i) pay a portion of the City's unfunded, accrued liability to the Texas Municipal Retirement System; and (ii) pay the costs associated with the issuance of the Bonds (collectively, the "Projects"). (see "PLAN OF FINANCING – Purpose of the Bonds").

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

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriter 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"). Certain legal matters will be passed upon for the Underwriter by Leon, Alcala, Morse & Reynolds, PLLC, Austin, Texas, Counsel for the Underwriter.

DELIVERY . . . It is expected that the Bonds will be available for delivery through the facilities of DTC on or about August 31, 2026.

PIPER SANDLER & CO.

MATURITY SCHEDULE

CUSIP Prefix: 756835 [(1)]

Amount	15-Feb Maturity	Interest Rate	Initial Yield	CUSIP Suffix [(1)]
$ 205,000	2031	4.803%	4.803%	ZA5
650,000	2032	4.895%	4.895%	ZB3
680,000	2033	4.995%	4.995%	ZC1
715,000	2034	5.096%	5.096%	ZD9
755,000	2035	5.146%	5.146%	ZE7
795,000	2036	5.246%	5.246%	ZF4
835,000	2037	5.306%	5.306%	ZG2
885,000	2038	5.406%	5.406%	ZH0
935,000	2039	5.506%	5.506%	ZJ6
985,000	2040	5.596%	5.596%	ZK3
1,045,000	2041	5.646%	5.646%	ZL1

$6,225,000 5.872% Term Bonds due February 15, 2046 at a Price of 100.00 to Yield 5.872% CUSIP No. [(1)] ZR8

(Interest to accrue from delivery date.)

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP data is not intended to create a database and does not serve in any way as a substitute for the CGS database. None of the City, the Underwriter or their agents or counsel assume responsibility for the selection or accuracy of the CUSIP numbers set forth herein. CUSIP numbers for the Bonds are subject to change after the issuance as a result of various post-issuance events, including, but not limited to, a partial defeasance of the Bonds.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2035, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption"). The Bonds maturing on February 15, 2046 (the “Term Bonds”) are also subject to mandatory sinking fund redemption as set forth in the Ordinance (see “THE BONDS – Mandatory Sinking Fund Redemption”).

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

No dealer, broker, salesperson, or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

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

None of the City, its Municipal Advisor, or the Underwriter makes any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

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

The cover page of this Official Statement for the Bonds contains certain information for general reference only and is not intended as a summary of the offering. Investors should read the entire Official Statement, including all schedules and appendices hereto, to obtain information essential to making an informed investment decision.

The agreements of the City and others related to the Bonds 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 Bonds is to be construed as constituting an agreement with a purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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 Bonds 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 Bonds in accordance with applicable securities law provisions of the jurisdiction in which the Bonds have been registered, qualified or exempted should not be regarded as a recommendation thereof.

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

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds 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 BONDS .... The Bonds are issued as $14,710,000 General Obligation Pension Bonds, Taxable Series 2026. The Bonds are issued as serial Bonds maturing on February 15 in each of the years 2031 through 2041, and as Term Bonds maturing on February 15, 2046 (see "THE BONDS – Description of the Bonds" and "Mandatory Sinking Fund Redemption").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from the date of the initial delivery and is payable February 15, 2027, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds").

AUTHORITY FOR ISSUANCE........... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 107, Texas Local Government Code, as amended and Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City on July 13, 2026 authorizing the issuance of the Bonds (the "Bond Ordinance") which delegated to an authorized officer of the City (the "Pricing Officer") the authority to execute a pricing certificate for the Bonds (referred to herein as the "Pricing Certificate" and together with the Bond Ordinance, the "Ordinance") that completed the sale of the Bonds (see "THE BONDS - Authority for Issuance of the Bonds").

SECURITY FOR THE BONDS.. The Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, upon all taxable property located within the City, as provided in the Ordinance (see "THE BONDS – Security and Source of Payment of the Bonds").

REDEMPTION OF THE BONDS .... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2035, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

MANDATORY SINKING FUND REDEMPTION .... The Bonds maturing on February 15, 2046 are also subject to mandatory sinking fund redemption as described herein ("THE BONDS – Mandatory Sinking Fund Redemption").

FEDERAL INCOME TAX CONSIDERATIONS .... Interest on the Bonds is not excludable from gross income for federal tax purposes under existing law. See "TAX MATTERS" herein.

USE OF PROCEEDS........................ Proceeds from the sale of the Bonds will be used to provide funds to: (i) pay a portion of the City's unfunded, accrued liability to the Texas Municipal Retirement System; and (ii) pay the costs associated with the issuance of the Bonds (see "PLAN OF FINANCING – Purpose of the Bonds").

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

BOOK-ENTRY-ONLY SYSTEM...... The definitive Bonds 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 Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds 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 Bonds (see "THE BONDS - Book-Entry-Only System").

PAYMENT RECORD .... The City has never defaulted in payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated 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	75,300,000	3.11%	4,043
2025	19,500	2,708,364,267	138,890	71,143,000	2.63%	3,648
2026	19,500	3,150,212,143	161,549	85,853,000 (4)	2.73% (4)	4,403 (4)

(1) Source: The City
(2) As reported by the Ellis Appraisal District on the City's annual State Property Tax Reports, subject to change during the ensuing year. Includes Frozen Taxable Values.
(3) Does not include self-supporting debt.
(4) The outstanding general obligation debt includes the Bonds.

GENERAL FUND CONDENSED SCHEDULE OF REVENUE AND EXPENSE SUMMARY

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
Beginning Balance	$ 15,598,576	$ 14,754,038	$ 14,046,262	$ 5,496,240	$ 4,955,029
Total Revenues	31,449,067	23,720,285	19,360,474	19,912,971	13,942,392
Total Expenditures	22,989,957	23,876,270	21,578,073	15,868,051	14,661,512
Net Transfers	1,092,146	1,000,523	2,925,375	4,505,102	1,260,331
Net Funds Available	9,551,256	844,538	707,776	8,550,022	541,211
Ending Balance	$ 25,149,832	$ 15,598,576	$ 14,754,038	$ 14,046,262	$ 5,496,240

For additional information regarding the City, please contact:

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Mark Stanfill, DVM Mayor	6 Years	2027	Veterinarian
Willie G. Franklin Jr. Place 1 / Mayor Pro Tem	6 Years	2027	Planner Review
Sean Flannery Place 2	1 Year	2028	Chief Operating Officer
Ricardo Miller Place 3	2 Years	2027	Operations Pastor
Tim Lightfoot Place 4	13 Years	2028	Mortgage Servicing
Jeffrey Smith Place 5	4 Years	2028	Federal Law Enforcement

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service with City	Length of Governmental Service
Todd Fuller	City Manager	26 Years	26 Years
Jonathan Phillips	Assistant City Manager	7 Years	21 Years
Tim McRoberts	Director of Finance	2 Years	13 Years
Sean Smith	Assistant Director of Finance	5 Months	9 Years
Caryn Stevens	City Secretary	13 Years	13 Years

CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

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

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

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

OFFICIAL STATEMENT

RELATING TO

CITY OF RED OAK, TEXAS

$14,710,000
GENERAL OBLIGATION PENSION BONDS, TAXABLE SERIES 2026

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $14,710,000 City of Red Oak, Texas, General Obligation Pension Bonds, Taxable Series 2026 (the "Bonds") being offered herein. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined below), except as otherwise indicated herein.

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 19,500. The City covers approximately 15.22 square miles

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

PLAN OF FINANCING

PURPOSE OF THE BONDS . . . Proceeds from the sale of the Bonds will be used to provide funds to: (i) pay a portion of the City's unfunded, accrued liability to the Texas Municipal Retirement System ("TMRS") and (ii) pay the costs associated with the issuance of the Bonds.

TMRS UNFUNDED LIABILITIES . . . The City maintains a pension fund for the benefit of its employees with the TMRS (the "Pension Plan" or the "Plan"). The City and its covered employees make deposits into the Plan each month towards the employees' benefits earned during the current year (the "Normal Cost") as well as a portion of the unfunded, accrued liability (the "TMRS Unfunded Liability"). The TMRS Unfunded Liability is the difference between the Plan's assets and the benefits accrued (for past service) for current and future retirees. TMRS calculates the TMRS Unfunded Liability as of each December 31, most recently as of December 31, 2025. The City funds the TMRS Unfunded Liability in two parts: 1) the "Prior Service Cost" (the portion of the TMRS Unfunded Liability payable through the prior service component of the City's required monthly employer contributions), and 2) the portion for the following service year (2027) and beyond as calculated by the TMRS December 31, 2025 actuarial study. The City is currently amortizing the TMRS Unfunded Liability over an equivalent single amortization period of 19.0 years, with each new amortization base established over a 20-year period. As of December 31, 2025, the Plan is approximately 59.0% funded with a TMRS Unfunded Liability of $15,159,175 which includes total estimated Prior Service Cost payments of $1,635,930 for the period of October 2026 through December 2027 using the Plan assumptions. A portion of the TMRS Unfunded Liability in the amount of $12,864,070 will be deposited directly with TMRS upon delivery of the Bonds. The total Prior Service Cost payments for the period October 2026 through December 2027 to be paid in monthly installments during that period will be deposited into an escrow account with Wilmington Trust, National Association (the "Escrow Agent") from which monies will be drawn monthly and transferred to TMRS. The remaining approximately $659,175 of the TMRS Unfunded Liability will not be funded with proceeds of the Bonds. Actual monthly payments will vary depending on payroll, and the City remains responsible for paying to TMRS any portion of the Prior Service Cost not covered by payments made from the escrow account. Any amounts remaining in the escrow account in December 2027 will be deposited with TMRS in December 2027, even if such amounts exceed the amounts then required to be deposited. See "PENSION FUND" and Appendix B – "Excerpts From the Financial Statements – Note VIII" for Plan details and assumptions. Plan earnings performance, changes in benefits, and many other factors will impact the Plan's overall funded level in future years and the City may owe additional payments relating to the portion of the TMRS Unfunded Liability being funded with a portion of the proceeds of the Bonds or may become overfunded in the future.

Assuming the realization of the actuarial assumptions described in Appendix D – "TMRS Contribution Rate Letter Dated June 4, 2026" (the "Rate Letter"), the City anticipates an annual positive cash flow benefit during the life of the Bonds from the difference between the projected actuarially-determined future payments for the City's TMRS Unfunded Liability to TMRS based on the actuarial assumptions in the Rate Letter, compared to the debt service payments on the Bonds.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

SOURCES OF FUNDS:	
Par Amount	$ 14,710,000.00
Total Sources of Proceeds	$ 14,710,000.00
USES OF FUNDS:	
Deposit to TMRS and Escrow Fund	$ 14,500,000.00
Cost of Issuance[(1)]	210,000.00
Total Uses of Proceeds	$ 14,710,000.00

(1) Includes Underwriter's Discount.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated August 15, 2026. The Bonds mature on February 15 in each of the years and in the amounts shown on page 2, unless redeemed prior to maturity as described herein under "THE BONDS – Optional Redemption". Interest on the Bonds will accrue from the Delivery Date, will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2027, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds 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 Bonds (see "THE BONDS - Book-Entry-Only System" herein).

AUTHORITY FOR ISSUANCE OF THE BONDS . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 107, Texas Local Government Code, as amended and Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), and are direct obligations of the City of Red Oak, Texas (the "City"), payable from a direct and continuing annual ad valorem tax levied upon all taxable property within the City, within the limits prescribed by law, as provided in an ordinance adopted by the City Council of the City on July 13, 2026 authorizing the issuance of the Bonds (the "Bond Ordinance") which delegated to an authorized officer of the City (the "Pricing Officer") the authority to execute a pricing certificate for the Bonds (referred to herein as the "Pricing Certificate" and together with the Bond Ordinance, the "Ordinance") that completed the sale of the Bonds.

SECURITY AND SOURCE OF PAYMENT OF THE BONDS . . . The Bonds 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.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2035, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of the Bonds to be redeemed. If less than all of the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, the Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION . . .The Bonds maturing on February 15, 2046 (the "Term Bond") are also subject to mandatory sinking fund redemption on the dates and in the principal amounts shown below at the price of par plus accrued interest to the date of redemption:

Term Bonds Due
February 15, 2046

Redemption Date		Principal Amount
02/15/2042		$ 1,105,000
02/15/2043		1,170,000
02/15/2044		1,240,000
02/15/2045		1,315,000
02/15/2046	(maturity)	1,395,000

The principal amount of Term Bonds required to be redeemed on any mandatory sinking fund redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Bonds of the same maturity which, at least 50 days prior to a mandatory redemption date (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION . . . At least 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, addressed to each such registered owners of the Bonds to be redeemed, at the address shown on the registration books of the Paying Agent/Registrar; provided however, that the failure to receive such notice described above, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond.

With respect to any optional redemption of the Bonds, as applicable, unless certain prerequisites to the redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds, as applicable, to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient moneys are not received, such notice will be of no force and effect, the City will not redeem the Bonds, and the Paying Agent/Registrar will give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

NOTICE HAVING BEEN SO GIVEN AND THE FUNDS NECESSARY TO REDEEM THE BONDS HAVING BEEN PROVIDED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC NOTICES . . . The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds 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 Bonds from the beneficial owners. Any such selection of Bonds 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 Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds selected for redemption (see "THE BONDS - Book-Entry-Only System").

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on the applicable Bonds, plus interest accrued on the Bonds to their due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities (defined below) that 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 Bonds being defeased. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to refund, retire or otherwise discharge obligations such as the Bonds. 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 City Council 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, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council 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. The City has additionally reserved 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, the Bonds shall no longer be regarded as being outstanding or unpaid. The City has reserved the option, however, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

AMENDMENTS . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder of the Bonds 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 does 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 applicable Bonds, aggregating in principal amount a majority of such outstanding Bonds, as the case may be, 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 such then outstanding Bonds so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of such outstanding Bonds; (ii) reducing the rate of interest borne by any of such outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any such outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on such outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, New York, New York, while the Bonds 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 Bonds, 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 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds 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 Bond will be issued for each stated maturity of the Bonds, each in the aggregate principal amount of 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 U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of AA+ from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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 interests in the Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds 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 (as defined below). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds 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 the 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 City or the Paying Agent/Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are 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 depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds 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, Bonds will be printed and delivered.

So long as Cede & Co. is the registered owner of the Bonds, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or to the persons for which they act as nominees, with respect to payment to or providing of notice to such 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 Bonds 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 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System is discontinued, printed Bonds will be issued to the beneficial owners and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar for the Bonds is Wilmington Trust, National Association, 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 Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, trust company, financial institution, or other entity qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the applicable series of Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bonds will be delivered to the beneficial owners thereof, and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed Bonds 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. Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds 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 Bonds 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 Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. The Paying Agent/Registrar shall not be required to make any such transfer, conversion, or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

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

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

BONDHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners thereof, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner of a Bond is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or 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. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. There is no acceleration of maturity of the Bonds 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 interests of the holders 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 financed by, the applicable registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) ("Wasson") that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. The Texas Supreme Court reviewed Wasson again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court 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. Chapter 1371, which pertains to the issuance of public securities by certain issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its debt obligations, but in connection with the issuance of the Bonds, the City has not waived sovereign immunity. 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 Bonds may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce creditors' rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

AD VALOREM PROPERTY TAXATION

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 (3) years. A taxing unit may require annual review at its own expense and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

Through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2026 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than $5.32 million (the "maximum property value") to an amount exceeding 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 (collectively, the "Appraisal Cap"). 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 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. The same land may not be qualified as both agricultural and open-space land.

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 "AD VALOREM PROPERTY TAXATION – City and Taxpayer Remedies").

STATE MANDATED HOMESTEAD EXEMPTIONS . . . State law grants, with respect to each city in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

LOCAL OPTION HOMESTEAD EXEMPTIONS . . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the 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 also 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.

Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption described in (1), above, that was granted in tax year 2022 through December 31, 2027.

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

PERSONAL PROPERTY. . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. Effective beginning with the 2026 tax year, the exemption for tangible personal property used in the "production of income" increased from $2,500 to $125,000.

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

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

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

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGE 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 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. The Texas Legislature amended Section 11.35, Tax Code to clarify that "damage" for purposes of such statute is limited to "physical damage." For more information on the exemption, reference is made to Section 11.35 of the Tax Code, as amended.

Tax Increment Reinvestment Zones . . . A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries. 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 "tax increment". During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

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

For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" herein.

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at $62,883,169 for the 2026 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

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

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

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

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

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

PUBLIC HEARING AND MAINTENANCE AND OPERATIONS 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 for the applicable preceding tax year, as adopted by the city in that year and reduced by the unused increment rate for that year, less the actual tax rate for that year, then multiplied by the city'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 zero and the rate expressed in dollars per $100 of taxable value calculated by dividing (i) the sum of the foregone revenue amounts for each of the three tax years preceding the current tax year by (ii) the "current total value" as defined in Section 26.012 of the Property Tax Code.

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

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

Effective for the 2026 tax year and thereafter, the debt service tax rate defaults to a rate that provides the minimum dollar amount required to service debt for the current year, unless a higher rate is approved in accordance with Section 26.05(a-1), Texas Tax Code. Under Section 26.05(a-1), Texas Tax Code, the governing body of a taxing unit may approve a debt service tax rate that exceeds such minimum rate only if (i) the rate is proposed by a motion that states the minimum rate, the proposed rate, the difference between the two rates, and the purpose for which the excess revenue will be used, and (ii) the motion is approved by at least 60 percent of the members of the governing body. If the governing body approves a higher debt service tax rate under such procedure, that rate is considered the current debt service tax rate for the applicable tax year, and the voter-approval tax rate is recalculated to reflect the higher debt service tax rate. This procedure does not limit the City's obligation to levy taxes at a rate sufficient to pay debt service (within any applicable legal limitations) on outstanding obligations, including the Bonds. However, this tax rate setting limitation could constrain the City's ability to levy a debt service tax rate in a given year that creates a short-term surplus from which the Bonds could be repaid in the event of unexpected delays in the receipt of debt service taxes.

