CITY OF REDWATER, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2025

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FOR THE YEAR ENDED SEPTEMBER 30, 2025

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CITY DIRECTORY

MAYOR
Clay Parker

MAYOR PRO-TEMPORE
Leo Whelchel

CITY COUNCIL
Paula Coggin
Kelly Gerber
Gail Ku'Uipo Hoffmeister
Jennifer Fischer

CITY OFFICIALS
Anita Griffith, City Secretary

WILF & HENDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
Member of American Institute of Certified Public Accountants
Member of Private Company Practice Section
Member of AICPA Governmental Audit Quality Center

Independent Auditor's Report

March 20, 2026

Honorable Mayor and
Members of the City Council
City of Redwater, Texas

Report on the Audit of the Financials Statements

Opinions

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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.

1810 Galleria Oaks • Texarkana, Texas 75503 • 903.793.5646 • Fax 903.792.7630 • www.wilhen.com

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Redwater's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10, budgetary comparison information on page 37, TMRS schedule of changes in net pension (asset) liability and related ratios on page 38, and TMRS schedule of pension contributions on page 39 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Redwater's internal control over financial reporting and compliance.

Wilf & Henderson, P.C.

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

March 20, 2026

The Management's Discussion and Analysis (MD&A) for the City of Redwater, Texas is designed to:

1. Assist the reader in focusing on significant financial issues;

2. Provide an overview of the City's financial activities;

3. Identify changes in the City's overall financial position and results of operations and assist the user in determining whether financial position has improved or deteriorated as a result of the year's operations;

4. Identify any significant variations from the original, amended, and final budget amounts and include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity; and

5. Identify individual fund issues or concerns.

The information contained within this MD&A should be considered only as part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes that are provided in addition to this MD&A.

Overview of the Financial Statements

The MD&A requires supplementary information that introduces the reader to the basic financial statements and provides an overview of the City's financial activities. The City's basic financial statements consist of the following components:

1. Government-wide financial statements,

2. Fund financial statements, and

3. Notes to the financial statements.

A general description of the components of the basic financial statements follows.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to present the financial operations of the City as a whole in a format similar to private sector companies. All governmental and business-type activities are consolidated into columns which add to a total for the Primary Government. If the City determines that presentation of a component unit (which are other governmental units for which the City can exercise significant influence or for which the Primary Government financial statements would be misleading if component unit information is not presented) is necessary to allow the reader to determine the relationship of the component unit and primary government, the component unit information is presented in a separate column of the financial statements or in a separate footnote.

The focus is on the government-wide (entity-wide) Statement of Net Position and Statement of Activities to give the reader a broad overview of the City's financial position and results of operations.

a) The Statement of Net Position presents information on the City's assets and liabilities using the accrual basis of accounting, in a manner similar to the accounting used by private business enterprises. The difference between the assets and liabilities is reported as net position. Over time, the increases or decreases in net position (and changes in the components of net position) may serve as a useful indicator of whether the financial position of the City is improving or weakening. Although the focus of this MD&A will be on the analysis of the overall changes to net position, the reader should refer to Note A - Significant Accounting Policies for an explanation of the components of net position.

b) The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. The format for the Statement of Activities presents the expenses for each function (administrative, police protection, fire protection, public works and sanitation) reduced by the Program Revenues (charges for services, operating grants and contributions, and capital grants and contributions) directly related to each respective function, to determine net costs of each function. The net costs of each function are normally covered by general revenues.

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 and legal requirements. The City of Redwater, Texas uses two categories of funds to account for financial transactions: governmental funds and proprietary funds.

Governmental funds are used to account for most of the basic services and projects reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City of Redwater, Texas' governmental funds include the General Fund for accounting for the City's basic services.