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

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

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

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

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue maintenance and operations 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.

Effective for the 2026 tax year and thereafter, if any part of a city is located in an area declared a disaster area during the current tax year by the Governor of the State or the President of the United States and at least one person is granted a temporary disaster-related exemption under Section 11.35, Texas Tax Code, for property located in the city, the governing body of such city, unless it is a special taxing unit, may direct that its "voter-approval tax rate" be calculated as the lesser of (i) the voter-approval tax rate calculated in the manner provided for a special taxing unit, which applies a 1.08 multiplier instead of 1.035, or (ii) the sum of the no-new-revenue maintenance and operations rate multiplied by 1.035, the debt service tax rate, the unused increment rate and the "disaster relief rate. A city that calculates its voter-approval tax rate in this manner must continue to do so until the earlier of (i) the first tax year in which such city's total taxable value exceeds the total taxable 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, and in the first tax year thereafter the city's voter-approval tax rate is reduced by the city's emergency revenue rate. Prior law permitting a city located in a disaster area to adopt a tax rate that exceeds its voter-approval tax rate without holding an election in the year following the year in which the disaster occurred was repealed effective January 1, 2026.

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.

Except with respect to the process to exceed the default debt service tax rate described above, 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 Bonds.

During the 89th Regular Session, the Legislature adopted Senate Bill 1851 ("SB 1851"), which took effect September 1, 2025 and applies only to the adoption of an ad valorem tax rate for a tax year that begins on or after that date, which is expected to be the 2026 tax year and thereafter. Under SB 1851, any person may submit a complaint to the Texas Attorney General of a suspected violation of the annual audit and financial statement filing requirements of Chapter 103, Texas Local Government Code. If the Texas Attorney General determines that a city has (a) not had its records and accounts audited and an annual financial statement prepared based on the audit or (b) failed to file its financial statements and auditor's opinion on such financial statements with the city secretary or city clerk before the 180th day after the city's fiscal year end, the city may not adopt an ad valorem tax rate that exceeds the city's no-new revenue tax rate for (i) the tax year that begins on or after the date for the Attorney General's determination or (ii) a subsequent tax year that begins before the date the city has had an annual audit completed and financial statements prepared or filed the financial statement and auditor's opinion on such financial statement with the city secretary or city clerk, as applicable. If a city were limited to levying an ad valorem tax rate that is not in excess of its no-new-revenue tax rate, such a limitation would impact the total amount of ad valorem tax revenue available to the City to pay for both operations and maintenance and debt service.

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.

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

During the 89th Regular Session, the Legislature adopted a general appropriations act and legislation affecting ad valorem taxation procedures and the procedures of issuing debt affecting cities among other legislation affecting cities. Adopted legislation affecting ad valorem taxation procedures includes legislation that (i) changes the procedure for the adoption of and imposes limits on the amount of an M&O tax increase that may be adopted in response to declared disasters, (ii) makes technical modifications to the tax rate setting process, and (iii) makes intangible personal property exempt from ad valorem taxation. The City is reviewing the impact of the legislation approved during the 89th Regular Session and the two called special sessions and cannot make any representations regarding the likelihood of future legislative sessions or the full impact of the legislation approved during the 89th Regular Session or the two called special sessions at this time.

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

CITY 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 grants an additional exemption of 20% of the market value of residence homesteads.

See "Table 1 – Valuation, Exemptions and General Obligation Debt" 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 2025, 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 2025, the City abated $389,592,239 in taxes. The tax abatement reflected in the 2026/2027 certified valuation was $4,841,011,374 in taxable value (see "Table 1 – Valuation, Exemptions and General Obligation Debt").

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2026/2027 Market Valuation Established by Ellis Appraisal District		
(including totally exempt property)		$ 8,992,222,963
Less Exemptions/Reductions at 100% Market Value:		
Productivity Loss	$ 99,236,722	
Loss to 10% Home Cap	27,843,807	
Circuit Breaker	16,035,365	
Over 65 and Disabled	20,645,954	
Disabled Veteran	112,430,030	
Absolute Exemptions	306,041,061	
Freeport Loss	140,027,567	
Abatement (1)	4,841,011,374	
Solar	2,593,843	5,565,865,723
2026/2027 Taxable Assessed Valuation		$ 3,426,357,240
General Obligation Debt Payable from Ad Valorem Taxes (as of 8/1/2026)		$ 79,865,000
The Bonds		14,710,000
Total General Obligation Debt Payable from Ad Valorem Taxes (as of 8/1/2026)		$ 94,575,000
Less: Self Supporting Debt (W&S)(2)		$ 8,722,000
Net General Obligation Debt Payable from Ad Valorem Taxes		$ 85,853,000
General Obligation Interest and Sinking Fund (as of 8/1/2026) (2)		$ 16,708,016
Ratio Net General Obligation Tax Debt to Taxable Assessed Valuation		2.51%

2026 Estimated Population - 19,500

Per Capita Taxable Assessed Valuation - $175,711

Per Capita General Obligation Debt Payable from Ad Valorem Taxes - $4,850

Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - $4,403

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(1) Represents value exempted from taxation under tax abatement agreements entered into by the City, substantially all of which relates to abatements granted in order to incentivize data center properties to construct such projects within the City. Abated value is excluded from the 2026/2027 Taxable Assessed Valuation shown above, and the taxable assessed valuations reported for the affected taxpayers in "Table 5 – Ten Largest Taxpayers" are net such abated value. See "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code – Abatement Policy."

(2) 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.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2027		2026		2025	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 2,007,187,498	22.32%	$ 1,955,155,021	46.50%	$ 1,823,764,876	52.23%
Real, Residential, Multi-Family	269,948,161	3.00%	256,391,154	6.10%	253,233,550	7.25%
Real, Vacant Lots/Tracts	77,599,290	0.86%	86,959,448	2.07%	97,323,301	2.79%
Real, Acreage (Land Only)	101,254,899	1.13%	86,274,722	2.05%	92,300,621	2.64%
Real, Farm and Ranch Improvements	42,377,808	0.47%	41,687,278	0.99%	53,539,198	1.53%
Real, Commercial	363,845,848	4.05%	886,552,753	21.08%	507,621,219	14.54%
Real, Industrial	1,571,612,119	17.48%	87,042,327	2.07%	86,627,217	2.48%
Real and Tangible Personal, Utilities	46,916,800	0.52%	44,677,409	1.06%	28,894,758	0.83%
Tangible Personal, Commercial	70,680,423	0.79%	260,364,112	6.19%	49,211,939	1.41%
Tangible Personal, Industrial	4,081,599,026	45.39%	167,482,105	3.98%	188,592,614	5.40%
Tangible Other Personal, Mobile Homes	1,942,534	0.02%	1,827,937	0.04%	2,057,377	0.06%
Real Property, Inventory	50,909,618	0.57%	43,952,965	1.05%	28,797,688	0.82%
Totally Exempt Properties	306,039,857	3.40%	286,346,125	6.81%	279,850,836	8.01%
Special Inventory	309,082	0.00%	292,400	0.01%	118,376	0.00%
Total Appraised Value Before Exemptions	$ 8,992,222,963	100.00%	$ 4,205,005,756	100.00%	$ 3,491,933,570	100.00%
Less: Total Exemptions/Reductions	5,565,865,723		1,054,793,613		783,569,303	
Taxable Assessed Value	$ 3,426,357,240		$ 3,150,212,143		$ 2,708,364,267	

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2024		2023		2022	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 1,855,253,303	56.38%	$ 1,397,651,909	55.72%	$ 1,058,477,194	53.48%
Real, Residential, Multi-Family	159,180,170	4.84%	123,562,187	4.93%	76,390,894	3.86%
Real, Vacant Lots/Tracts	74,308,888	2.26%	44,404,249	1.77%	21,550,804	1.09%
Real, Acreage (Land Only)	90,961,860	2.76%	69,231,484	2.76%	43,201,279	2.18%
Real, Farm and Ranch Improvements	53,825,924	1.64%	40,124,922	1.60%	31,322,686	1.58%
Real, Commercial	462,652,219	14.06%	260,676,837	10.39%	218,282,520	11.03%
Real, Industrial	84,091,631	2.56%	86,154,029	3.43%	68,505,230	3.46%
Real and Tangible Personal, Utilities	17,757,342	0.54%	17,252,449	0.69%	15,678,860	0.79%
Tangible Personal, Commercial	43,412,504	1.32%	43,075,607	1.72%	40,313,036	2.04%
Tangible Personal, Industrial	179,246,278	5.45%	153,342,152	6.11%	200,632,002	10.14%
Tangible Other Personal, Mobile Homes	2,196,135	0.07%	2,007,636	0.08%	864,190	0.04%
Real Property, Inventory	26,586,895	0.81%	29,642,758	1.18%	30,047,220	1.52%
Totally Exempt Properties	241,045,638	7.33%	241,017,417	9.61%	173,984,506	8.79%
Special Inventory	108,516	0.00%	178,267	0.01%	91,940	0.00%
Total Appraised Value Before Exemptions	$ 3,290,627,303	100.00%	$ 2,508,321,903	100.00%	$ 1,979,342,361	100.00%
Less: Total Exemptions/Reductions	870,679,076		672,012,696		529,344,037	
Taxable Assessed Value	$ 2,419,948,227		$ 1,836,309,207		$ 1,449,998,324	

NOTE: All 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.

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	75,300,000	3.11%	4,043
2025	19,500	2,708,364,267	138,890	71,143,000	2.63%	3,648
2026	19,500	3,150,212,143	161,549	85,853,000 [(4)]	2.73% [(4)]	4,403 [(4)]

(1) Source: The City.
(2) As reported by the Ellis Appraisal District on the City's annual State Property Tax Reports, subject to change during the ensuing year. Includes Frozen Taxable Values.
(3) Does not include self-supporting debt.
(4) Includes the Bonds.

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	0.458991	0.237895	16,127,947	98.39%	98.46%
2025	0.696886	0.458991	0.237895	18,292,758	99.49%	99.49%
2026	0.695306	0.457028	0.238278	21,152,080 [(1)]	98.09% [(2)]	98.09% [(2)]

(1) Source: City's Fiscal Year 2026 Adopted Budget.
(2) Collections through July, 2026.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2026/2027 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
DB Data Center Red Oak LLC	Commercial Real Estate	$ 150,440,354	4.39%
Alamo Mission LLC	Commercial Real Estate	120,032,251	3.50%
Qarbon Aerospace Foundation LLC	Manufacturer	87,467,943	2.55%
TC/F Red Oak LP	Real Estate	55,558,400	1.62%
Compass Data Centers DFW IIIF LLC [(1)]	Commercial Real Estate	54,295,972	1.58%
EM Red Oak Property LLC	Apartment Complex	52,820,057	1.54%
Red Oak Town Village LP	Apartment Complex	51,449,487	1.50%
CZ GA I LLC	Real Estate	45,569,741	1.33%
Compass Data Centers DFW IIIG LLC [(1)]	Commercial Real Estate	42,741,483	1.25%
Compass Data Centers DFW IIIH LLC [(1)]	Commercial Real Estate	38,005,107	1.11%
		$ 698,380,795	20.38%

(1) Compass Data Centers DFW entities are related.
(2) The 2026/2027 Ten Largest Taxpayers in the City currently account for approximately 20.38% 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.

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "AD VALOREM PROPERTY TAXATION - Debt Tax Rate Limitations").

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2025/2026 Taxable Assessed Value	2025/2026 Tax Rate	Total GO Tax Debt as of 8/1/2026	Estimated % Applicable	City's Overlapping GO Tax Debt as of 8/1/2026
City of Red Oak	$ 3,150,212,143	$ 0.696886	$ 94,575,000 (1)	100.00%	$ 94,575,000 (1)
Ellis County	39,198,444,896	0.273992 (2)	18,535,000	8.61%	1,595,864
Ferris Independent School District	1,083,052,484	1.230800	71,232,629	3.55%	2,528,758
Red Oak Independent School District	4,711,517,183	1.063300	307,410,000	57.61%	177,098,901
Waxahachie Independent School District	8,991,306,133	1.168100	669,175,981	0.42%	2,810,539
Total Direct and Overlapping GO Tax Debt					$ 278,609,062
Ratio of Direct and Overlapping GO Tax Debt to Taxable Assessed Valuation					8.84%
Per Capita overlapping GO Tax Debt					$14,288

(1) Includes self-supporting debt. Includes the Bonds.
(2) Includes Farm to Market (Lateral) tax rate.

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DEBT INFORMATION

TABLE 7 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 30-Sep	Outstanding Debt Service Principal	Outstanding Debt Service Interest	Outstanding Debt Service Total D/S	The Bonds Principal	The Bonds Interest	The Bonds Total D/S	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
2026	$ 5,927,000	$ 3,340,454	$ 9,267,454	$ -	$ -	$ -	$ 1,828,721	$ 53,479	$ 193,734	$ 7,191,520	
2027	5,138,000	3,281,176	8,419,176	-	781,911	781,911	1,761,250	-	-	7,439,836	
2028	5,264,000	3,088,342	8,352,342	-	815,907	815,907	1,693,900	-	-	7,474,349	
2029	5,454,000	2,893,534	8,347,534	-	815,907	815,907	1,689,700	-	-	7,473,740	
2030	5,713,000	2,676,094	8,389,094	-	815,907	815,907	1,730,900	-	-	7,474,101	27.37%
2031	4,332,000	2,466,095	6,798,095	205,000	810,984	1,015,984	511,700	-	-	7,302,379	
2032	3,947,000	2,289,261	6,236,261	650,000	790,152	1,440,152	510,850	-	-	7,165,563	
2033	3,855,000	2,116,363	5,971,363	680,000	757,260	1,437,260	509,450	-	-	6,899,173	
2034	4,030,000	1,936,313	5,966,313	715,000	722,059	1,437,059	507,450	-	-	6,895,921	
2035	3,825,000	1,757,363	5,582,363	755,000	684,414	1,439,414	122,700	-	-	6,899,077	50.26%
2036	4,000,000	1,580,938	5,580,938	795,000	644,135	1,439,135	120,500	-	-	6,899,573	
2037	4,185,000	1,398,913	5,583,913	835,000	601,130	1,436,130	123,250	-	-	6,896,793	
2038	4,370,000	1,211,213	5,581,213	885,000	555,056	1,440,056	120,950	-	-	6,900,318	
2039	4,530,000	1,015,163	5,545,163	935,000	505,394	1,440,394	123,600	-	-	6,861,956	
2040	4,290,000	820,791	5,110,791	985,000	452,093	1,437,093	121,200	-	-	6,426,684	75.95%
2041	4,470,000	628,291	5,098,291	1,045,000	395,032	1,440,032	-	-	-	6,538,323	
2042	4,355,000	436,809	4,791,809	1,105,000	333,089	1,438,089	-	-	-	6,229,899	
2043	4,550,000	245,934	4,795,934	1,170,000	266,295	1,436,295	-	-	-	6,232,230	
2044	2,035,000	105,150	2,140,150	1,240,000	195,538	1,435,538	-	-	-	3,575,688	
2045	1,475,000	31,344	1,506,344	1,315,000	120,523	1,435,523	-	-	-	2,941,867	98.61%
2046	-	-	-	1,395,000	40,957	1,435,957	-	-	-	1,435,957	100.00%
	$ 85,745,000	$ 33,319,537	$ 119,064,537	$ 14,710,000	$ 11,103,742	$ 25,813,742	$ 11,476,121	$ 53,479	$ 193,734	$ 133,154,946	

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2026		$ 7,191,520
Budgeted Interest and Sinking Fund, Fiscal Year Ended 9/30/2025	$ 367,209	
Budgeted Interest and Sinking Fund Tax Collections	7,216,494	7,583,703
Estimated Balance as of Fiscal Year Ending 9/30/2026		$ 392,183

TABLE 9 - COMPUTATION OF SELF-SUPPORTING DEBT

Net System Revenue Available, Fiscal Year Ended 9/30/2025	$ 4,301,309
Less: Requirements for Revenue Bonds	-
Balance Available for Other Purposes	$ 4,301,309
Requirements for W&S System GO Debt, Fiscal Year Ending 9/30/2026	$ 1,828,721 (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 anticipates the issuance of up to $36 million of certificates of obligation before the end of calendar year 2026.

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 over 940 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 2025 totaled $5,002,332. 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 2025 payments totaled $1,207,165.

POLICE DISPATCHING SERVICES . . .Since October 2009, the City has participated in the North Ellis Emergency Dispatch system for joint dispatch services. FY 2025 contributions for that system were $1,097,298, with $1,208,020 committed for FY 2026. Red Oak also pays its share of the Ellis Countywide Radio System ("ECRS"); FY 2025 ECRS contributions were $48,171, with $59,375 committed for FY 2026.