The Proprietary Fund accounts for water and sewer services for the City of Redwater, Texas. Enterprise funds are used to account for the same functions as business-type activities presented in the government-wide financial statements, but the fund presentation provides more detail.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, there are differences in the information presented for government funds and for governmental activities in the government-wide financial statements. Review of these differences provides the reader of the financial statements insight on the long-term impact of the City's more immediate decisions on the current use of financial resources. We describe the differences between government-wide financial statements (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Notes to the Financial Statements

The Notes to the Financial Statements, in particular Note A - Significant Accounting Policies, present the changes in presentation and reporting required under the GASB 54 standard. When reviewing this MD&A, the reader should also refer to and review the Notes to the Financial Statements, as well as the Government-Wide and Fund Financial Statements.

City Highlights

Net position balance at September 30, 2025 in the governmental activities (including the General Fund) increased from $779,871 to $838,051. The business-type activities (consisting of the City's water and sewer) net position balance decreased from $1,600,215 to $1,172,302.

- For governmental activities, the total net investment in capital assets (after subtracting out debt owed on capital assets) decreased from $225,208 to $189,927.

- For business-type activities, the total of net investment in capital assets decreased from $884,704 to $823,181.

- For business-type activities, the City's long-term debt at September 30, 2025 decreased from $1,442,886 to $1,338,297.

- The most significant continuing revenue sources for governmental activities of the City consisted of $152,536 in refuse income, $81,291 in property tax and related revenues, $21,620 in franchise fees, and $66,923 in sales tax revenues.

- Charges for business-type activities of the enterprise fund totaled $1,212,062.

Government-Wide Financial Analysis

Statement of Net Position

Included is a Statement of Net Position for the City of Redwater, Texas. The format allows the reader to view the overall financial position of the City.

	Governmental Activities		Business-Type Activities		Component Unit	
	2025	2024	2025	2024	2025	2024
Current assets	$ 659,914	$ 567,831	$ 659,402	$ 991,490	$ 95,398	$ 108,151
Capital assets, net	189,927	225,208	2,161,478	2,327,590	468,525	468,525
Net pension asset (TMRS)	5,109	111	27,435	596	-	-
Total Assets	854,950	793,150	2,848,315	3,319,676	563,923	576,676
Deferred outflows of resources	929	2,773	5,771	15,674	-	-
Other liabilities	14,237	14,344	324,333	283,204	-	-
Long-term liabilities	-	-	1,338,297	1,442,886	115,115	121,235
Total Liabilities	14,237	14,344	1,662,630	1,726,090	115,115	121,235
Deferred inflow of resources	3,591	1,708	19,154	9,045	-	-
Net position						
Net investment in capital assets	189,927	225,208	823,181	884,704	353,410	347,290
Restricted	-	-	215,522	188,682	95,398	108,151
Unrestricted	648,124	554,663	133,599	526,829	-	-
Total Net Position	$ 838,051	$ 779,871	$ 1,172,302	$ 1,600,215	$ 448,808	$ 455,441

Governmental Activities - Statement of Net Position

The major component of the current and other assets category consists of cash and cash equivalents of $646,065. The balance in this category comprised of various receivables (amounts due) for taxes and for revenues due from intergovernmental agencies. The total for cash and cash equivalents reflects the City's past performance in meeting budgetary goals and the accumulation of resources for future needs of the City.

Capital assets totaling $189,927 (net of accumulated depreciation) is the largest component of assets and represents the City's investment in capital assets necessary to provide services to citizens of the City of Redwater, Texas. The major categories of fixed assets (land, buildings, machinery and equipment, vehicles, and parks) reflect the type services currently provided to the City's residents.

Business-Type Activities - Statement of Net Position

For business-type activities (utility fund), there are three major components of current assets. Unrestricted cash and cash equivalents, totaling $141,678 at fiscal year-end, is available to support current operations, long-range improvement of the utility system, and future debt requirements. Restricted cash and cash equivalents totals $384,290. Accounts and unbilled receivable balances of $131,404 represent outstanding water and sewer billings at fiscal year-end.

Capital assets totaling $2,161,478 (net of accumulated depreciation) represent the City's investment in equipment, vehicles, and systems and improvement for the water and sewer systems. Long-term debt outstanding consists of $1,338,297 for notes payable to support operations of the utility system. Other liabilities at fiscal year-end consist primarily of accounts payable, accrued expenses and other liabilities, and customer meter deposits payable.

Net investment in capital assets is the major component of net position for business-type activities (enterprise fund) at a total of $823,181. Net position restricted for debt service totaled $215,522. The balance of $133,599 comprises Unrestricted Net Position.

Statement of Activities

A Statement of Activities for the City of Redwater, Texas is presented below listing the major categories of revenues and expenses for the fiscal year ended September 30, 2025 and 2024. An explanation of the components of this statement is included immediately following the table.

	Governmental Activities		Business-Type Activities		Component Unit	
	2025	2024	2025	2024	2025	2024
Revenues						
Program Revenues:						
Charges for Services	$ 163,775	$ 158,222	$ 1,212,062	$ 1,205,502	$ -	$ -
Capital Grants and Contributions	-	-	9,826	204,553	-	-
General Revenues:						
Property taxes	81,291	75,686	-	-	-	-
Franchise taxes	21,620	22,529	-	-	-	-
Sales and use taxes	66,923	54,078	-	-	32,927	27,043
Interest	5,909	7,304	5,137	5,613	2,852	4,217
Other income	4,141	3,983	26,091	333	-	16,582
Transfer In (Out)	2,869	-	(2,869)	-	-	-
Total Revenues	346,528	321,802	1,250,247	1,416,001	35,779	47,842
Program Expenses:						
General Government	251,101	82,591	-	-	-	-
Streets	5,076	131,900	-	-	-	-
Parks	32,171	7,151	-	-	-	-
Economic Development	-	-	-	-	42,412	17,664
Public Safety	-	33,173	-	-	-	-
Water and Sewer	-	-	1,678,160	1,447,740	-	-
Total Expenses	288,348	254,815	1,678,160	1,447,740	42,412	17,664
Increase (Decrease) in Net Position	$ 58,180	$ 66,987	$ (427,913)	$ (31,739)	$ (6,633)	$ 30,178

Government-Wide Review of Statement of Activities

The Statement of Net Position presents revenues, expenses, and changes in net position separately for governmental activities and business-type activities. The format allows for presentation of program revenues (charges for services, operating grants and contributions, and capital grants and contributions) followed by a listing of general revenues to support the City's overall governmental or business-type activities. Expenses are presented on a functional basis, with depreciation on fixed assets directly allocated to the related expense (general and administrative, parks, etc.).

Governmental Activities - Statement of Activities

As noted above, there are two categories of revenues on the Statement of Activities - program revenues and general revenues. Program revenues derive directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues. Program revenues are further divided into charges for services, operating grants and contributions, and capital grants and contributions. For governmental activities, the major revenues for the City in the charges for services are $152,536 for refuse income and $9,000 for rental income charges in general and administrative activities.

General revenues include all revenues not required to be reported as program revenues. All taxes are to be reported by type tax. For the City of Redwater, Texas, the major tax revenues are property tax and related revenues of $81,291, franchise fees of $21,620 and sales tax revenues of $66,923.

Program expenses are presented in the above Statement of Activities by function and total $288,348 for the current fiscal year-end. Revenues less expenses presented in this statement total to an increase in net position of $58,180.

Business-Type Activities - Statement of Activities

Business-type activities provided by the City of Redwater, Texas consist of water and sewer. All revenues are in the category of program revenues, with the exception of interest income reported as general revenue. Program revenues for the current fiscal year in the charges for services subcategory consist of billings of $1,212,062 for water and sewer.

The City reports the total amount of expenses for operation of the utility system as $1,678,160 for the fiscal year ended September 30, 2025. Water and sewer program expenses include $241,162 of depreciation expense. The change in net position (revenues less expenses and transfers) for the current fiscal year was a decrease in net position of ($427,913). The decrease in net position was primarily due to an increase in expenditures.