FINANCIAL INFORMATION

TABLE 10 – CHANGE IN NET ASSETS

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
Revenues:					
Program Revenues:					
Charges for Services	$ 13,698,785	$ 7,387,254	$ 5,454,942	$ 16,687,995	$ 4,167,321
Operating Grants and Contributions	191,724	147,877	204,421	5,082,525	1,293,401
Capital Grants and Contributions	1,718,582	1,099,323	3,394,276	2,789,232	2,485,606
General Revenues:					
Property Taxes	18,635,269	16,693,539	12,821,642	9,938,732	8,571,758
Sales, Franchise and Other Tax	9,679,355	9,879,277	8,787,745	8,421,241	7,401,042
Investment Earnings	3,351,944	3,210,513	1,968,752	299,382	52,373
Miscellaneous	123,390	333,817	101,674	270,180	45,403
Capital Contributions					
Gain on Sale of Land Held for Resale	-	-	-	-	-
Gain On Sale of Capital Assets	49,808	-	-	-	-
Total Revenues	$ 47,448,857	$ 38,751,600	$ 32,733,452	$ 43,489,287	$ 24,016,904
Expenses:					
General Government	$ 4,938,671	$ 4,084,448	$ 2,858,917	$ 2,465,079	$ 1,931,114
Public Safety	14,776,247	12,682,547	12,081,171	9,686,199	8,910,297
Cultural and Recreational	2,961,478	2,488,660	2,127,725	1,637,434	1,051,184
Public Works	5,017,311	5,296,687	3,786,941	3,166,498	2,895,417
Economic Development Corporation	139,807	214,731	338,680	108,579	209,880
Industrial Development Corporation	252,060	370,285	222,610	158,197	5,596,763
Interest on Long-Term Debt	4,829,136	3,700,225	2,058,827	1,495,075	2,259,864
Total Expenses	$ 32,914,710	$ 28,837,583	$ 23,474,871	$ 18,717,061	$ 22,854,519
Increases in Net Assets Before Transfers	$ 14,534,147	$ 9,914,017	$ 9,258,581	$ 24,772,226	$ 1,162,385
Transfers	(11,568,500) (1)	(124,300)	(2,963,800)	(2,012,392)	(593,000)
Increase in Net Assets	$ 2,965,647	$ 9,789,717	$ 6,294,781	$ 22,759,834	$ 569,385
Net Assets - Oct 1	71,379,155	61,589,438	55,073,846	32,314,012	31,744,627
Prior period adjustment	-	-	220,811	-	-
Net Assets - Sept 30	$ 74,344,802	$ 71,379,155	$ 61,589,438	$ 55,073,846	$ 32,314,012

(1) Represents net transfers from the City's governmental funds to the City's Water and Sewer Fund (the "Utility Fund"), consisting of (i) $11,446,000 of unexpended proceeds of the City's Combination Tax and Revenue Certificates of Obligation, Series 2023, transferred from the related bond fund to the Utility Fund to fund water and sewer capital projects, and (ii) $122,500 transferred from the City's Industrial Development Corporation to the Utility Fund. These transfers were made for capital expenditures and do not represent operating subsidies of the Utility Fund by the City's governmental funds. See "VI. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS" in the City's audited financial statements attached hereto as APPENDIX B.

FINANCIAL INFORMATION

TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
Revenues:					
Property Taxes	$ 12,097,067	$ 10,284,317	$ 8,501,554	$ 7,744,549	$ 6,780,776
Sales Tax	4,120,273	4,274,083	3,778,234	3,620,838	3,169,140
Franchise and Other Taxes	1,040,857	914,576	855,832	779,049	728,690
Alcoholic Beverage Tax	36,196	25,710	12,339	13,191	11,185
Licenses and Permits	10,271,068	4,884,431	2,987,884	2,084,203	1,284,074
Intergovernmental	1,493,105	780,980	204,441	4,332,525	871,688
Fines and Forfeitures	291,967	332,964	396,129	407,678	341,300
Charges for Services	1,163,258	1,127,402	1,875,123	790,286	654,699
Interest	822,479	764,703	667,797	63,545	23,120
Miscellaneous	112,797	331,119	81,141	77,107	77,720
Total Revenues	$ 31,449,067	$ 23,720,285	$ 19,360,474	$ 19,912,971	$ 13,942,392
Expenditures:					
General Government	$ 3,812,055	$ 3,502,335	$ 2,385,656	$ 1,930,982	$ 1,678,326
Public Safety	13,195,058	11,634,125	11,296,775	9,165,129	8,303,211
Public Works	3,448,692	3,488,778	2,690,803	2,185,645	2,016,707
Cultural and Recreational	1,913,672	1,730,269	1,527,966	1,126,605	853,375
Economic Development	-	2,500	36,352	-	-
Interest and Fiscal Charges	5,875	3,484	10,578	-	-
Principal Retirement	123,379	140,357	140,948	-	-
Bond Issuance Costs	-	-	42,958	58,768	88,106
Capital Outlay	491,226	3,374,422	3,446,037	1,400,922	1,721,787
Total Expenditures	$ 22,989,957	$ 23,876,270	$ 21,578,073	$ 15,868,051	$ 14,661,512
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 8,459,110	$ (155,985)	$ (2,217,599)	$ 4,044,920	$ (719,120)
Total Other Financing Sources (Uses)	1,092,146	1,000,523	2,925,375	4,505,102	1,260,331
Net Change in Fund Balance	$ 9,551,256	$ 844,538	$ 707,776	$ 8,550,022	$ 541,211
Prior Period Adjustment	-	-	-	-	-
Beginning Fund Balance	15,598,576	14,754,038	14,046,262	5,496,240	4,955,029
Ending Fund Balance	$ 25,149,832	$ 15,598,576	$ 14,754,038	$ 14,046,262	$ 5,496,240

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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 Bonds. 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 tax totaling one-half of one percent (1/2 of 1%) for Red Oak Industrial Development Corporation. Voters also approved the imposition of an additional sales and use tax totaling one-half of one percent (1/2% 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.

Year Ended 9/30	1% Sales Tax Collected(1)	% of Ad Valorem Tax Levy	of Ad Valorem Tax Rate	Per Capita
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	22.65%	0.1530	212.45
2026	4,168,099 (2)	19.69%	0.1323 (2)	214.70

(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 July 2026 (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. Both State law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change. 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 directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which 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 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 Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (13) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (14) a no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission that provides 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 federal Securities and Exchange Commission Rule 2a-7, (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (16) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f) and (g) of Section 2256.011 of the PFIA. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

INVESTMENT POLICIES . . . Under 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, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under 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, the ending market value and the fully accrued interest during the reporting period each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment 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, 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 non-money market 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 June 30, 2026 (unaudited), the City's investable funds were invested in the following categories:

Type of Investment	Market Value	Book Value
LOGIC	$ 65,488,094	$ 65,488,094
TexPool	17,033,350	17,033,350
Bank Accounts	5,825,855	5,825,855
TexStar	3,039,856	3,039,856
Total	$ 91,387,155	$ 91,387,155

TAX MATTERS

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS . . . The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Bonds and is based on the Internal Revenue Code of 1986 (the "Code"), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service ("IRS") and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Bonds and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to branch profits tax or personal holding company provisions of the Code or taxpayers qualifying for the health insurance premium assistance credit) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Bonds as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Bonds as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

As used herein, the term "U.S. Holder" means a beneficial owner of a Bond who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Bond that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF

BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION PROSPECTIVE HOLDERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BEFORE DETERMINING WHETHER TO PURCHASE BONDS. THE SUMMARY IS NOT INTENDED OR WRITTEN TO BE USED TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO U.S. HOLDERS . . . Periodic Interest Payments and Original Issue Discount. The Bonds are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Bonds or any original issue discount accruing on the Bonds will be includable in "gross income" within the meaning of Section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Bonds. An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the Bonds. Generally, a U.S. Holder's tax basis in the Bonds will be the owner's initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Bonds has been held for more than one year.

Defeasance of the Bonds. Defeasance of any Bond may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

STATE, LOCAL AND OTHER TAX CONSEQUENCES . . . Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Bonds under applicable state or local laws, or any other tax consequence, including the application of gift and estate taxes. Certain individuals, estates or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Bonds. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS . . . A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Bond, will not be subject to U.S. federal income or withholding tax in respect of such Bond, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Bond.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The City is required to observe the respective agreement for so long as it remains obligated to advance funds to pay the Bonds. 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").

ANNUAL REPORTS . . . The City will provide annually to the MSRB (1) within six months after the end of each fiscal year ending in or after 2026, financial information and operating data with respect to the City of the general type of information contained in Tables 1 through 5 and 7 through 13. The City will additionally provide audited financial statements when and if available, after the end of each fiscal year ending in or after 2026. 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 timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial debt obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any 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, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in the immediately preceding item (12) 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. Neither the Bonds nor the Ordinance makes any provision for debt service reserves, credit enhancement, liquidity enhancement, or the appointment of a trustee.

For the purposes of any event described in (15) and (16) above, 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) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

AVAILABILITY OF INFORMATION . . . In connection with the continuing disclosure agreements entered into with respect to the Bonds, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds 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 agreements or from any statement made pursuant to its agreements, although the registered and beneficial owners of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement for the Bonds 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 the Bonds, as the case maybe, 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 registered and beneficial owners of a majority in aggregate principal amount of the outstanding Bonds, as the case may be, consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds, as the case may be. The City may also amend or repeal the provisions of the continuing disclosure agreements 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 Bonds in the primary offering of the Bonds. If the City so amends the continuing disclosure agreements, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

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

OTHER INFORMATION

RATING

The Bonds have been rated "AA" (stable outlook) by S&P Global Ratings, a division of S&P Global Inc. ("S&P") without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the 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 such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION

There are currently no lawsuits, claims or other legal matters which would, in the opinion of the City Attorney and City Staff, 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 BONDS FOR SALE

The sale of the Bonds 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 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds 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 Underwriter to register or qualify the sale of the Bonds 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 Underwriter, in registering or qualifying the Bonds 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 Bonds 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 Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of two million dollars or more, and savings and loan associations. The Bonds 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 Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriter a complete transcript of proceedings relating to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds 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. Though it represents the Municipal Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (excluding subcaptions "Book-Entry-Only System", "DTC Notices" and "Bondholders' Remedies"), "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (excluding the subcaption "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Bonds for Sale", "Legal Matters" (excluding the last sentence of the first paragraph thereof) and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The City expects to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds of the sale of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Leon, Alcala, Morse & Reynolds, PLLC, Austin, Texas, whose legal fee is contingent on the sale and delivery of the Bonds.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

Hilltop Securities Inc. is employed as Municipal Advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Hilltop Securities Inc., 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 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Municipal Advisor may from time to time sell investment securities to the City for the investment of certificate proceeds or other funds of the City upon the request of the City.

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.

UNDERWRITER

The Underwriter has agreed, subject to certain conditions to purchase the Bonds from the City at the purchase price of $14,616,641.57 (representing the par amount of the Bonds less an Underwriter's discount of $93,358.43). The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased.

Piper Sandler & Co., the underwriter of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

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 ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

References to website addresses presented in this Official Statement are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless otherwise specified in this Official Statement, references to websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

In the Bond Ordinance, the City Council authorized the Pricing Officer to approve (and the Pricing Officer has so approved), for and on behalf of the City, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriter's use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of the Rule.

/s/ TODD FULLER
Pricing Officer
City of Red Oak, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

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, and the 2020 Census population was 14,222. The 2026 estimated population is 19,500. 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's major employers are as follows:

Name of Firm	Type of Business	Approximate Number of Employees
Red Oak Independent School District	Education	1,079
Qarbon Aerospace	Military Manufacturer	568
Bombardier US Aerospace Corporation	Military Manufacturer	545
Schneider	Industry	226
Life School	Education	189
Walmart Supercenter	General Retail/Grocery	172
City of Red Oak	Local Government	167
B&B Theaters	Entertainment Center	125
Red Oak Health & Rehab	Medical	106
John Houston Custom Homes	Home Builder	90

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:

EMPLOYMENT STATISTICS

	May	Average Annual			
	2026	2025	2024	2023	2022
Civilian Labor Force	125,767	125,629	122,199	119,429	112,368
Total Employed	120,814	120,824	117,674	115,125	108,519
Total Unemployed	4,953	4,805	4,525	4,304	3,849
Unemployment Rate	3.9%	3.8%	3.7%	3.6%	3.4%

Source: Texas Workforce Commission, Labor Market Information.

HOUSING

Because Red Oak is strategically located within the Dallas-Fort Worth Metroplex, the 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, 2025

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, 2025, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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City of Red Oak, Texas

Annual Comprehensive Financial Report

for the Fiscal Year Ended September 30, 2025

Prepared by the Finance Department

RED OAK, TEXAS
Building Our Future From Our Heritage

CITY OF RED OAK, TEXAS

YEAR ENDED SEPTEMBER 30, 2025

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INTRODUCTORY SECTION

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RED OAK, TEXAS

March 27, 2026

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, 2025. 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 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 for the city was 14,222, and the 2025 population estimate for the city was 19,381. 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 proximity to job opportunities in Dallas, Fort Worth and the Mid-Cities continue 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 of FM 664/Ovilla Road. These improvements and widening include the expansion of FM 664/Ovilla Road to six lanes extending from I-45 to 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 are 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 closely follows 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 prospects. 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 2025 is $104,561. Red Oak's population in 2025 was an estimated 19,381 which is an increase of 36% since the 2020 Census.

In Fiscal Year 2025, General Fund property tax revenues increased by $1,753,144 from the previous year largely due to industrial and commercial growth. At the same time, sales taxes revenues decreased by 154,342, however this was due to a spike in construction sales tax in the prior year. Sales tax remains on the overall upswing 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 currently underway. The average permitted valuation per single family residence is approximately $290,434. New residential developments include the Emerson Apartments, Birchway 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.

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 Theaters Family Entertainment Center is a 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 mid-2019, it was announced that Alamo Mission, LLC's newest hyperscale data center would 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. In 2021 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 2021, Compass Datacenters/Red Oak was awarded the "Best Datacenter Project" during D-CEO's 9th Annual Commercial Real Estate Awards program. Compass Data Center's 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 project is a large contributor to this belief. 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. The current phase of construction now encompasses 10 individual data center buildings. Each of these data center buildings encompass 250,000 square feet.

In addition to Alamo Mission and Compass, a new Databank Data Center development began construction in the Spring of 2025. The campus includes 228 acres and Phase 1 of construction is currently underway consisting of four (4) 377,000 square foot structures.

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 its robust manufacturing capabilities, the site integrates a Thermoplastics Center of Excellence and structural test capabilities that offer differentiating capabilities to their 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. Business travelers can elevate their 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 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 CROIDC scholarship to TSTC provides financial assistance to Red Oak students helping attain upward mobility and improving the quality of life for students and their families. In addition, the TSTC North Texas campus provides students with 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 CROIDC 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 over multiple semesters. Scholarships in the amount up to $1,000 are awarded to students.

Financial Planning And Fiscal Policies

The City continues to update its 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 guides the City in meeting the fund balance reserve 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 is 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 liability is incurred. Proprietary operations are maintained on a 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 twelfth 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 - 2024. We believe the current report continues to conform to the Certificate of Achievement program requirements, and we are submitting the 2025 Annual Comprehensive Financial Report to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report could not have been completed 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,

Tim McRoberts
Finance Director

Sean Smith
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, 2024

Christopher P. Morrill

Executive Director/CEO

CITIZENS OF RED OAK, TEXAS

- **CITY COUNCIL**
  - **MUNICIPAL JUDGE**
    SCOTT KURTH
  - **CITY ATTORNEY**
    ROBERT HAGER
  - **CITY SECRETARY**
    CARYN STEVENS
  - **CITY MANAGER**
    TODD FULLER
    - **DEPUTY CITY MANAGER**
      JONATHAN PHILLIPS
      - **ADMINISTRATION**
      - **FIRE CHIEF**
        BEN BLANTON
        - FIRE DEPARTMENT
        - EMERGENCY MANAGEMENT
      - **POLICE CHIEF**
        ADRIAN TIJERINA
        - POLICE DEPARTMENT
        - ANIMAL CONTROL
      - **ECONOMIC DEVELOPMENT DIRECTOR**
        LEE MCCLEARY
        - ECONOMIC DEVELOPMENT
        - INDUSTRIAL DEVELOPMENT
      - **CITY ENGINEER**
        BEN HARTMAN
        - ENGINEERING
        - DEVELOPMENT SERVICES
        - CODE ENFORCEMENT
      - **PARKS & RECREATION DIRECTOR**
        KYLE COOPER
        - PARKS & RECREATION
      - **LIBRARY SERVICES DIRECTOR**
        HEATHER FULLER
        - LIBRARY SERVICES
      - **FINANCE DIRECTOR**
        TIM MCROBERTS
        - FINANCE
        - UTILITY BILLING
        - MUNICIPAL COURT
      - **INTERIM PUBLIC WORKS DIRECTOR**
        JARED BINFORD
        - STREETS
        - WATER & SEWER
        - STORM DRAINAGE
      - **HUMAN RESOURCES DIRECTOR**
        AMANDA MONSIVAIS
        - HUMAN RESOURCES
      - **INFORMATION TECHNOLOGY DIRECTOR**
        JOHN BINFORD
        - INFORMATION TECHNOLOGY
      - **COMMUNICATIONS & MARKETING DIRECTOR**
        ALEXA BEASLEY
        - COMMUNICATIONS & MARKETING
        - TOURISM

RED OAK, TEXAS

CITY OF RED OAK, TEXAS

CITY OFFICIALS

Mark L. Stanfill, DVM	Mayor
Willie G. Franklin Jr.	Council Member — Place 1 – Mayor Pro Tem
Sean Flannery	Council Member — Place 2
Ricardo Miller	Council Member — Place 3
Tim Lightfoot	Council Member — Place 4
Jeffrey Smith	Council Member — Place 5

City Manager
Todd Fuller

Deputy City Manager
Jonathan Phillips

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FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
and 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, 2025, 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, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (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, 2025, the City of Red Oak, Texas adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences,* Our opinion is not modified with respect to this matter.

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 issuance 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 combining and individual fund financial statements and schedules are 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 basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2026, on our consideration of the City of Red Oak, Texas' 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' internal control over financial reporting and compliance.

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

Waco, Texas
March 27, 2026

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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, 2025. 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 $120,284,158 (Net Position). Of this amount, $9,728,442 (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 $20,280,370. 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 $119,773,558. Approximately 19.5% of this total amount, $23,393,069 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 $23,393,069 or 101.8% of the total General Fund expenditures.

- The City's outstanding debt increased by $14,963,844 or 14.0% during the current fiscal year due to the due to the issuance of debt during FY 25.

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.

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.

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.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with non-major governmental funds.

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 $120,284,158 as of September 30, 2025.

Net Position

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Current and other assets	$ 124,385,443	$ 110,891,593	$ 16,045,552	$ 6,365,088	$ 140,430,995	$ 117,256,681
Capital assets	66,836,884	60,240,372	42,894,695	36,471,154	109,731,579	96,711,526
Total assets	191,222,327	171,131,965	58,940,247	42,836,242	250,162,574	213,968,207
Deferred outflows of resources	965,232	1,111,484	324,787	453,739	1,290,019	1,565,223
Long-term liabilities	112,526,956	96,167,786	11,041,372	12,769,086	123,568,328	108,936,872
Other liabilities	4,929,413	4,412,807	2,192,558	1,794,982	7,121,971	6,207,789
Total liabilities	117,456,369	100,580,593	13,233,930	14,564,068	130,690,299	115,144,661
Deferred inflows of resources	386,388	283,701	91,748	101,280	478,136	384,981
Net position:						
Net investment in capital assets	15,193,100	21,077,642	30,878,085	24,257,061	46,071,185	45,334,703
Restricted	59,022,410	51,291,853	5,462,121	2,980,908	64,484,531	54,272,761
Unrestricted	129,292	(990,340)	9,599,150	1,386,664	9,728,442	396,324
Total net position	$ 74,344,802	$ 71,379,155	$ 45,939,356	$ 28,624,633	$ 120,284,158	$ 100,003,788

A portion of the City's Net Position, $46,071,185 or 38.3%, 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 ($64,484,531 or 53.6%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted Net Position ($9,728,442 or 8.1%) 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, 2025. On a government-wide basis, governmental activities increased the City's Net Position by $2,965,647 and business-type activities increased the City's Net Position by $17,314,723.

In the governmental activities, charges for services increased by $6,311,531 related to public safety and culture & recreation. Fire marshal inspection fees and building permits increased due to the growth of city. The respective public safety expenses also increase as a result by $2,093,700. Property taxes also increased by $1,941,730. The property tax revenue increase as a result of property added to the tax roll was about $1,870,905. These new properties also contributed to charges for serves revenue increasing in the business-type activities by $2,021,261. In the prior fiscal year, the City finished the ARPA capital grant which contributed to the decrease of $2,147,272 for capital grants and contributions.

Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	$ 13,698,785	$ 7,387,254	$ 14,118,312	$ 12,097,051	$ 27,817,097	$ 19,484,305
Operating grants and contributions	191,724	147,877	-	-	191,724	147,877
Capital grants and contributions	1,718,582	1,099,323	3,827,603	5,974,875	5,546,185	7,074,198
General revenues:						
Property tax	18,635,269	16,693,539	-	-	18,635,269	16,693,539
Sales tax	8,240,542	8,548,167	-	-	8,240,542	8,548,167
Franchise tax	1,040,857	914,576	-	-	1,040,857	914,576
Hotel occupancy tax	361,760	390,824	-	-	361,760	390,824
Alcoholic beverage tax	36,196	25,710	-	-	36,196	25,710
Investment earnings	3,351,944	3,210,513	44,631	94,143	3,396,575	3,304,656
Miscellaneous	123,390	333,817	-	-	123,390	333,817
Gain on sale of assets	49,808	-	6,875	-	56,683	-
Total revenues	47,448,857	38,751,600	17,997,421	18,166,069	65,446,278	56,917,669
Expenses:						
General government	4,938,671	4,084,448	-	-	4,938,671	4,084,448
Public safety	14,776,247	12,682,547	-	-	14,776,247	12,682,547
Culture and recreation	2,961,478	2,488,660	-	-	2,961,478	2,488,660
Public works	5,017,311	5,296,687	-	-	5,017,311	5,296,687
Industrial development	252,060	370,285	-	-	252,060	370,285
Economic development	139,807	214,731	-	-	139,807	214,731
Interest on long-term debt	4,829,136	3,700,225	-	-	4,829,136	3,700,225
Utility	-	-	11,626,122	11,625,388	11,626,122	11,625,388
Storm water	-	-	625,076	505,926	625,076	505,926
Total expenses	32,914,710	28,837,583	12,251,198	12,131,314	45,165,908	40,968,897
Transfers	(11,568,500)	(124,300)	11,568,500	124,300	-	-
Change in net position	2,965,647	9,789,717	17,314,723	6,159,055	20,280,370	15,948,772
Net position, beginning	71,379,155	61,589,438	28,624,633	22,465,578	100,003,788	84,055,016
Net position, ending	$ 74,344,802	$ 71,379,155	$ 45,939,356	$ 28,624,633	$120,284,158	$100,003,788

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 $119,773,558. Approximately 19.5% of this total amount, $23,393,069 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 $23,393,069, while total fund balance reached $25,149,832. 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 101.8% of total General Fund expenditures, while total fund balance represents 109.4% of that same amount.

The fund balance of the City's General Fund has a net increase of $9,551,256 during the current fiscal year adjustment. The overall operating revenues increased in the fiscal year by $7,728,782. Property tax revenues increased $1,812,750 and Licenses & permits increased $5,386,637 due to large increases in construction of data centers which require more expansive permits and inspections. Both increased are a result of going in property values and building permits issued. Expenditures decreased over the prior year in the amount of $886,313 as a result of decreased capital outlay expenditures. Capital costs were offset in part by transfers.

The Industrial Development Corporation fund has a total fund balance of $40,395,936. The net decrease in fund balance during the current year in the Industrial Development Corporation fund was $603,716 and mostly attributable to an increase in transfers out and a reduction in investment earnings.

The Economic Development Corporation fund has a total fund balance of $26,542,789. The net increase in fund balance during the current year in the Economic Development Corporation fund was $12,533,730. The increase is largely attributable to the issuance of bonds.

The Debt Service fund ended the year with total fund balance of $367,209, an decrease of $40,979. The decrease was mainly due to increased interest payments during FY 25.

The Capital Projects UHL Road fund ended the year with a total fund balance of $1,947,896. $85,420 were revenues from investment earnings. $104,359 was spent in capital outlay and expected to increase in the future.

The 2023 CO Bond Fund has a total ending fund balance of $13,421,031. Construction started for the related capital projects. $4,630,582 was spent on capital outlay. $1,267,851 were revenues from investment earnings. Additionally, $11,446,000 was transferred out to the Water Sewer Fund for capital projects.

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 $9,230,807. Net Position increased by a net amount of $17,113,551. The increase is caused by capital contributions from developers, capital grants, impact fees, and transfers. Operating income remains steady at $2,402,763.

Unrestricted Net Position of the Storm Water Fund at the end of the year amounted to $368,343. Net Position increased by $201,172. The increase is caused by capital contributions in the amount of $401,588.

General Fund Budgetary Highlights - Actual revenues collected exceeded management's original estimate of the General Fund's revenues by $9,758,064, 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 $589,895 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, 2025 amounts to $66,836,884 and $42,894,695, 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 $850 thousand,
- Increases in machinery and equipment of $1.07 million,
- Increases in improvements of $637 thousand,
- Increases in infrastructure of $1.2 million, and
- Increases in buildings of $8.3 million.

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Land	$ 2,654,742	$ 2,814,940	$ 1,241,293	$ 1,241,293	$ 3,896,035	$ 4,056,233
Construction in progress	11,619,141	12,447,811	8,498,533	2,246,665	20,117,674	14,694,476
Buildings	24,663,630	16,509,549	101,181	101,181	24,764,811	16,610,730
Improvements	1,648,280	823,489	56,684,614	54,441,845	58,332,894	55,265,334
Machinery and equipment	20,327,581	19,329,054	2,767,424	2,681,313	23,095,005	22,010,367
Infrastructure	34,289,635	32,978,083	-	-	34,289,635	32,978,083
Right to use - equipment	94,163	94,163	-	-	94,163	94,163
Right to use - SBITAs	378,096	391,485	-	-	378,096	391,485
Accumulated depreciation	(28,838,384)	(25,148,202)	(26,398,350)	(24,241,143)	(55,236,734)	(49,389,345)
Total	$66,836,884	$60,240,372	$42,894,695	$36,471,154	$ 109,731,579	$96,711,526

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	
	2025	2024	2025	2024	2025	2024
General obligations	$ 2,970,000	$ 3,565,000	$ 6,710,000	$ 7,960,000	$ 9,680,000	$ 11,525,000
Certificates of obligation	47,364,000	42,777,000	3,471,000	3,730,000	50,835,000	46,507,000
Revenue bonds	47,082,000	35,969,000	-	-	47,082,000	35,969,000
Tax notes	8,943,000	7,897,000	72,000	142,000	9,015,000	8,039,000
Premiums	3,138,597	3,209,089	575,334	688,842	3,713,931	3,897,931
Compensated absences	1,620,045	940,483	55,022	42,547	1,675,067	983,030
Leases payable	18,917	51,722	-	-	18,917	51,722
SBITA payable	119,680	203,068	-	-	119,680	203,068
Total	$ 111,256,239	$ 94,612,362	$ 10,883,356	$ 12,563,389	$122,139,595	$ 107,175,751

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 2026 Budget, General Fund operating revenues are budgeted to increase by 15% from the fiscal year 2025 adopted revenue collections with ad valorem taxes making up 55% of the General Fund budgeted revenues. Average taxable home values from the certified assessed valuations, increased 3.9% and certified adjusted taxable assessed valuations overall increased 17% for the fiscal year 2026 from the previous year's values. The Fiscal Year 2026 budget was based on a property tax rate of 0.695306 per $100 of assessed value with 0.457028 for operations and 0.238278 for interest and principal on outstanding debt. Sales taxes are the second highest revenue source making up 16.5% of budgeted operating revenues and are budgeted to remain flat from fiscal year 2025 revenue collections, due to prior spikes of construction related sales tax collections.

A Utility rate study was completed in FY 2025 to ensure rates cover costs of operations and increased wholesale water and sewer purchases. In accordance with the findings of the study, a five-year series of water & sewer rate increases were adopted based on future revenue and expenditure projections. An increase of 39% in Water and Sewer revenues from the fiscal year 2025 amended budget is budgeted in fiscal year 2026, however this is offset with expenditure increases and is attributable to major new industrial water and sewer customers.

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 2026 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 2026 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, 2025 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, raised from "AA" in September of 2024 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 2025. 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 2025. The operating reserve budgeted for FY 2026 is two hundred and four days (204) of operating expenditures in the General Fund and one hundred and thirty seven days (137) 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 2025.

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 2026 budget includes capital budgeted in the General Fund and other governmental capital projects funds in the amount of $19,938,935. 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 2026 year totaling $2,243,424. The capital projects budgeted in these funds include, utility relocates and replacements, drainage improvements, and various other projects.

City Employees

Staffing levels for FY 2026 will increase by eighteen (18) positions from the previous fiscal year. New budgeted positions include twelve new Firefighters, a Fire Inspector, four Police Officers, and a Streets Maintenance Worker. With these added positions, budgeted full-time positions will total one hundred and sixty seven (167) for FY 2026.

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 saw a 10% increase for the Fiscal Year 2026 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. The City also made major improvements to TMRS retirement plans with changes taking effect January 1, 2026.

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.0. 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, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 7,489,995	$ 5,807,231	$ 13,297,226
Investments	21,131,864	222,327	21,354,191
Accounts receivable (net)	1,845,833	2,179,174	4,025,007
Inventory	57,748	60,355	118,103
Prepaids	46,872	7,856	54,728
Internal balances	1,877	(1,877)	-
Restricted assets:			
Cash	30,384,447	808,296	31,192,743
Investments	15,114,839	6,962,190	22,077,029
Land held for resale	48,311,968	-	48,311,968
Capital assets, net of accumulated depreciation:			
Non-depreciable	14,273,883	9,739,826	24,013,709
Depreciable	52,563,001	33,154,869	85,717,870
Total Assets	191,222,327	58,940,247	250,162,574
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	204,767	204,767
Pension related	925,869	115,135	1,041,004
OPEB related	39,363	4,885	44,248
Total Deferred Outflows of Resources	965,232	324,787	1,290,019
LIABILITIES			
Accounts payable	1,900,263	1,619,880	3,520,143
Accrued liabilities	477,826	55,707	533,533
Accrued interest payable	600,226	41,608	641,834
Customer deposits payable	1,951,098	475,363	2,426,461
Noncurrent liabilities:			
Due within one year			
Long-term debt	4,730,049	1,591,755	6,321,804
Total OPEB liability	4,545	565	5,110
Due in more than one year			
Long-term debt	106,526,190	9,291,601	115,817,791
Net pension liability	1,065,108	132,450	1,197,558
Total OPEB liability	201,064	25,001	226,065
Total Liabilities	117,456,369	13,233,930	130,690,299
DEFERRED INFLOWS OF RESOURCES			
Pension related	295,666	36,768	332,434
OPEB related	90,722	11,281	102,003
Lease related	-	43,699	43,699
Total Deferred Inflows of Resources	386,388	91,748	478,136
NET POSITION			
Net investment in capital assets	15,193,100	30,878,085	46,071,185
Restricted for:			
Debt service	125,780	-	125,780
Public safety	19,790	-	19,790
Culture and recreation	1,099,013	-	1,099,013
Industrial development	35,302,907	-	35,302,907
Economic development	19,026,531	-	19,026,531
Capital projects	3,448,389	5,462,121	8,910,510
Unrestricted	129,292	9,599,150	9,728,442
Total Net Position	$ 74,344,802	$ 45,939,356	$ 120,284,158

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, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	$ 4,938,671	$ -	$ 112,285
Public safety	14,776,247	6,399,233	79,439
Culture and recreation	2,961,478	6,296,749	-
Public works	5,017,311	1,002,803	-
Industrial development	252,060	-	-
Economic development	139,807	-	-
Interest on long term debt	4,829,136	-	-
Total governmental activities	32,914,710	13,698,785	191,724
Business-type activities:			
Utility	11,626,122	13,695,149	-
Storm water	625,076	423,163	-
Total business-type activities	12,251,198	14,118,312	-
Total primary government	$ 45,165,908	$ 27,817,097	$ 191,724

General revenues:
- Property taxes
- Sales taxes
- Franchise tax
- Hotel occupancy tax
- Alcoholic beverage tax
- Investment earnings
- Gain on sale of capital assets
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

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

Program Revenues	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
$ -	$ (4,826,386)	$ -	$ (4,826,386)
-	(8,297,575)	-	(8,297,575)
-	3,335,271	-	3,335,271
1,718,582	(2,295,926)	-	(2,295,926)
-	(252,060)	-	(252,060)
-	(139,807)	-	(139,807)
-	(4,829,136)	-	(4,829,136)
1,718,582	(17,305,619)	-	(17,305,619)
3,426,015	-	5,495,042	5,495,042
401,588	-	199,675	199,675
3,827,603	-	5,694,717	5,694,717
$ 5,546,185	(17,305,619)	5,694,717	(11,610,902)
	18,635,269	-	18,635,269
	8,240,542	-	8,240,542
	1,040,857	-	1,040,857
	361,760	-	361,760
	36,196	-	36,196
	3,351,944	44,631	3,396,575
	49,808	6,875	56,683
	123,390	-	123,390
	(11,568,500)	11,568,500	-
	20,271,266	11,620,006	31,891,272
	2,965,647	17,314,723	20,280,370
	71,379,155	28,624,633	100,003,788
	$ 74,344,802	$ 45,939,356	$ 120,284,158

CITY OF RED OAK, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2025

	General Fund	Special Revenue: Industrial Development Corporation	Special Revenue: Economic Development Corporation
ASSETS			
Cash and cash equivalents	$ 1,980,856	$ 814,891	$ 1,738,626
Investments	17,414,420	491,122	3,226,322
Accounts receivable (net)	1,035,783	350,090	350,090
Due from other funds	2,467,274	-	-
Prepaid items	46,872	-	-
Inventory	57,748	-	-
Land held for resale	-	34,642,561	13,669,407
Restricted assets:			
Cash	575,099	149,231	159,454
Investments	2,783,671	4,931,552	7,399,616
Total assets	26,361,723	41,379,447	26,543,515
LIABILITIES			
Accounts payable	530,553	27,188	726
Accrued liabilities	470,826	-	-
Due to other funds	-	956,323	-
Customer deposits	-	-	-
Escrow deposits	-	-	-
Total liabilities	1,001,379	983,511	726
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	174,581	-	-
Unavailable revenue - fines & fees	35,931	-	-
Total inflows of resources	210,512	-	-
FUND BALANCES			
Nonspendable:			
Prepaid items	46,872	-	-
Inventory	57,748	-	-
Restricted:			
Debt service	-	-	-
Culture and recreation	-	-	-
Industrial development	-	40,395,936	-
Economic development	-	-	26,542,789
Capital projects	268,003	-	-
Other public safety	19,790	-	-
Committed:			
Capital projects	-	-	-
Assigned:			
Subsequent year's budget	1,364,350	-	-
Unassigned	23,393,069	-	-
Total fund balances	25,149,832	40,395,936	26,542,789
Total liabilities, deferred inflows and fund balances	$ 26,361,723	$ 41,379,447	$ 26,543,515

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
$ 367,209	$ -	$ -	$ 2,588,413	$ 7,489,995
-	-	-	-	21,131,864
72,186	-	-	37,684	1,845,833
-	-	-	-	2,467,274
-	-	-	-	46,872
-	-	-	-	57,748
-	-	-	-	48,311,968
-	3,948,812	15,765,959	9,785,892	30,384,447
-	-	-	-	15,114,839
439,395	3,948,812	15,765,959	12,411,989	126,850,840
-	52,818	1,103,044	185,934	1,900,263
-	-	-	7,000	477,826
-	-	1,241,884	267,190	2,465,397
-	-	-	3,000	3,000
-	1,948,098	-	-	1,948,098
-	2,000,916	2,344,928	463,124	6,794,584
72,186	-	-	-	246,767
-	-	-	-	35,931
72,186	-	-	-	282,698
-	-	-	-	46,872
-	-	-	-	57,748
367,209	-	-	-	367,209
-	-	-	1,099,013	1,099,013
-	-	-	-	40,395,936
-	-	-	-	26,542,789
-	1,947,896	13,421,031	10,844,604	26,481,534
-	-	-	-	19,790
-	-	-	5,248	5,248
-	-	-	-	1,364,350
-	-	-	-	23,393,069
367,209	1,947,896	13,421,031	11,948,865	119,773,558
$ 439,395	$ 3,948,812	$ 15,765,959	$ 12,411,989	$ 126,850,840