Governmental Funds

At year-end, the City's governmental funds, consisting of the General Fund and the Capital Projects Fund reported combined fund balances of $256,406 committed for capital improvement projects and $389,271 as unassigned. Under the modified-accrual basis for fund financial statements, the emphasis is on accounting for current financial resources of the City. Assets consist primarily of $646,065 cash and cash equivalents. Liabilities for the City consist primarily of accounts payable and accrued expenses.

The fund reporting format presents in the Statement of Revenues, Expenditures, and Changes in Fund Balance all revenue types followed by the expenses of the City, also presented on a functional basis. However, for the fund financial statements, the City reports only current year capital expenditures and does not report depreciation on capital assets. Principal payments on loans are reported only as a current year expenditure and not the related long- term loan liability as in the government-wide financial statements, when applicable. The major revenue sources are similar to the government-wide presentation above, with additional detail provided for services for which the City receives a fee or charge for services (refuse and rental fees). The General Fund reports an increase in revenues and other sources over expenditures and other uses by $84,709. Fund balance at the end of the current fiscal year for the General Fund was $389,271.

The Capital Projects Fund reports an increase in excess of expenditures and other uses over revenues and other sources of $4,612. Fund balance at the end of the current fiscal year for the Capital Projects Fund is $256,406.

Proprietary Fund

The total amounts presented for the Proprietary Fund (utility funds for water and sewer services) are identical to the government-wide presentation. Statement of Revenues, Expenses, and Changes in Net Position, presents a more detailed listing of expenses than presented in the government-wide statements, pending implementation of financial reporting improvements to report activities of the water and sewer systems on a functional basis. The major operating expenses of these funds include $591,331 for water contracts, $231,172 for salaries and wages, $100,755 for water maintenance contracts, and $241,162 for depreciation expense. Non-operating revenues and expenses include $5,137 in interest income, $60,328 reported for interest expense and fees on bonds, notes and capital leases payable, and $9,826 in Covid-19 – American Rescue Act capital grant income.

Capital Assets and Long-Term Debt

Capital Assets

At the end of the fiscal year 2025, the governmental activities had $189,927 (net of accumulated depreciation) invested in a broad range of capital assets.

At the end of the fiscal year 2025, the business-type activities had $2,161,478 (net of accumulated depreciation) invested in a broad range of capital assets. All depreciation expense of $241,162 recorded in the business-type activities was charged to the Water and Sewer Fund.

During fiscal year 2023, the City incurred $20,735 in engineering costs related to the Jones Street Project. In fiscal year 2024, the City entered into a construction contract with Mike Rogers totaling $224,850 with change orders of ($27,750). for this project. The City incurred $189,850 in cost related to this contract in fiscal year 2024. In addition, the City incurred $14,703 in engineering costs in fiscal year 2024. In the current year, the City incurred $7,250 in construction costs, $2,263 in engineering, and $4,307 in other project costs. The project was funded with American Rescue Plan Act (ARPA) funds and partial local funds. As of year-end, the project was not yet completed and the accumulated costs remained recorded in Construction in Progress.

In fiscal year 2024, the City started a project that involved upgrading the AMI system. In fiscal year 2024, the City spent $25,357 related to this project. In fiscal year 2025, the City incurred $19,580 related to this project. As of year-end, the project was not completed and accumulated costs remained in Construction in Progress.

At the end of the fiscal year 2025, the component unit had $468,525 invested in capital assets.

More detailed information about the City's capital assets is presented in Note E and Note I to the financial statements.

Long-Term Debt

At year-end the City had $1,338,297 in long-term outstanding notes payable in the business-type activities and $115,115 outstanding note payable in the component unit. More detailed information about the City's long-term liabilities is presented in Note F and I to the financial statements.

Budget and Actual Revenues and Expenditures

The City amended the General Fund budget during the year to increase revenues in total and to increase expenditures. The variance between budgeted and actual expenditures for the General Fund is $8,249.

Economic Factors

The City of Redwater, Texas's management approach is conservative, yet accommodating to economic development. Whenever possible, the Mayor and City Council actively pursue grants and other funding to provide more and better services for the City while relying on existing revenues and living within the budget. The City of Redwater, Texas property values inside the City increased $273,531; and the property tax rate adopted for fiscal year ending September 30, 2026 decreased to $0.179562/$100.

Requests for Information

This financial report is designed to provide a general overview of the City of Redwater, Texas's finances and to demonstrate the City's accountability. If you have questions regarding this report or need additional information, contact the city hall at P.O. Box 209, Redwater, Texas, 75573. The phone number for the City is (903) 671-2775.

CITY OF REDWATER, TEXAS
BASIC FINANCIAL STATEMENTS

CITY OF REDWATER, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS				
Cash and cash equivalents	$ 646,065	$ 141,678	$ 787,743	$ -
Accounts receivable (net)	12,495	-	12,495	-
Utility accounts receivable (net)	-	119,204	119,204	-
Unbilled receivables (net)	-	12,200	12,200	-
Prepaid insurance	1,354	2,030	3,384	-
Restricted assets - cash and cash equivalents	-	384,290	384,290	95,398
Net pension asset	5,109	27,435	32,544	-
Capital assets (net of accumulated depreciation):				
Land	158,401	25,331	183,732	468,525
Construction in progress	-	284,045	284,045	-
Buildings	99,020	39,427	138,447	-
Office furniture and equipment	32,250	54,849	87,099	-
Equipment and tools	88,735	791,209	879,944	-
Park facilities	651,630	-	651,630	-
Pumps and equipment	-	304,243	304,243	-
Line and storage	-	2,411,101	2,411,101	-
Water meters	-	197,159	197,159	-
Sewer system	-	2,936,616	2,936,616	-
Less accumulated depreciation	(840,109)	(4,882,502)	(5,722,611)	-
Total Assets	$ 854,950	$ 2,848,315	$ 3,703,265	$ 563,923
DEFERRED OUTFLOW OF RESOURCES				
Deferred Outflow Related to TMRS, net	$ 929	$ 5,771	$ 6,700	$ -
Accounts payable	$ 3,207	$ 116,611	$ 119,818	$ -
Accrued expenses and other liabilities	11,030	14,754	25,784	-
Accrued interest payable	-	11,969	11,969	-
Refuse contract payable	-	24,200	24,200	-
Customer meter deposits	-	156,799	156,799	-
Noncurrent liabilities:				
Due within one year	-	104,348	104,348	6,311
Due in more than one year	-	1,233,949	1,233,949	108,804
Total Liabilities	$ 14,237	$ 1,662,630	$ 1,676,867	$ 115,115
DEFERRED INFLOW OF RESOURCES				
Deferred Inflow Related to TMRS, net	$ 3,591	$ 19,154	$ 22,745	$ -
NET POSITION				
Net investment in capital assets	189,927	823,181	1,013,108	353,410
Restricted for:				
Debt service	-	215,522	215,522	-
Economic development	-	-	-	95,398
Unrestricted	648,124	133,599	781,723	-
Total Net Position	$ 838,051	$ 1,172,302	$ 2,010,353	$ 448,808