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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, 2025

Total Fund Balances - Governmental Funds	$ 119,773,558
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	95,675,268
Accumulated depreciation	(28,838,384)
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	(47,082,000)
Certificates of obligation	(47,364,000)
General obligation bonds	(2,970,000)
Tax notes	(8,943,000)
Leases	(18,917)
Subscription-Based IT Arrangements	(119,680)
Accrued interest payable on long-term debt	(600,226)
Compensated absences	(1,620,045)
Net pension liability	(1,065,108)
Total OPEB liability	(205,609)
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the governmental funds.	282,698
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	(3,138,597)
Differences between expected and actual experiences, assumption changes and netdifferences between projected and actual earnings and contributions subsequent to the measurement date for the postretirement benefits (pension and OPEB) are recognized asdeferred outflows of resources and deferred inflows of resources on the statement of net position.	
Deferred outflows - pension related	925,869
Deferred outflows - OPEB related	39,363
Deferred inflows - pension related	(295,666)
Deferred inflows - OPEB related	(90,722)
Net Position of Governmental Activities	$ 74,344,802

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

CITY OF RED OAK, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2025

		Special Revenue	
	General Fund	Industrial Development Corporation	Economic Development Corporation
REVENUES			
Property taxes	$ 12,097,067	$ -	$ -
Sales taxes	4,120,273	2,060,134	2,060,135
Franchise tax	1,040,857	-	-
PID assessments	-	-	-
Hotel occupancy tax	-	-	-
Alcoholic beverage tax	36,196	-	-
Intergovernmental	1,493,105	-	-
Licenses and permits	10,271,068	-	-
Fines and forfeitures	291,967	-	-
Charges for services	1,163,258	-	-
Investment earnings	822,479	320,997	494,618
Miscellaneous	112,797	10,551	4
Total revenues	31,449,067	2,391,682	2,554,757
EXPENDITURES			
Current:			
General government	3,812,055	-	-
Public safety	13,195,058	-	-
Culture and recreation	1,913,672	-	-
Public works	3,448,692	-	-
Industrial development	-	252,060	-
Economic development	-	-	139,807
Capital outlay	491,226	130,453	676,590
Debt service:			
Principal	123,379	382,635	386,635
Interest and fiscal charges	5,875	1,224,373	595,891
Issuance costs	-	-	269,917
Total expenditures	22,989,957	1,989,521	2,068,840
Excess (deficiency) of revenues over (under) expenditures	8,459,110	402,161	485,917
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	-	12,000,000
Premium on issuance of bonds	-	-	-
Issuance of SBITA	11,425	-	-
Insurance recovery	1,823	-	373,690
Transfers in	1,281,061	-	-
Transfers out	(251,971)	(1,005,877)	(325,877)
Sale of capital assets	49,808	-	-
Total other financing sources (uses)	1,092,146	(1,005,877)	12,047,813
CHANGE IN FUND BALANCE	9,551,256	(603,716)	12,533,730
FUND BALANCE - BEGINNING	15,598,576	40,999,652	14,009,059
FUND BALANCE - ENDING	$ 25,149,832	$ 40,395,936	$ 26,542,789

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
$ 6,201,323	$ -	$ -	$ -	$ 18,298,390
-	-	-	-	8,240,542
-	-	-	-	1,040,857
-	-	-	392,068	392,068
-	-	-	361,760	361,760
-	-	-	-	36,196
-	-	-	-	1,493,105
-	-	-	-	10,271,068
-	-	-	-	291,967
-	-	-	667,686	1,830,944
3,543	85,420	1,267,851	357,036	3,351,944
-	-	-	38	123,390
6,204,866	85,420	1,267,851	1,778,588	45,732,231
-	-	-	-	3,812,055
-	-	-	-	13,195,058
-	-	183,277	376,743	2,473,692
-	-	-	14,475	3,463,167
-	-	-	-	252,060
-	-	-	-	139,807
-	104,359	4,630,582	3,273,986	9,307,196
3,826,000	-	-	127,969	4,846,618
2,419,845	-	-	195,463	4,441,447
-	-	-	180,774	450,691
6,245,845	104,359	4,813,859	4,169,410	42,381,791
(40,979)	(18,939)	(3,546,008)	(2,390,822)	3,350,440
-	-	-	8,870,000	20,870,000
-	-	-	158,899	158,899
-	-	-	-	11,425
-	-	-	-	375,513
-	-	-	255,314	1,536,375
-	-	(11,446,000)	(75,150)	(13,104,875)
-	-	-	-	49,808
-	-	(11,446,000)	9,209,063	9,897,145
(40,979)	(18,939)	(14,992,008)	6,818,241	13,247,585
408,188	1,966,835	28,413,039	5,130,624	106,525,973
$ 367,209	$ 1,947,896	$ 13,421,031	$ 11,948,865	$ 119,773,558

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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, 2025

Total net change in Fund Balances - Governmental Funds	$ 13,247,585
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.	9,137,881
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.	(3,905,539)
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	(354,412)
Donation of capital assets	1,718,582
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	(6,085,000)
Premium on issuance of CO Bonds	(158,899)
Issuance of tax notes	(2,785,000)
Issuance of revenue bonds	(12,000,000)
Issuance of subscription-based IT arrangements	(11,425)
Principal paid on long term debt	4,846,618
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	3,425
Property taxes	(55,189)
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	(166,389)
Amortization of deferred loss on refunding	229,391
Compensated absences	(679,562)
Changes in pension liabilities and related deferred outflows/inflows	(1,804)
Changes in OPEB liabilities and related deferred outflows/inflows	(14,616)
Total change in net position of Governmental Activities	$ 2,965,647

CITY OF RED OAK, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

SEPTEMBER 30, 2025

	Business-type Activities - Enterprise		
	Utility Fund	Storm Water Fund	Total Proprietary Funds
ASSETS			
Current assets:			
Cash and cash equivalents	$ 5,448,660	$ 358,571	$ 5,807,231
Investments	222,327	-	222,327
Accounts receivable (net)	2,152,730	26,444	2,179,174
Inventory	58,924	1,431	60,355
Prepaid items	7,856	-	7,856
Restricted assets:			
Cash	808,296	-	808,296
Investments	6,962,190	-	6,962,190
Total current assets	15,660,983	386,446	16,047,429
Noncurrent assets:			
Capital assets:			
Nondepreciable	9,739,826	-	9,739,826
Depreciable, net	26,900,236	6,254,633	33,154,869
Total noncurrent assets	36,640,062	6,254,633	42,894,695
Total assets	52,301,045	6,641,079	58,942,124
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	102,747	12,388	115,135
OPEB related	4,359	526	4,885
Deferred charge on refunding	204,767	-	204,767
Total deferred outflows of resources	311,873	12,914	324,787
LIABILITIES			
Current liabilities:			
Accounts payable	1,618,827	1,053	1,619,880
Accrued liabilities	52,395	3,312	55,707
Customer deposits payable	475,363	-	475,363
Due to other funds	1,877	-	1,877
Accrued interest payable	41,486	122	41,608
Due within one year:			
Long-term debt	1,537,666	54,089	1,591,755
Total OPEB liability	504	61	565
Total current liabilities	3,728,118	58,637	3,786,755
Noncurrent liabilities:			
Long-term debt	9,276,127	15,474	9,291,601
Net pension liability	118,199	14,251	132,450
Total OPEB liability	22,311	2,690	25,001
Total noncurrent liabilities	9,416,637	32,415	9,449,052
Total liabilities	13,144,755	91,052	13,235,807
DEFERRED INFLOWS OF RESOURCES			
Pension related	32,812	3,956	36,768
OPEB related	10,067	1,214	11,281
Lease related	43,699	-	43,699
Total deferred inflows of resources	86,578	5,170	91,748
NET POSITION			
Net investment in capital assets	24,688,657	6,189,428	30,878,085
Restricted for capital projects	5,462,121	-	5,462,121
Unrestricted	9,230,807	368,343	9,599,150
Total net position	$ 39,381,585	$ 6,557,771	$ 45,939,356

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, 2025

	Business-type Activities - Enterprise		
	Utility Fund	Storm Water Fund	Total Proprietary Funds
OPERATING REVENUES			
Charges for services:			
Water charges	$ 5,135,420	$ 423,163	$ 5,558,583
Sewer charges	7,819,216	-	7,819,216
Tap fees and reconnects	333,081	-	333,081
Penalties	309,616	-	309,616
Miscellaneous	97,816	-	97,816
Total revenues	13,695,149	423,163	14,118,312
OPERATING EXPENSES			
Personnel services	1,619,329	182,329	1,801,658
Insurance	190,496	37,449	227,945
Materials and supplies	1,013,579	25,144	1,038,723
Contractual services	6,441,542	24,009	6,465,551
Maintenance	118,130	10,398	128,528
Other operating costs	53,898	-	53,898
Depreciation	1,855,412	344,514	2,199,926
Total expenses	11,292,386	623,843	11,916,229
Operating income (loss)	2,402,763	(200,680)	2,202,083
NON-OPERATING REVENUES (EXPENSES)			
Interest earnings	43,134	1,497	44,631
Interest and fiscal charges	(333,736)	(1,233)	(334,969)
Total non-operating revenues (expenses)	(290,602)	264	(290,338)
Income (loss) before capital contributions and transfers	2,112,161	(200,416)	1,911,745
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Capital contributions - developer contributions	976,958	401,588	1,378,546
Capital contributions - impact fees	2,449,057	-	2,449,057
Sale of capital assets	6,875	-	6,875
Transfers in	12,432,723	-	12,432,723
Transfers out	(864,223)	-	(864,223)
Total capital contributions and transfers	15,001,390	401,588	15,402,978
CHANGE IN NET POSITION	17,113,551	201,172	17,314,723
NET POSITION - BEGINNING	22,268,034	6,356,599	28,624,633
NET POSITION - END OF YEAR	$ 39,381,585	$ 6,557,771	$ 45,939,356

CITY OF RED OAK, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Business-type Activities		
	Utility Fund	Storm Water Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 15,056,906	$ 421,968	$ 15,478,874
Payments to suppliers	(8,686,930)	(128,789)	(8,815,719)
Payments to employees	(1,658,616)	(183,502)	(1,842,118)
Net cash provided (used) by operating activities	4,711,360	109,677	4,821,037
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Payments from other funds	11,568,500	-	11,568,500
Payments to other funds	(1,172,739)	(9,278)	(1,182,017)
Net cash provided (used) by noncapital financing activities	10,395,761	(9,278)	10,386,483
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on bonds	(1,487,000)	(92,000)	(1,579,000)
Interest and fiscal charges paid on bonds	(318,981)	(7,539)	(326,520)
Capital grants	2,449,057	-	2,449,057
Acquisition and construction of capital assets	(5,845,003)	-	(5,845,003)
Net cash provided (used) by capital and related financing activities	(5,201,927)	(99,539)	(5,301,466)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	43,134	1,497	44,631
Proceeds from sale and maturities of securities	(6,971,665)	-	(6,971,665)
Net cash provided (used) by investing activities	(6,928,531)	1,497	(6,927,034)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,976,663	2,357	2,979,020
CASH AND CASH EQUIVALENTS, BEGINNING	3,280,293	356,214	3,636,507
CASH AND CASH EQUIVALENTS, ENDING	$ 6,256,956	$ 358,571	$ 6,615,527

CITY OF RED OAK, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	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)	$ 2,402,763	$ (200,680)	$ 2,202,083
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	1,855,412	344,514	2,199,926
(Increase) decrease in:			
Accounts receivable	1,342,178	(1,195)	1,340,983
Inventory	108,678	700	109,378
Deferred outflows of resources	26,544	426	26,970
Increase (decrease) in:			
Accounts payable	(979,840)	(32,489)	(1,012,329)
Other liabilities	4,295	(1,284)	3,011
Compensated absences	(12,666)	(1,089)	(13,755)
Customer deposits	19,579	-	19,579
Developer deposits	(26,965)	-	(26,965)
Due to other funds	1,877	-	1,877
Deferred inflows of resources	15,041	2,392	17,433
Net pension liability	(44,112)	(1,950)	(46,062)
Net OPEB liability	(1,424)	332	(1,092)
Total adjustments	2,308,597	310,357	2,618,954
Net cash provided (used) by operating activities	$ 4,711,360	$ 109,677	$ 4,821,037
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Contributions of capital assets	$ 976,958	$ 401,588	$ 1,378,546
Accrual of capital-related payables	1,393,043	-	1,393,043

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

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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 Page P 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.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

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. <u>Cash, Deposits and Investments</u>

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. <u>Receivables and Payables</u>

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. <u>Inventories and Prepaid Items</u>

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:

Asset Type	Number of Years
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, 2025, land held for resale was valued at $48,311,968.

J. 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.

K. <u>Long-Term Obligations</u>

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.

Compensated absences are recognized as a liability to the extent that it is more likely than not that the leave will be used or otherwise settled through cash payments upon separation.

L. <u>Leases and Subscription-Based Information Technology Arrangements</u>

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.

M. 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.

N. 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.

O. 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 Principal

During fiscal year 2025, the City adopted the following new accounting guidance:

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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

<u>Budgetary Control</u>

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, 2025 are:

	Credit Rating	Carrying Value	Weighted Average Maturity (days)
Investment Pool:			
TexPool	AAAm	$ 7,559,779	44
TexSTAR	AAAm	2,955,732	50
LOGIC	AAAm	63,251,574	52
Total		$ 73,767,085	
Portfolio			51

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, 2025, 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, 2025, 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	$ 204,381	$ -	$ -	$ 83,265	$ -	$ 287,646
Sales taxes	700,180	350,090	350,090	-	-	1,400,360
Other taxes	32,625	-	-	-	37,684	70,309
Fines & forfeitures	359,315	-	-	-	-	359,315
Accounts	30,855	-	-	-	-	30,855
Miscellaneous	75,686	-	-	-	-	75,686
Gross receivables	1,403,042	350,090	350,090	83,265	37,684	2,224,171
Less: allowance for uncollectible accounts	(367,259)	-	-	(11,079)	-	(378,338)
Net receivables	$ 1,035,783	$ 350,090	$ 350,090	$ 72,186	$ 37,684	$ 1,845,833

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	$ 2,480,509	$ 13,639	$ 2,494,148
Leases	43,699	-	43,699
Intergovernmental	305,810	-	305,810
Miscellaneous	199,700	12,805	212,505
Gross receivables	3,029,718	26,444	3,056,162
Less: allowance for uncollectible accounts	(876,988)	-	(876,988)
Net receivables	$ 2,152,730	$ 26,444	$ 2,179,174

V. CAPITAL ASSETS

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

	Beginning Balance	Transfers/ Additions	Transfers/ Retirements	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,814,940	$ -	$ (160,198)	$ 2,654,742
Construction in progress	12,447,811	6,402,886	(7,231,556)	11,619,141
Total capital assets not being depreciated	15,262,751	6,402,886	(7,391,754)	14,273,883
Capital assets being depreciated:				
Buildings	16,509,549	918,670	7,235,411	24,663,630
Improvements	823,489	824,791	-	1,648,280
Machinery and equipment	19,329,054	1,222,407	(223,880)	20,327,581
Infrastructure	32,978,083	1,476,780	(165,228)	34,289,635
Right to use - equipment	94,163	-	-	94,163
Right to use - subscriptions	391,485	10,929	(24,318)	378,096
Total assets being depreciated	70,125,823	4,453,577	6,821,985	81,401,385
Less accumulated depreciation for:				
Buildings	(4,576,924)	(936,965)	-	(5,513,889)
Improvements	(380,500)	(53,594)	-	(434,094)
Machinery and equipment	(11,687,555)	(1,338,789)	114,732	(12,911,612)
Infrastructure	(8,304,351)	(1,403,297)	76,307	(9,631,341)
Right to use - equipment	(45,395)	(30,893)	-	(76,288)
Right to use - subscriptions	(153,477)	(142,001)	24,318	(271,160)
Total accumulated depreciation	(25,148,202)	(3,905,539)	215,357	(28,838,384)
Total capital assets being depreciated, net	44,977,621	548,038	7,037,342	52,563,001
Governmental activities capital assets, net	$ 60,240,372	$ 6,950,924	$ (354,412)	$ 66,836,884

	Beginning Balance	Transfers/ Additions	Transfers/ Retirements	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 1,241,293	$ -	$ -	$ 1,241,293
Construction in progress	2,246,665	7,208,091	(956,223)	8,498,533
Total capital assets, not being depreciated	3,487,958	7,208,091	(956,223)	9,739,826
Capital assets being depreciated:				
Buildings	101,181	-	-	101,181
Improvements	54,441,845	1,378,546	864,223	56,684,614
Machinery and equipment	2,681,313	86,111	-	2,767,424
Total assets being depreciated	57,224,339	1,464,657	864,223	59,553,219
Less accumulated depreciation for:				
Buildings	(62,991)	(5,032)	-	(68,023)
Improvements	(22,144,223)	(2,045,460)	(219,752)	(24,409,435)
Machinery and equipment	(2,033,929)	(149,434)	262,471	(1,920,892)
Total accumulated depreciation	(24,241,143)	(2,199,926)	42,719	(26,398,350)
Total capital assets being depreciated, net	32,983,196	(735,269)	906,942	33,154,869
Business-type activities capital assets, net	$ 36,471,154	$ 6,472,822	$ (49,281)	$ 42,894,695

Depreciation expense for the year ended September 30, 2025 was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	$ 860,022
Public safety	1,078,280
Culture and recreation	444,587
Public works	1,522,650
Total	$ 3,905,539
Business-type activities:	
Utility	$ 1,855,412
Storm Water	344,514
Total	$ 2,199,926

VI. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transfers made during the fiscal year were as follows:

Transfer From	Transfer To	Amount
Industrial Dev Corp	General Fund	$ 883,377
Industrial Dev Corp	Utility Fund	122,500
EDC	General Fund	325,877
Nonmajor Gov	General Fund	6,687
Tourism	General Fund	65,120
General Fund	Nonmajor Gov	251,971
Nonmajor Gov	Nonmajor Gov	3,343
2023 CO Bond Fund	Utility Fund	11,446,000
Water Sewer Impact Fee Fund	Utility Fund	864,223
Total		$ 13,969,098

The transfers are for the cost incurred from IDC/EDC to be covered by General Fund. Transfers to the Nonmajor Governmental Funds from the Utility Fund was to transfer funds related to the issuance of bonds.