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
Primary government:								
Governmental activities:								
General and administrative	251,101	163,775	$ -	$ -	$ (87,326)	$ -	$ (87,326)	$ -
Streets	5,076	-	-	-	(5,076)	-	(5,076)	-
Parks	32,171	-	-	-	(32,171)	-	(32,171)	-
Total governmental activities	288,348	163,775	-	-	(124,573)	-	(124,573)	-
Business-type activities:								
Water and sewer	1,678,160	1,212,062	-	9,826	-	(456,272)	(456,272)	-
Total business-type activities	1,678,160	1,212,062	-	9,826	-	(456,272)	(456,272)	-
Total primary government	$ 1,966,508	$ 1,375,837	$ -	$ 9,826	$ (124,573)	$ (456,272)	$ (580,845)	$ -
Component Unit:								
RIDC	42,412	-	-	-	-	-	-	(42,412)
Total component unit	$ 42,412	$ -	$ -	$ -	-	-	-	(42,412)
General revenues:								
Property taxes and related revenues					81,291	-	81,291	-
Franchise fees					21,620	-	21,620	-
Sales taxes					66,923	-	66,923	32,927
Interest income					5,909	5,137	11,046	2,852
Other income					4,141	26,091	30,232	-
Transfer In(Out)					2,869	(2,869)	-	-
Total general revenues					182,753	28,359	211,112	35,779
Change in net position					58,180	(427,913)	(369,733)	(6,633)
Net position at beginning of year					779,871	1,600,215	2,380,086	455,441
Net position at end of year					$ 838,051	$ 1,172,302	$ 2,010,353	$ 448,808

The accompanying notes are an integral part of this statement

CITY OF REDWATER, TEXAS
GOVERNMENTAL FUND TYPES
BALANCE SHEET
SEPTEMBER 30, 2025

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 389,659	$ 256,406	$ 646,065
Receivables, net allowances	12,495	-	12,495
Prepaid insurance	1,354	-	1,354
Total Assets	$ 403,508	$ 256,406	$ 659,914
LIABILITIES			
Accounts payable	$ 3,207	$ -	$ 3,207
Accrued expenses and other liabilities	11,030	-	11,030
Total Liabilities	14,237	-	14,237
FUND BALANCES			
Committed Fund Balance:			
Capital Improvement Projects	-	256,406	256,406
Unassigned Fund Balance	389,271	-	389,271
Total Fund Balances	389,271	256,406	645,677
Total Liabilities and Fund Balances	$ 403,508	$ 256,406	$ 659,914

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

Total Fund Balance - Governmental Funds	$ 645,677
Amounts reported for governmental activities in the statements of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. At the beginning of the year, cost of these assets was $1,030,036 and the accumulated depreciation was ($804,828). In addition, long-term liabilities of $0 are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	225,208
The 2025 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(35,281)
The net effect of including the beginning balance for pension assets (net of the liability) in the governmental activities is to increase net position.	1,176
The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to increase net position.	1,271
Net Position of Governmental Activities	$ 838,051

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
GOVERNMENTAL FUND TYPES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Property taxes	$ 81,291	$ -	$ 81,291
Franchise taxes	21,620	-	21,620
Sales taxes	66,923	-	66,923
Refuse income	152,536	-	152,536
Rental income	9,300	-	9,300
Interest	1,297	4,612	5,909
Miscellaneous	6,080	-	6,080
Total revenues	339,047	4,612	343,659
Expenditures			
Accounting and audit fees	2,626	-	2,626
Appraisal district fees	2,018	-	2,018
Insurance	19,162	-	19,162
Legal and filing fees	1,047	-	1,047
Mileage, travel and training	21,477	-	21,477
Office supplies/postage	6,895	-	6,895
Repairs and maintenance	391	-	391
Retirement	3,046	-	3,046
Salaries & payroll taxes	127,117	-	127,117
Street repairs	5,076	-	5,076
Utilities	46,215	-	46,215
Miscellaneous	19,268	-	19,268
Total expenditures	254,338	-	254,338
Excess (deficiency) of revenues over expenditures	84,709	4,612	89,321
Other Financing Sources (Uses)			
Operating transfers in (out)	2,869	-	2,869
Total other financing sources (uses)	2,869	-	2,869
Net change in fund balance	87,578	4,612	92,190
Fund balance at beginning of year	301,693	251,794	553,487
Fund balance at end of year	$ 389,271	$ 256,406	$ 645,677

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2025

Net changes in Fund Balances - Governmental Funds	$ 92,190
The 2025 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(35,281)
The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to increase net position.	1,271
Change in Net Position in Governmental Activities	$ 58,180

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

		Water and Sewer
ASSETS		
Current Assets:		
Cash and cash equivalents	$	141,678
Accounts receivable (net)		119,204
Unbilled receivables (net)		12,200
Prepaid Insurance		2,030
Total Current Assets		275,112
Restricted Assets:		
Cash and cash equivalents		384,290
Noncurrent Assets:		
Net pension asset		27,435
Capital Assets:		
Land		25,331
Construction in progress		284,045
Buildings		39,427
Furniture and fixtures		54,849
Equipment and tools		791,209
Pumps and treatment equipment		304,243
Lines and storage		2,411,101
Water meters		197,159
Sewer system		2,936,616
Less accumulated depreciation		(4,882,502)
Total Capital Assets, net of accumulated depreciation		2,161,478
Total Noncurrent Assets		2,188,913
Total Assets	$	2,848,315
DEFERRED OUTFLOW OF RESOURCES		
Deferred Outflow Related to TMRS, net		5,771
LIABILITIES		
Current Liabilities:		
Accounts payable	$	116,611
Accrued expenses and other liabilities		14,754
Accrued interest payable		11,969
Refuse contract payable		24,200
Customer meter deposits		156,799
Bonds and notes payable, current portion		104,348
Total Current Liabilities		428,681
Noncurrent Liabilities:		
Bonds and notes payable, long-term, net		1,233,949
Total Noncurrent Liabilities		1,233,949
Total Liabilities		1,662,630
DEFERRED INFLOW OF RESOURCES		
Deferred Inflow Related to TMRS, net	$	19,154
NET POSITION		
Net Investment in Capital Assets		823,181
Restricted		215,522
Unrestricted		133,599
Total Net Position	$	1,172,302

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Water and Sewer
Operating Revenues:	
Charges for services	$ 1,212,062
Other Revenue	26,091
Total operating revenues	1,238,153
Operating Expenses:	
Accounting and audit	14,787
Chemicals	8,556
Contract labor	17,218
Depreciation	241,162
Equipment repairs and maintenance	12,599
Equipment supplies and tools	9,781
Fees and permits	4,688
Insurance - group health and workers compensation	36,295
Insurance - other	15,239
Lab services and testing	12,026
Maintenance contracts	100,755
Miscellaneous	17,218
Office supplies and expense	5,907
Postage	10,040
Rent-building and equipment	15,529
Repairs and maintenance - water and sewer system	126,100
Retirement - contribution	5,998
Retirement - related to GASB 68	(6,827)
Salaries and wages	231,172
Supplies-operating	25,386
Taxes - payroll	18,375
Telephone and radio	28,241
Utilities	51,790
Vehicle repairs and maintenance	2,674
Vehicle supplies	21,792
Water contracts	591,331
Total operating expenses	1,617,832
Operating income (loss)	(379,679)
Non-Operating Revenues (Expenses)	
Interest income	5,137
Interest expense and fees	(60,328)
Capital grant revenue - ARPA	9,826
Transfer in (out) to / from other funds, net	(2,869)
Total nonoperating revenues (expenses)	(48,234)
Change in net position	(427,913)
Net position at beginning of year	1,600,215
Net position at end of year	$ 1,172,302

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	$ 1,276,581
Payments to suppliers	(1,105,968)
Payments to employees	(231,172)
Net cash (used) by operating activities	(60,559)
Cash Flows from Noncapital Financing Activities	
Net increase interfund receivables / payables	(2,869)
Net cash (used) by noncapital financing activities	(2,869)
Cash Flows from Capital and Related Financing Activities	
Capital assets purchased	(65,224)
Bonds and notes proceeds on refinance	9,942
Bonds and notes principal retirement	(114,531)
Bonds and notes interest and fees expense paid	(62,777)
Net cash (used) by capital and financing activities	(232,590)
Cash Flows from Investing Activities	
Interest received	5,137
Net cash provided by investing activities	5,137
Net increase (decrease) in cash and cash equivalents	(290,881)
Cash and cash equivalents at beginning of year	816,849
Cash and cash equivalents at end of year	$ 525,968
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ (379,679)
Depreciation expense	241,162
Change in assets and liabilities:	
(Increase) decrease in receivables	31,970
(Increase) decrease in prepaid insurance	929
Increase (decrease) in accounts payable	45,389
Increase (decrease) in accrued expenses and other liabilities	39
Increase (decrease) in customer meter deposits	6,458
Increase (decrease) in pension plan liabilities and outflows	(6,827)
Net cash (used) by operating activities	$ (60,559)