Interfund receivables and payables as of September 30, 2025 were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	2023 CO Bond Fund	$ 1,241,884
General Fund	Industrial Development Corporation	956,323
General Fund	Nonmajor Gov	267,190
General Fund	Utility Fund	1,877
Total		$ 2,467,274

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, 2025, was as follows:

	Beginning Balance	Issued	Refunded/ Retired	Ending Balance	Amount Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 3,565,000	$ -	$ (595,000)	$ 2,970,000	$ 680,000
Certificates of obligation	42,545,000	6,085,000	(1,475,000)	47,155,000	1,040,000
Certificates of obligation (private placement)	232,000	-	(23,000)	209,000	209,000
Revenue bonds	14,995,000	12,000,000	(495,000)	26,500,000	695,000
Revenue bonds (private placement)	15,560,000	-	(265,000)	15,295,000	95,000
Tax notes	705,000	2,785,000	(150,000)	3,340,000	235,000
Tax notes (private placement)	7,192,000	-	(1,589,000)	5,603,000	1,135,000
Special assessment revenue revenue bonds (private placement)	5,414,000	-	(127,000)	5,287,000	130,000
Issuance premium	3,209,089	158,899	(229,391)	3,138,597	-
Total bonds payable	93,417,089	21,028,899	(4,948,391)	109,497,597	4,219,000
Leases	51,722	-	(32,805)	18,917	18,917
Subscription based IT arrangements	203,068	11,425	(94,813)	119,680	87,121
Compensated absences	940,483	-	679,562	1,620,045	405,011
Total governmental	$ 94,612,362	$ 21,040,324	$ (4,396,447)	$111,256,239	$ 4,730,049
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 7,960,000	$ -	$ (1,250,000)	$ 6,710,000	$ 1,285,000
Certificates of obligation	3,470,000	-	(130,000)	3,340,000	90,000
Certificates of obligation (private placement)	260,000	-	(129,000)	131,000	131,000
Tax notes (private placement)	142,000	-	(70,000)	72,000	72,000
Issuance premium	688,842	-	(113,508)	575,334	-
Total bonds payable	12,520,842	-	(1,692,508)	10,828,334	1,578,000
Compensated absences	42,547	-	12,475	55,022	13,755
Total business-type	$ 12,563,389	$ -	$ (1,680,033)	$ 10,883,356	$ 1,591,755

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 2025, in the amount of $2,785,000. The notes carry an interest rate of 3.49% and mature in fiscal year 2032. The proceeds will be used for the purpose of paying contractual obligations to be incurred for 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.

Durning the year, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2024, in the amount of $6,085,000. The bonds carry an interest rate between 4% and 5% and will mature in fiscal year 2044. The proceeds will be used for constructing and improving streets, sidewalks, bridges, utility lift stations, and other utility projects.

The City also issued Sales Tax Revenue Bonds, Series 2025 in the amount of $12,000,000. The bonds carry an interest rate between 5.05% and 5.55% and will mature in fiscal year 2050. The purpose of the bonds will be for public improvements related to the construction, improvement, acquisition, and fees associated with the development of retail areas, tourist development facilities, concert halls, parks and recreational areas and offices.

Compensated Absences

The compensated absence liabilities are generally liquidated by the General, Utility, and Storm Water Funds depending on the assignment of employment at termination. Additions and reductions on the long term liability table above for compensated absences are reported at a net change.

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	$ 209,000
Certificates of Obligation, Series 2017	3.00-4.00%	2/15/2031	1,575,000	940,000
Certificates of Obligation, Series 2018	4.00-5.00%	2/15/2038	4,910,000	3,850,000
Certificates of Obligation, Series 2019	3.00-4.00%	2/15/2039	5,115,000	4,490,000
Certificates of Obligation, Series 2021	2.00-5.00%	2/15/2041	3,685,000	3,485,000
Certificates of Obligation, Series 2023	4.375-5.00%	2/15/2043	29,540,000	28,810,000
Certificates of Obligation, Series 2024	4.00-5.00%	2/15/2044	6,085,000	5,580,000
Total			51,416,000	47,364,000
General obligation:				
General Obligation Bonds, Series 2014	3.00-3.50%	2/15/2030	3,680,000	1,475,000
General Obligation Bonds, Series 2017	3.00-4.00%	2/15/2027	945,000	365,000
General Obligation Bonds, Series 2020	3.00%	2/15/2030	1,830,000	1,130,000
Total			6,455,000	2,970,000
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	3,715,000
Revenue Bonds, Series 2022	3.55%-5.65%	8/15/2052	15,820,000	15,295,000
Revenue Bonds, Series 2024	5.60%	8/15/2055	7,905,000	7,795,000
Revenue Bonds, Series 2025 RB	5.050-6.050%	8/15/2050	12,000,000	12,000,000
Total			44,395,000	41,795,000
Tax notes:				
Tax Notes, Series 2020	1.80%	2/15/2026	683,000	98,000
Tax Notes, Series 2021A	4.00-5.00%	2/15/2028	1,095,000	555,000
Tax Notes, Series 2021	1.15%	2/15/2027	835,000	215,000
Tax Notes, Series 2022	3.09%	2/15/2029	5,279,000	2,789,000
Tax Notes, Series 2023	4.43%	2/15/2030	3,045,000	1,223,000
Tax Notes, Series 2024	3.65%	2/15/2031	1,954,000	1,278,000
Tax Notes, Series 2025	3.49%	2/15/2032	2,785,000	2,785,000
Total			15,676,000	8,943,000
Special Assessment Bonds:				
Special Assessment Bonds, Series 2021	2.625-4.00%	9/15/2051	5,657,000	5,287,000
Total			5,657,000	5,287,000
Total governmental activities			$ 123,599,000	$ 106,359,000

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	$ 84,000
Certificates of Obligation, Series 2016	1.74%	8/15/2026	435,000	47,000
Certificates of Obligation, Series 2017	4.00%	2/15/2034	1,760,000	1,760,000
Certificates of Obligation, Series 2020	2.00%	2/15/2040	2,020,000	1,580,000
Total			6,119,000	3,471,000
General obligation:				
General Obligation Bonds, Series 2017	3.00-4.00%	2/15/2030	3,340,000	2,465,000
General Obligation Bonds, Series 2020	3.00%	2/15/2029	5,330,000	4,245,000
Total			8,670,000	6,710,000
Tax notes:				
Tax Notes, Series 2020	1.80%	2/15/2026	501,000	72,000
Total			501,000	72,000
Total business-type activities			$ 15,290,000	$ 10,253,000

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

Year Ended September 30,	Certificates of Obligation (Publicly Sold) Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest	Total Principal	Total Interest
2026	$ 1,040,000	$ 2,086,556	$ 90,000	$ 101,100	$ 1,130,000	$ 2,187,656
2027	1,080,000	2,037,131	95,000	99,250	1,175,000	2,136,381
2028	1,305,000	1,982,656	95,000	97,350	1,400,000	2,080,006
2029	1,495,000	1,919,506	95,000	95,450	1,590,000	2,014,956
2030	2,395,000	1,831,006	425,000	87,000	2,820,000	1,918,006
2031-2035	13,430,000	7,393,381	1,960,000	202,150	15,390,000	7,595,531
2036-2040	16,310,000	3,993,256	580,000	29,500	16,890,000	4,022,756
2041-2045	10,100,000	709,847	-	-	10,100,000	709,847
Total	$ 47,155,000	$ 21,953,341	$ 3,340,000	$ 711,800	$ 50,495,000	$ 22,665,141

Year Ended September 30,	Certificates of Obligation (Private Placement) Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest	Total Principal	Total Interest
2026	$ 209,000	$ 1,887	$ 131,000	$ 1,576	$ 340,000	$ 3,463
Total	$ 209,000	$ 1,887	$ 131,000	$ 1,576	$ 340,000	$ 3,463

Year Ended September 30,	General Obligations (Publicly Sold) Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest	Total Principal	Total Interest
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	505,000	8,363	1,195,000	23,900	1,700,000	32,263
Total	$ 2,970,000	$ 227,063	$ 6,710,000	$ 562,575	$ 9,680,000	$ 789,638

	Tax Notes (Publicly Sold)	
	Governmental Activities	
Year Ended September 30,	Principal	Interest
2026	$ 235,000	$ 107,318
2027	295,000	104,734
2028	506,000	89,749
2029	342,000	74,442
2030	506,000	59,644
2030-2035	1,456,000	50,954
Total	$ 3,340,000	$ 486,841

	Tax Notes (Private Placement)					
	Governmental Activities		Business-Type Activities			
Year Ended September 30,	Principal	Interest	Principal	Interest	Total Principal	Total Interest
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	492,000	18,525	-	-	492,000	18,525
2031-2035	233,000	4,252	-	-	233,000	4,252
Total	$ 5,603,000	$ 482,243	$ 72,000	$ 648	$ 5,675,000	$ 482,891

	Revenue Bonds					
	Governmental Activities					
	Publicly Sold		Private Placement			
Year Ended September 30,	Principal	Interest	Principal	Interest	Total Principal	Total Interest
2026	$ 695,000	$ 1,334,355	$ 95,000	$ 833,958	$ 790,000	$ 2,168,312
2027	535,000	1,310,140	290,000	829,825	825,000	2,139,965
2028	550,000	1,292,881	305,000	817,210	855,000	2,110,091
2029	570,000	1,274,676	315,000	803,943	885,000	2,078,619
2030	585,000	1,255,540	330,000	790,240	915,000	2,045,780
2031-2035	3,265,000	5,946,013	1,905,000	3,694,230	5,170,000	9,640,243
2036-2040	3,920,000	5,296,545	2,480,000	3,119,475	6,400,000	8,416,020
2041-2045	4,995,000	4,218,455	3,245,000	2,355,313	8,240,000	6,573,768
2046-2050	6,645,000	2,566,928	4,265,000	1,333,118	10,910,000	3,900,045
2051-2055	4,740,000	1,010,240	2,065,000	176,563	6,805,000	1,186,803
Total	$ 26,500,000	$ 25,505,772	$ 15,295,000	$ 14,753,873	$ 41,795,000	$ 40,259,644

	Special Assessment Bonds	
	Governmental Activities	
Year Ended September 30,	Principal	Interest
2026	$ 130,000	$ 192,126
2027	133,000	188,714
2028	137,000	184,558
2029	142,000	180,276
2030	146,000	175,839
2031-2035	805,000	805,343
2036-2040	953,000	660,291
2041-2045	1,138,000	479,361
2046-2050	1,390,000	233,880
2051-2055	313,000	12,520
Total	$ 5,287,000	$ 3,112,908

Leases

For the year ended September 30, 2025, 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 09/30/25	Amounts Due Within One Year
Right to Use:							
Copiers	0.2380	4/12/2023	36	$ 94,163	$ 165	$ 18,917	$ 18,917
Totals					$ 165	$ 18,917	$ 18,917

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

Year Ending September 30,	Leases Payable Principal	Leases Payable Interest	Total Requirements
2026	$ 18,917	$ 15	$ 18,932
Total	$ 18,917	$ 15	$ 18,932

Subscription-Based IT Arrangements (SBITA)

For the year ended September 30, 2025, 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.

Governmental Activities

Purpose of Subsciption	Interest Rate	Initial Year of Lease	Terms in Months	Amount of Initial Liability	Interest Current Year	Amounts Outstanding 09/30/25	Amounts Due Within One Year
Right to Use:							
Cellhawk	2.786%	11/1/2023	45	$ 10,985	$ 172	$ 3,184	$ 3,184
CivicHR	3.305%	7/5/2022	60	24,090	622	12,875	6,333
CivicRec Mgmt.	3.305%	10/2/2022	60	25,634	709	16,680	5,192
Cloud-Based Enterprise	3.238%	11/18/2022	36	41,053	470	-	-
DebtBook	2.901%	8/16/2023	37	26,560	694	12,634	12,634
LeadsOnline Platform	3.238%	7/1/2022	36	10,554	117	-	-
NeoGov HR	2.901%	7/1/2024	27	36,436	235	28,652	14,121
Rppro Software	2.901%	3/20/2024	36	12,248	233	4,082	4,082
SentinelOne	3.018%	10/2/2023	24	57,327	1,136	19,103	19,103
VectorLMS	3.238%	10/31/2022	36	13,764	149	-	-
Vertosoft	2.901%	10/16/2023	36	62,248	1,255	22,470	22,472
Totals					$ 5,792	$ 119,680	$ 87,121

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

Year Ending September 30,	Governmental Activities Principal	Governmental Activities Interest	Total Requirements
2026	$ 87,121	$ 3,610	$ 90,731
2027	26,722	1,017	27,739
2028	5,837	193	6,030
Total	$ 119,680	$ 4,820	$ 124,500

VIII. DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 942 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, with in 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
Supplemental death benefits to active members	Yes
Supplemental death benefits to retirees	Yes

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	50
Inactive employees entitled to but not yet receiving benefits	114
Active employees	143
Total	307

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 6.46% and 6.79% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025, were $936,560, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

Inflation	2.50% per year
Overall payroll growth	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 2025 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.00%	7.1%
Core Fixed Income	6.00%	5.0%
Non-Core Fixed Income	6.00%	6.8%
Other Public and Private Markets	4.00%	7.3%
Private Debt	13.00%	8.2%
Infrastructure	6.00%	6.0%
Real Estate	12.00%	6.7%
Hedge Funds	5.00%	6.4%

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 12/31/2023	$ 18,013,097	$ 16,484,742	$ 1,528,355
Changes for the year:			
Service cost	1,641,439	-	1,641,439
Interest	1,254,278	-	1,254,278
Difference between expected and actual experience	204,131	-	204,131
Contributions - employer	-	825,190	(825,190)
Contributions - employee	-	894,169	(894,169)
Net investment income	-	1,722,527	(1,722,527)
Benefit payments, including refunds of employee contributions	(503,839)	(503,839)	-
Administrative expense	-	(10,985)	10,985
Other changes	-	(256)	256
Net changes	2,596,009	2,926,805	(330,797)
Balance at 12/31/2024	$ 20,609,106	$ 19,411,547	$ 1,197,558

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)	$ 4,440,270	$ 1,197,558	$ (1,457,874)

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, 2025, the City recognized pension expense in the governmental and business-type activities of $816,261 and $101,505, respectively.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 319,846	$ 30,898
Changes in actuarial assumptions	-	47,214
Difference between projected and actual investment earnings	-	254,322
Contributions subsequent to the measurement date	721,158	-
Total	$ 1,041,004	$ 332,434

The City reported $721,158 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ended September 30,	
2026	$ 54,129
2027	226,159
2028	(192,378)
2029	(100,498)

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

Inactive employees or beneficiaries currently receiving benefits	38
Inactive employees entitled to but not yet receiving benefits	16
Active employees	143
Total	197

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.20% for 2024 and 0.16% for 2025, of which 0.07% and 0.04%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2024 and 2025 were $7,910 and $6,496 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, 2024 and was determined by an actuarial valuation as of that date.

Actuarial assumptions

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

Inflation rate	2.50%
Salary increases	3.60% to 11.85% including inflation
Discount rate	4.08%

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, 2024 valuation were based on the results of an actuarial experience study as of December 31, 2022.

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 4.08% was used to measure the Total OPEB Liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The 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, 2024.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2023	$ 232,766
Changes for the year:	
Service cost	16,606
Interest	8,992
Difference between expected and actual experience	(7,835)
Changes of assumptions	(14,244)
Benefit payments	(5,110)
Net changes	(1,591)
Balance at 12/31/2024	$ 231,175

Discount Rate Sensitivity Analysis

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

	1% Decrease 3.08%	Current Discount Rate 4.08%	1% Increase 5.08%
Total OPEB Liability	$ 281,718	$ 231,175	$ 192,206

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

For the year ended September 30, 2025, the City recognized OPEB expense in the governmental activities and business-type activities of $15,291 and $1,902, respectively.

At September 30, 2025, 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	$ 1,533	$ 15,007
Changes in actuarial assumptions	38,364	86,996
Contributions subsequent to the measurement date	4,351	-
Total	$ 44,248	$ 102,003

The City reported $4,351 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, 2026. 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,	
2026	$ (10,147)
2027	(10,232)
2028	(16,121)
2029	(20,724)
2030	(2,221)
Thereafter	(2,661)

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, 2025 were $5,002,332. 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, 2025 were $1,207,165.

Public Safety 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 North Ellis Emergency Dispatch (NEED) system. During the current year, the City of Red Oak contributed $1,097,298 for their portion of shared costs and are committed for $1,208,020 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.

Countywide Radio Network 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 $48,171 for their portion of shared costs and are committed for $59,375 in the next fiscal year.

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 2025, the City abated $490,045 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 2025, the City did not rebate any taxes.

XIV. SUBSEQUENT EVENT

In October 2025, the City issued Combination Tax & Revenue Certificates of Obligation, Series 2025 in the amount of $16,215,000. The bonds have an interest rate between 4.00% and 5.00% and will mature in fiscal year 2045. These bonds will be used for public improvements.

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. 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.

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF 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, 2025

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	$ 11,899,845	$ 11,899,845	$ 12,097,067	$ 197,222
Sales taxes	4,148,900	4,148,900	4,120,273	(28,627)
Franchise tax	858,500	858,500	1,040,857	182,357
Alcoholic beverage tax	18,900	18,900	36,196	17,296
Intergovernmental	1,148,396	1,148,396	1,493,105	344,709
Licenses and permits	1,928,400	1,928,400	10,271,068	8,342,668
Fines and forfeitures	405,702	405,702	291,967	(113,735)
Charges for services	995,240	995,240	1,163,258	168,018
Investment earnings	200,120	200,120	822,479	622,359
Miscellaneous	87,000	87,000	112,797	25,797
Total revenues	21,691,003	21,691,003	31,449,067	9,758,064
EXPENDITURES				
Current:				
General government	4,152,104	4,194,104	3,812,055	382,049
Public safety	13,268,005	13,397,621	13,195,058	202,563
Culture and recreation	2,082,811	2,099,425	1,913,672	185,753
Public works	3,451,546	3,462,546	3,448,692	13,854
Capital outlay	2,191,032	315,916	491,226	(175,310)
Debt service:				
Principal	110,240	110,240	123,379	(13,139)
Interest and fiscal charges	-	-	5,875	(5,875)
Total expenditures	25,255,738	23,579,852	22,989,957	589,895
Excess (deficiency) of revenues over (under) expenditures	(3,564,735)	(1,888,849)	8,459,110	10,347,959
OTHER FINANCING SOURCES (USES)				
Issuance of SBITA	-	-	11,425	11,425
Insurance recovery	-	-	1,823	1,823
Transfers in	939,914	(939,914)	1,281,061	2,220,975
Transfers out	-	-	(251,971)	(251,971)
Sale of Capital Assets	233,100	233,100	49,808	(183,292)
Total other financing sources (uses)	1,173,014	(706,814)	1,092,146	1,798,960
CHANGE IN FUND BALANCE	(2,391,721)	(2,595,663)	9,551,256	12,146,919
FUND BALANCE - BEGINNING	15,598,576	15,598,576	15,598,576	-
FUND BALANCE - ENDING	$ 13,206,855	$ 13,002,913	$ 25,149,832	$ 12,146,919

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, 2025

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Sales taxes	$ 2,056,950	$ 2,056,950	$ 2,060,134	$ 3,184
Investment earnings	50,000	50,000	320,997	270,997
Miscellaneous	-	-	10,551	10,551
Total revenues	2,106,950	2,106,950	2,391,682	284,732
EXPENDITURES				
Current:				
Industrial development	8,795,144	7,856,294	252,060	7,604,234
Capital outlay	-	214,470	130,453	84,017
Debt service:				
Principal	271,000	381,000	382,635	(1,635)
Interest and fiscal charges	846,887	1,225,027	1,224,373	654
Total expenditures	9,913,031	9,676,791	1,989,521	7,687,270
Excess (deficiency) of revenues over (under) expenditures	(7,806,081)	(7,569,841)	402,161	7,972,002
OTHER FINANCING SOURCES (USES)				
Transfers out	(555,167)	(1,005,877)	(1,005,877)	-
Total other financing sources (uses)	(555,167)	(1,005,877)	(1,005,877)	-
CHANGE IN FUND BALANCE	(8,361,248)	(8,575,718)	(603,716)	7,972,002
FUND BALANCE - BEGINNING	40,999,652	40,999,652	40,999,652	-
FUND BALANCE - ENDING	$ 32,638,404	$ 32,423,934	$ 40,395,936	$ 7,972,002

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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, 2025

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Sales taxes	$ 2,056,950	$ 2,056,950	$ 2,060,135	$ 3,185
Investment earnings	100,000	100,000	494,618	394,618
Total revenues	2,156,950	2,156,950	2,554,757	397,807
EXPENDITURES				
Current:				
Economic development	8,460,831	8,190,232	139,807	8,050,425
Capital outlay	-	-	676,590	(676,590)
Debt service:				
Principal	385,000	385,000	386,635	(1,635)
Interest and fiscal charges	594,237	594,237	595,891	(1,654)
Bond issuance costs	270,573	270,573	269,917	656
Total expenditures	9,710,641	9,440,042	2,068,840	7,371,202
Excess (deficiency) of revenues over (under) expenditures	(7,553,691)	(7,283,092)	485,917	7,769,009
OTHER FINANCING SOURCES (USES)				
Issuance of bonds	-	12,000,000	12,000,000	-
Insurance recovery	-	-	373,690	(373,690)
Transfers out	(442,127)	(325,877)	(325,877)	-
Total other financing sources (uses)	(442,127)	11,674,123	12,047,813	373,690
CHANGE IN FUND BALANCE	(7,995,818)	4,391,031	12,533,730	8,142,699
FUND BALANCE - BEGINNING	14,009,059	14,009,059	14,009,059	-
FUND BALANCE - ENDING	$ 6,013,241	$ 18,400,090	$ 26,542,789	$ 8,142,699

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, 2025

Measurement year December 31,	2015	2016	2017	2018
Total pension liability				
Service cost	$ 512,394	$ 580,682	$ 626,818	$ 823,175
Interest (on the total pension liability)	407,518	468,608	534,454	613,494
Change in benefit terms including substantively automatic status	-	-	-	147,850
Difference between expected and actual experience	34,307	46,944	(21,482)	(33,117)
Changes in assumptions	251,468	-	-	-
Benefit payments, including refunds of employee contributions	(117,105)	(121,238)	(166,370)	(263,334)
Net change in total pension liability	1,088,582	974,996	973,420	1,288,068
Total pension liability - beginning	5,624,035	6,712,617	7,687,613	8,661,033
Total pension liability - ending (a)	$ 6,712,617	$ 7,687,613	$ 8,661,033	$ 9,949,101
Plan fiduciary net position				
Contributions - employer	$ 230,360	$ 278,291	$ 332,845	$ 409,733
Contributions - employee	289,761	314,449	343,776	401,432
Net investment income	7,757	382,950	903,473	(237,587)
Benefit payments, including refunds of employee contributions	(117,105)	(121,238)	(166,370)	(263,334)
Administrative expenses	(4,722)	(4,321)	(4,677)	(4,585)
Other	(234)	(234)	(237)	(240)
Net change in plan fiduciary net position	405,817	849,897	1,408,810	305,419
Plan fiduciary net position - beginning	5,255,769	5,661,586	6,511,483	7,920,293
Plan fiduciary net position - ending (b)	$ 5,661,586	$ 6,511,483	$ 7,920,293	$ 8,225,712
Net Pension Liability (a) - (b)	$ 1,051,031	$ 1,176,130	$ 740,740	$ 1,723,389
Plan fiduciary net position as a percentage of total pension liability	84.34%	84.70%	91.45%	82.68%
Covered payroll	$ 4,719,828	$ 5,113,962	$ 5,634,270	$ 6,386,149
Net pension liability as a percentage of covered payroll	22.27%	23.00%	13.15%	26.99%

2019	2020	2021	2022	2023	2024
$ 921,228	$ 949,953	$ 1,004,034	$ 1,155,767	$ 1,411,278	$ 1,641,439
690,759	784,454	868,813	964,141	1,095,246	1,254,278
-	-	-	-	-	-
105,672	(154,487)	(146,649)	76,077	241,615	204,131
10,591	-	-	-	(84,686)	-
(352,505)	(356,560)	(357,842)	(421,736)	(341,167)	(503,839)
1,375,745	1,223,360	1,368,356	1,774,249	2,322,286	2,596,009
9,949,101	11,324,846	12,548,206	13,916,562	15,690,811	18,013,097
$ 11,324,846	$ 12,548,206	$ 13,916,562	$ 15,690,811	$ 18,013,097	$ 20,609,106
$ 516,348	$ 540,005	$ 544,657	$ 606,986	$ 725,381	$ 825,190
503,403	532,399	563,160	646,712	789,684	894,169
1,274,464	773,124	1,522,914	(1,019,412)	1,597,055	1,722,527
(352,505)	(356,560)	(357,842)	(421,736)	(341,167)	(503,839)
(7,186)	(4,990)	(7,023)	(8,786)	(10,105)	(10,985)
(215)	(195)	46	10,485	(72)	(256)
1,934,309	1,483,783	2,265,912	(185,751)	2,760,776	2,926,806
8,225,712	10,160,021	11,643,804	13,909,717	13,723,966	16,484,742
$ 10,160,021	$ 11,643,804	$ 13,909,716	$ 13,723,966	$ 16,484,742	$ 19,411,548
$ 1,164,825	$ 904,402	$ 6,846	$ 1,966,845	$ 1,528,355	$ 1,197,558
89.71%	92.79%	99.95%	87.46%	91.52%	94.19%
$ 7,191,473	$ 7,605,707	$ 8,045,143	$ 9,238,747	$ 11,283,293	$ 12,773,833
16.20%	11.89%	0.09%	21.29%	13.55%	9.38%

CITY OF RED OAK, TEXAS

SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

FOR THE YEAR ENDED SEPTEMBER 30, 2025

Fiscal year ended September 30,	2016	2017	2018	2019
Actuarially determined contribution	$ 270,906	$ 325,033	$ 380,870	$ 511,496
Contribution in relation to the actuarially determined contribution	270,906	325,033	380,870	511,496
Contribution deficiency	-	-	-	-
Covered payroll	$ 5,113,962	$ 5,631,270	$ 6,173,535	$ 7,012,203
Contributions as a percentage of covered payroll	5.30%	5.77%	6.17%	7.29%

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	20 Years
Asset Valuation Method	10 year smoothed fair value: 12% soft corridor
Inflation	2.50%
Salary increases	3.60% to 11.85% including inflation
Investment rate of return	6.75%
Retirement Age	Experienced-based table of rates that vary by age. Las updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generation basis by the most recent Scale MP-2021 (with immediate convergence).
Other information:	None
Notes	There were no benefit changes during the year.

2020	2021	2022	2023	2024	2025
$ 544,685	$ 540,444	$ 586,625	$ 699,206	$ 806,258	$ 936,560
544,685	540,444	586,625	699,206	806,258	936,560
-	-	-	-	-	-
$ 7,419,342	$ 8,281,387	$ 8,869,309	$ 10,823,498	$ 12,493,714	$ 13,942,184
7.34%	6.53%	6.61%	6.46%	6.45%	6.72%

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, 2025

Measurement year December 31,	2017	2018	2019	2020
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	(573)	(639)	(720)	(760)
Net change in total OPEB liability	29,296	2,676	56,414	63,815
Total OPEB liability - beginning	125,953	155,249	157,925	214,339
Total OPEB liability - ending (a)	$ 155,249	$ 157,925	$ 214,339	$ 278,154
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.

2021	2022	2023	2024
$ 20,113	$ 23,097	$ 12,409	$ 16,606
5,740	6,008	8,472	8,992
3,456	(9,615)	(2,632)	(7,835)
11,797	(127,408)	13,796	(14,244)
(2,414)	(3,695)	(4,512)	(5,110)
38,692	(111,613)	27,533	(1,591)
278,154	316,846	205,233	232,766
$ 316,846	$ 205,233	$ 232,766	$ 231,175
$ 8,045,143	$ 9,238,723	$ 11,283,293	$ 12,773,833
3.938%	2.221%	2.063%	1.810%

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COMBINING SCHEDULES

CITY OF RED OAK, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2025

	Special Revenue		Capital Projects	
	Tourism	PID	Park Improvements	2019 CO Bond
ASSETS				
Cash and cash equivalents	$ 1,074,993	$ 497,154	$ 721,513	$ -
Accounts receivable (net)	37,684	-	-	-
Restricted assets:				
Cash	-	-	-	-
Total assets	1,112,677	497,154	721,513	-
LIABILITIES				
Accounts payable	3,664	-	-	-
Accrued liabilities	7,000	-	-	-
Due to other funds	-	267,190	-	-
Customer deposits	3,000	-	-	-
Total liabilities	13,664	267,190	-	-
FUND BALANCES				
Restricted:				
Culture and recreation	1,099,013	-	-	-
Capital projects	-	229,964	721,513	-
Commited:				
Capital projects	-	-	-	-
Total fund balances	1,099,013	229,964	721,513	-
Total liabilities and fund balances	$ 1,112,677	$ 497,154	$ 721,513	$ -

Capital Projects					
General Capital Projects	2021 CO Bond Fund	Tax Notes 2024	Tax Notes 2025	2025 CO Bond Fund	Total Nonmajor Governmental Funds
$ 5,248	$ 130,590	$ 14,837	$ -	$ 144,078	$ 2,588,413
-	-	-	-	-	37,684
-	-	821,490	2,742,936	6,221,466	9,785,892
5,248	130,590	836,327	2,742,936	6,365,544	12,411,989
-	-	146,079	-	36,191	185,934
-	-	-	-	-	7,000
-	-	-	-	-	267,190
-	-	-	-	-	3,000
-	-	146,079	-	36,191	463,124
-	-	-	-	-	1,099,013
-	130,590	690,248	2,742,936	6,329,353	10,844,604
5,248	-	-	-	-	5,248
5,248	130,590	690,248	2,742,936	6,329,353	11,948,865
$ 5,248	$ 130,590	$ 836,327	$ 2,742,936	$ 6,365,544	$ 12,411,989

CITY OF RED OAK, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Special Revenue		Capital Projects	
	Tourism	PID	Park Improvements	2019 CO Bond
REVENUES				
Hotel occupancy tax	$ 361,760	$ -	$ -	$ -
Charges for services	92,705	-	574,981	-
Investment earnings	27,081	4	23,938	-
Miscellaneous	-		38	-
PID Assessments	-	392,068	-	-
Total revenues	481,546	392,072	598,957	-
EXPENDITURES				
Current:				
Culture and recreation	360,038	16,705	-	-
Public works	-	-	14,475	-
Capital outlay	7,365	-	732,618	-
Debt service:				
Principal	969	127,000	-	-
Interest and fiscal charges	3	195,460	-	-
Issuance costs	-	-	-	-
Total expenditures	368,375	339,165	747,093	-
Excess (deficiency) of revenues over expenditures	113,171	52,907	(148,136)	-
OTHER FINANCING SOURCES (USES)				
Issuance of bonds	-	-	-	-
Premium on issuance of bonds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(65,120)	-	-	(10,030)
Total other financing sources (uses)	(65,120)	-	-	(10,030)
CHANGE IN FUND BALANCE	48,051	52,907	(148,136)	(10,030)
FUND BALANCE - BEGINNING	1,050,962	177,057	869,649	10,030
FUND BALANCE - ENDING	$ 1,099,013	$ 229,964	$ 721,513	$ -

Capital Projects						
General Capital Projects	2021 CO Bond Fund	Tax Notes 2024	Tax Notes 2025	2025 CO Bond Fund	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ 361,760
-	-	-	-	-	667,686
809	2,946	78,094	4,805	219,359	357,036
-	-	-	-	-	38
-	-	-	-	-	392,068
809	2,946	78,094	4,805	219,359	1,778,588
-	-	-	-	-	376,743
-	-	-	-	-	14,475
1,229,549	-	1,304,454	-	-	3,273,986
-	-	-	-	-	127,969
-	-	-	-	-	195,463
-	-	-	46,869	133,905	180,774
1,229,549	-	1,304,454	46,869	133,905	4,169,410
(1,228,740)	2,946	(1,226,360)	(42,064)	85,454	(2,390,822)
-	-	-	2,785,000	6,085,000	8,870,000
-	-	-	-	158,899	158,899
251,971	3,343	-	-	-	255,314
-	-	-	-	-	(75,150)
251,971	3,343	-	2,785,000	6,243,899	9,209,063
(976,769)	6,289	(1,226,360)	2,742,936	6,329,353	6,818,241
982,017	124,301	1,916,608	-	-	5,130,624
$ 5,248	$ 130,590	$ 690,248	$ 2,742,936	$ 6,329,353	$ 11,948,865

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, 2025

	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES				
Hotel occupancy tax	$ 387,325	$ 387,325	$ 361,760	$ (25,565)
Charges for services	65,120	65,120	92,705	27,585
Investment earnings	10,000	10,000	27,081	17,081
Total revenues	462,445	462,445	481,546	19,101
EXPENDITURES				
Current:				
Culture and recreation	334,629	341,349	360,038	(18,689)
Debt service:				
Principal	-	-	969	(969)
Interest and fiscal charges	-	-	3	(3)
Total expenditures	348,079	354,799	368,375	(13,576)
Excess (deficiency) of revenues over (under) expenditures	114,366	107,646	113,171	5,525
OTHER FINANCING SOURCES (USES)				
Transfers out	(65,120)	(65,120)	(65,120)	-
Total other financing sources (uses)	(65,120)	(65,120)	(65,120)	-
CHANGE IN FUND BALANCE	49,246	42,526	48,051	5,525
FUND BALANCE - BEGINNING	1,050,962	1,050,962	1,050,962	-
FUND BALANCE - ENDING	$ 1,100,208	$ 1,093,488	$ 1,099,013	$ 5,525

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, 2025

	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	$ 6,211,406	$ 6,211,406	$ 6,201,323	$ (10,083)
Investment earnings	-	-	3,543	3,543
Total revenues	6,211,406	6,211,406	6,204,866	(6,540)
EXPENDITURES				
Debt service:				
Principal	3,881,589	4,253,752	3,826,000	427,752
Interest and fiscal charges	2,327,399	1,955,236	2,419,845	(464,609)
Total expenditures	6,208,988	6,208,988	6,245,845	(36,857)
CHANGE IN FUND BALANCE	2,418	2,418	(40,979)	30,317
FUND BALANCE - BEGINNING	408,188	408,188	408,188	408,188
FUND BALANCE - ENDING	$ 410,606	$ 410,606	$ 367,209	$ 438,505

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 Bonds, assuming no material changes in facts or law.

CITY OF RED OAK, TEXAS,
GENERAL OBLIGATION PENSION BONDS, TAXABLE SERIES 2026

IN THE AGGREGATE PRINCIPAL AMOUNT OF $14,710,000

AS BOND COUNSEL for the City of Red Oak, Texas (the "City"), we have examined into the legality and validity of the issue of bonds described above (the "Bonds"), which bear interest from the date specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates as stated in the text of the Bonds, and maturing serially on the dates specified in the text of the Bonds, all in accordance with the Ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas; a transcript of certified proceedings of the City relating to the authorization, issuance, sale and delivery of the Bonds, including the Ordinance; certificates of officials of the City; and other pertinent instruments relating to the issuance of the Bonds. We have also examined one of the executed Bonds which we found to be in due form and properly executed.

BASED ON SAID EXAMINATION, it is our opinion that the Bonds have been duly authorized, issued and delivered in accordance with law; and that 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, the Bonds constitute valid and legally binding obligations of the City; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law, all as provided in the Ordinance.

IT IS FURTHER OUR OPINION that the Bonds are not obligations described in Section 103(a) of the Internal Revenue Code of 1986, as amended.

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.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds 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 Bonds under the Constitution and laws of the State of Texas, 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 Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds 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 Bonds has been limited as described therein.

Respectfully,

APPENDIX D

TMRS CONTRIBUTION RATE LETTER DATED JUNE 4, 2026

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June 4, 2026 City # 01061

City of Red Oak
101 Live Oak St., Building 3.
Red Oak, TX 75154

Subject: 2027 City Contribution Rate

Your city's 2027 total contribution rate is shown below. This rate includes your city's full retirement rate and supplemental death benefit rate, if applicable. These rates were determined by your city's December 31, 2025 actuarial valuation to achieve a 100% or greater funded ratio over time.

Normal Cost	12.17 %
Prior Service	8.31
Full Retirement	20.48 %
Supplemental Death Benefit	0.13
Total Contribution	**20.61 %**

These rates are final pending approval at the June 25 Board meeting.

Detailed information on your city's TMRS plan is contained in the attached actuarial valuation report. If you are interested in learning how to potentially pay off your unfunded liability sooner and/or increase the stability of your city's contribution rate, please review the "Rate Stabilization Techniques" section on page 1.

If you have questions about your city's contribution rate, please contact us at ActuarialServices@tmrs.com.

Sincerely,

Debbie J. Munoz

Debbie Munoz
Executive Director

Actuarial Valuation Report

As of December 31, 2025

City of Red Oak

Table of Contents

Rate Stabilization Techniques

Contribution rate stabilization for cities is a funding goal of the TMRS Board of Trustees. Since 2007, the Board has approved many actuarial changes to minimize short-term volatility in contribution rates while maximizing long-term System sustainability. Under the current funding policy in which rates are actuarially determined each year, contribution rate stabilization is fully optimized at the System level; therefore, any further rate stabilization must be achieved at the city level.

Cities with an Unfunded Liability - For cities with an Unfunded Actuarial Accrued Liability (UAAL), the most effective way for a city to stabilize its TMRS contribution rate is to determine an affordable rate that exceeds the required rate and continue to pay that same rate even when the calculated rate decreases in subsequent valuations. These additional contributions at a predetermined fixed rate accomplish the following:

- Provide a stable annual contribution rate for budgeting purposes;
- Directly reduce the UAAL dollar for dollar;
- Pay off the UAAL quicker;
- Produce cost savings over the long run; and
- Provide a cushion for future adverse plan experience.

Cities with a Surplus - For cities with an Overfunded Actuarial Accrued Liability (surplus), the contribution rate is determined by decreasing the Normal Cost Rate (the cost of the current year accruals for active Members) by a Prior Service Rate calculated to keep the funded ratio at approximately the same level. The result is a required contribution rate less than the Normal Cost. It is important to note that adverse plan experience could still result in the funded ratio dropping below 100%. TMRS encourages cities in a surplus position to consider paying the full Normal Cost Rate (or as much as possible toward the full Normal Cost Rate) until the funded ratio is at least 110%. Doing so will dampen contribution rate volatility and increase the likelihood of maintaining a funded ratio greater than 100%.

How to make Additional Contributions - No formal action needs to be taken by a city to contribute at a higher level than the required monthly minimum. Additional monthly contributions may be made during the normal payroll reporting process by simply providing the increased rate in the "Optional Employer Rate" field. Because additional contributions are entirely voluntary, a city may revert to paying the minimum required rate at any time during the year if financial circumstances change.

If your city would like to explore the impact of any of these rate stabilization techniques on your TMRS plan, please contact Actuarial Services at ActuarialServices@tmrs.com.

Executive Summary

Valuation as of	12/31/2025	12/31/2024
Membership as of the Valuation Date		
• Number of Accounts		
- Active Members	139	143
- Retirees and beneficiaries	54	50
- Inactive Members	126	114
- Total	319	307
• Prior year's payroll provided by TMRS	$ 14,651,770	$ 12,773,845
• Valuation Payroll	13,710,361	12,425,481
Benefit Accumulation Fund (BAF) Assets		
• Market BAF Balance	$ 23,376,470	$ 19,284,904
• BAF crediting rate	13.54 %	10.81 %
• Interest credited on beginning BAF balance	$ 2,611,037	$ 1,761,899
• Employer contributions	994,855	825,190
• Employee contributions	1,025,624	894,169
• Benefit and refund payments	539,950	502,603
Actuarial Value of Assets (AVA)		
• Market BAF Balance	$ 23,376,470	$ 19,284,904
• Actuarial Value of Assets (AVA)	21,854,011	19,024,284
• AVA as a Percentage of BAF	93.5 %	98.6 %
• Return on AVA	7.09	6.81
Actuarial Information		
• Actuarial Accrued Liability (AAL)	$ 37,013,186	$ 31,564,327
• Actuarial Value of Assets (AVA)	21,854,011	19,024,284
• Unfunded Actuarial Accrued Liability (UAAL)	15,159,175	12,540,043
• UAAL as % of pay	103.5 %	98.2 %
• Funded Ratio (AVA/AAL)	59.0	60.3
• Employer Normal Cost Rate	12.17	11.96
• Prior Service Rate	8.31	7.38
Contribution Rates	2027	2026
• Employee	7.00 %	7.00 %
• Full Retirement (ADEC)	20.48	19.34
• Supplemental Death Benefit	0.13	0.16
Total Employer Contribution Estimates	2027	2026
• Projected payroll	$ 14,087,396	$ 12,767,182
• Total Contribution Rate	20.61 %	19.50 %
• Estimated employer contribution	$ 2,903,412	$ 2,489,600

Note: Results from prior year reflect the plan provisions shown on the next page.

Your City's TMRS Benefits

Plan provisions are adopted by your city's governing body from the options available in the TMRS Act. Your city's plan provisions in effect as of April 1, 2026 were as follows:

Employee Contribution Rate	7%
City Matching Ratio	2 : 1
Years Required for Vesting	5
Retirement Eligibility (Age/Service)	60/5, AnyAge/20
Updated Service Credit	100% Repeating Transfers
Retiree Cost of Living Adjustment (COLA)	50% of CPI Non-retroactive Repeating
Supplemental Death Benefit to Active Members	Yes
Supplemental Death Benefit to Retirees	Yes

If you have any questions about your city's benefit provisions or would like to discuss plan changes, please contact the City Services Department at cityservices@tmrs.com.

Calculation of Contribution Requirements

		From Valuation Report as of		
		December 31, 2025		December 31, 2024
1. Prior year's payroll reported to TMRS	$	14,651,770	$	12,773,845
2. Valuation Payroll		13,710,361		12,425,481
3. Employer Normal Cost Rate		12.17 %		11.96 %
4. Actuarial Accrued Liability				
a. Active Members	$	27,580,428	$	23,445,016
b. Inactive Members		4,569,964		3,698,690
c. Annuitants		4,862,794		4,420,621
d. Total Actuarial Accrued Liability	$	37,013,186	$	31,564,327
5. Actuarial Value of Assets		21,854,011		19,024,284
6. Unfunded Actuarial Accrued Liability (4d - 5)	$	15,159,175	$	12,540,043
7. Funded Ratio (5 / 4d)		59.0 %		60.3 %
8. Equivalent single amortization period*		19.0 Years		19.7 Years
9. Assumed payroll growth rate		2.75 %		2.75 %

Contribution Rates:	2027	2026
10. Full Retirement		
a. Normal Cost	12.17 %	11.96 %
b. Prior Service	8.31	7.38
c. Full Retirement	20.48 %	19.34 %
11. Supplemental Death Benefit	0.13	0.16
12. Total Contribution	20.61 %	19.50 %

* New losses are laddered over a 20-year period.

UAAL/OAAL Amortization Bases and Payments

Year Established	Description	Years Remaining	Remaining Base	Payment
2013	2013 Valuation (Fresh Start)	18	$ 557,977	$ 43,445
2014	2014 Experience	18	(3,673)	(286)
2015	2015 Experience	15	87,054	7,727
2015	2015 Actuarial Changes	15	258,717	22,964
2016	2016 Experience	16	107,738	9,121
2017	2017 Experience	17	3,689	299
2017	2017 Benefit Change	17	143,041	11,594
2018	2018 Experience	18	89,312	6,954
2019	2019 Experience	19	104,588	7,846
2019	2019 Actuarial Changes	19	10,451	784
2020	2020 Experience	18	(171,664)	(13,366)
2021	2021 Experience	18	(180,358)	(14,043)
2022	2022 Experience	17	114,073	9,246
2023	2023 Experience	18	270,814	21,086
2023	2023 Actuarial Changes	18	(83,212)	(6,479)
2024	2024 Experience	19	256,391	19,234
2024	2024 Benefit Change	19	10,874,282	815,769
2025	2025 Experience	20	2,719,955	197,118
	Total		15,159,175	1,139,013

TMRS amortizes the UAAL/OAAL through the process of laddering each base created during the valuation process. The city's UAAL/OAAL equals the total of the remaining amortization bases. The city's Prior Service Rate equals the total amortization payments divided by the Valuation Payroll (Item 2 of the prior page).

Reconciliation of Full Retirement Rate from Prior Actuarial Valuation Report

Actuarial valuations are based on long-term assumptions, and results in a specific year can, and almost certainly will, differ as actual plan experience deviates from the assumptions. The following table provides a detailed breakdown of changes in your city's Full Retirement Rate (ADEC) from 2026 to 2027. A brief description of such changes follows the table.

Change in Full Retirement Rate		
Full Retirement Rate from 12/31/2024 Valuation (2026 Rate)		6.82 %
Benefit Changes	12.52 %	
Return on Actuarial Value of Assets	(0.04)	
Contributions/Fully Amortized Prior Bases	0.80	
Payroll Growth	(0.61)	
Normal Cost	0.21	
Liability Growth	0.78	
Total Change	13.66 %	
Full Retirement Rate from 12/31/2025 Valuation (2027 Rate)		20.48 %

Benefit Changes - Shows the increase or decrease in the contribution rate associated with any plan changes.

Return on Actuarial Value of Assets (AVA) - Shows the change in the contribution rate associated with the return on the AVA being different than the assumed 6.75%. For the year ending December 31, 2025, the return on an AVA basis was 7.09%. The impact may show as 0.00% due to rounding.

Contributions/Fully Amortized Prior Bases - Shows the total increase or decrease in the contribution rate associated with contributions different than the Full Retirement Rate, the contribution lag (see below), and the impact of the amortization bases which become fully amortized as of this valuation since payments for those bases are no longer part of the Prior Service Rate calculation. Contributions different from the Full Retirement Rate may include contributions in excess of the Full Retirement Rate and/or lump sum contributions. The effect of the contribution lag refers to the time delay between the actuarial valuation date and the date the contribution rate becomes effective (i.e., the Actuarial Valuation as of December 31, 2025 sets the rate effective for 2027). Once the Full Retirement Rate stabilizes, this impact is expected to be immaterial for most cities.

Payroll Growth - Shows the increase or decrease in the contribution rate associated with higher or lower than expected growth in the city's overall payroll. The amortization payments were calculated assuming payroll grows at 2.75% per year. Overall payroll growth greater (less) than 2.75% will typically cause a decrease (increase) in the Prior Service Rate.

<u>Normal Cost</u> - Shows the increase or decrease in the contribution rate associated with changes in the average Normal Cost Rate for the city's active Members. The Normal Cost Rate for a Member is the contribution rate which, if applied to a Member's compensation throughout their period of anticipated covered service with the city, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the city's total Normal Cost Rate. The employer Normal Cost Rate is the pay-weighted average of the individual Normal Cost Rates less the Member Contribution Rate and will generally increase (decrease) as the average entry age of the group increases (decreases).

<u>Liability Growth</u> - Shows the increase or decrease in the contribution rate associated with larger or lower than expected growth in the city's overall plan liabilities. The most significant sources for variance will be turnover and individual salary increases differing from the assumptions.

Historical and Projected Accumulation of the BAF Balance

Year Ending December 31 (1)	Payroll for the Year (2)	Effective Retirement Contribution Rate [a] (3)	Employer Contributions for the Year (4)	Employee Contributions for the Year (5)	Benefit Payments (6)	External Cash Flow for the Year (7)	Interest Credit (8)	BAF Balance [b] (9)
		(4) / (2)				(4) + (5) + (6)		
2023	$ 11,281,203	6.43%	$ 725,381	$ 789,684	$ (340,842)	$ 1,174,223	$ 1,611,816	$ 16,306,249
2024	12,773,845	6.46%	825,190	894,169	(502,603)	1,216,756	1,761,899	19,284,904
2025	14,651,770	6.79%	994,855	1,025,624	(539,950)	1,480,529	2,611,037	23,376,470
2026	13,710,361	19.34%	2,651,584	959,725	(972,759)	2,638,550	1,577,912	27,592,931
2027	14,087,396	20.48%	2,885,099	986,118	(1,016,348)	2,854,869	1,862,523	32,310,323

a. Effective retirement contribution rate is the employer contribution received divided by the payroll paid.
b. BAF Balance may not sum due to rounding.

Risks Associated with Measuring the Actuarial Accrued Liability and Actuarially Determined Employer Contribution

Risk measures help with illustrating the potential volatility in the Actuarial Accrued Liability and the Actuarially Determined Employer Contribution that results from the differences between actual plan experience and the actuarial assumptions. Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of Members in payment status and a significant trust may be much more exposed to investment risk. Generally accepted plan maturity measures include the following:

Ratio of Market Value of Assets to Payroll	1.6	
Ratio of Actuarial Accrued Liability to Payroll	2.5	
Ratio of Active Members to Retirees and Beneficiaries	2.6	
Net Cash Flow as a Percentage of Market Value of Assets	6.3	%
Duration of Liabilities	22.4	
Change in Contribution Rate with 10% Decline in Assets (Smoothed)	0.12	%
Change in Contribution Rate with 10% Decline in Assets (Unsmoothed)	1.16	%

Ratio of Market Value of Assets to Payroll - The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the Market Value of Assets is 4 times the payroll, a return on assets 5% different than assumed would equal 20% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in city contributions as a percentage of payroll.

Ratio of Actuarial Accrued Liability to Payroll - The ratio of liability to payroll may also be used as a measure of sensitivity of the liability itself. For example, if the Actuarial Accrued Liability is 5 times the payroll, a change in liability 2% different than assumed would equal 10% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in liability (and also city contributions) as a percentage of payroll.

The relationship between the Actuarial Accrued Liability and payroll is a useful indicator of the potential longer term asset-related volatility once the current UAAL is fully amortized. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time.

Ratio of Active Members to Retirees and Beneficiaries - A young plan with many active Members and few retirees will have a high ratio of active Members to retirees. A mature open plan may have close to the same number of active Members to retirees resulting in a ratio near 1. A very mature or closed plan may have significantly more retirees than active Members resulting in a ratio below 1.

Net Cash Flow as a Percentage of Market Value of Assets - A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a very mature plan or a need for additional contributions.

Duration of Liabilities - The duration of the Present Value of Future Benefits (PVFB) may be used to approximate the sensitivity to a 1% change in the assumed rate of return. For example, duration of 10 indicates that the PVFB would increase approximately 10% if the assumed rate of return were lowered 1%.

Change in Contribution Rate with 10% Decline in Assets (Smoothed) - This shows the rate impact in one year if the Actuarial Value of Assets (AVA) was 10% lower than in the current actuarial valuation with the asset loss smoothed over a 10-year period as is done in the system-wide calculation of the AVA.

Change in Contribution Rate with 10% Decline in Assets (Unsmoothed): This shows the rate impact if the AVA was 10% lower than in the current actuarial valuation with the full asset loss recognized in the current valuation.

Low-Default-Risk Obligation Measure: Actuarial Standards of Practice No. 4 (ASOP No. 4) was revised and reissued in December 2021 by the Actuarial Standards Board (ASB). It includes a new calculation called a low-default-risk obligation measure (LDROM) to be prepared and issued annually for defined benefit pension plans. The transmittal memorandum for ASOP No. 4 includes the following explanation:

"The ASB believes that the calculation and disclosure of this measure provides appropriate, useful information for the intended user regarding the funded status of a pension plan. The calculation and disclosure of this additional measure is not intended to suggest that this is the "right" liability measure for a pension plan. However, the ASB does believe that this additional disclosure provides a more complete assessment of a plan's funded status and provides additional information regarding the security of benefits that members have earned as of the measurement date."

The LDROM estimates the amount of money the plan would need to invest in low risk securities to provide the benefits with greater certainty. The current model expects lower costs but with higher risk, which creates less certainty and a possibility of higher costs. The LDROM model creates higher expected costs but more predictability when compared to the current model. Thus, the difference between the two measures (Valuation and LDROM) is one illustration of the possible costs the city could incur if there was a reduction in the investment risk in comparison to the current diversified portfolio. However, the downside risk would be limited in the scenarios where the current portfolio would fail to achieve returns in excess of the low-default-risk discount, in this case 5.46%.

The following information has been prepared in compliance with this new requirement. Unless otherwise noted, the measurement date, actuarial cost methods, and assumptions used are the same as for the funding valuation covered in this actuarial valuation report.

A.	LDROM measure of benefits earned as of the measurement date:	$	45,716,718
B.	Valuation liability at 6.75% on measurement date:		37,013,186
C.	Cost to mitigate investment risk in the System's portfolio:	$	8,703,532

Disclosures: Discount rate used to calculate LDROM: 5.46% Intermediate FTSE Pension Discount Curve as of December 31, 2025. This measure may not be appropriate for assessing the need for or amount of future contributions as the current portfolio is expected to generate significantly more investment earnings than the low-default-risk portfolio. This measure is also not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the city's benefit obligation as this measure includes projections of salary increases and the ability for current members to continue to accrue eligibility and vesting service.

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