The accompanying notes are an integral part of this statement.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Redwater, Texas (the City) was incorporated on October 20, 1941 and was reactivated in May of 1988 under the provision of the State of Texas. The City operates under a Council-Mayor form of government and provides the following services as authorized by its state statutes: public safety and general administrative services. The city owns and operates a water and sewer system.

During the year ended September 30, 2025, the City evaluated GASB Statement No. 101, *Compensated Absences*. This Statement establishes guidance for the recognition and measurement of compensated absences by requiring governments to recognize a liability for leave that is attributable to services already rendered and that is probable of being used or paid, including leave that would be settled through cash payments or by reducing future service obligations. Based on the City's existing policies, the implementation of this standard did not result in a change to the recognition or measurement of compensated absences, and no adjustment to beginning net position was required. The provisions of GASB Statement No. 101 will apply to the extent the City's policies change in a manner that would affect the recognition of compensated absences in future periods.

The accounting and reporting policies of the City relating to the amounts included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statements on Auditing Standards No. 69* of the American Institute of Certified Public Accountants.

Reporting Entity

The City's basic financial statement included the accounts of all City operations. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Redwater, Texas.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in United States generally accepted accounting principles (GAAP). The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

The component unit of the City is the Redwater Industrial Development Corporation (RIDC) and was created May 12, 1999, exclusively for the purposes of and to act on behalf of the City for the promotion and development of commercial, industrial, and manufacturing enterprises, and to promote and encourage employment and the public welfare pursuant to the Development Corporation Act of 1979, under which it was formed.

Overview of Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that restricted to meeting the operational or capital requirements of a particular program.

The financial statements include a "Management Discussion and Analysis" (MD&A) section providing an analysis of the City's overall financial position and results of operations, financial statements prepared using full accrual accounting for all the City's activities, and a change in the fund financial statements to focus on the major funds.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental Funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

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

Capital Projects Fund – The Capital Projects Fund account was set up for expenditures related to capital asset acquisitions and other improvements in the City.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

Water and Sewer Fund – The Water and Sewer Fund is used to account for operations for which a fee is charged to external users for goods or services and the activity a) is financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the cost of providing services, including capital costs, be recovered with fee and charges, or c) established fees and charges based on a pricing policy designed to recover similar costs.

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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

Basis of Accounting and Measurement Focus

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources management focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liabilities are incurred. However, debt service expenditures, excepts for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences and arbitrage are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise taxes, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

Budget and Budgetary Accounting

The City Council adopts a budget each year by ordinances. As the year progresses, ordinances are adopted by the City Council for changes to the original budgeted amounts.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

Cash and Investments

For purposes of the statement of cash flows, the City considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash includes demand deposit accounts and cash on hand. Investments, which can include of certificates of deposits, are stated at amortized cost.

Restricted Assets

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed. All reserve requirements were met at year end.

The restricted assets at September 30, 2025 are as follow:

Type of Restricted Asset	Business-type Activities	Component Unit
Meter Deposits	$ 156,799	$ -
Bond Reserve Fund	66,073	-
2003 Debt Service Fund	26,880	-
2005 Debt Service Fund	7,567	-
2017 AMI Loan Debt Service Fund	106,606	-
2021 Equipment Loan Debt Service Fund	13,031	-
2022 Trucks Loan Debt Service Fund	7,334	-
Unclaimed Money Fund	-	-
Economic Development	-	95,398
Total Restricted Assets	$ 384,290	$ 95,398

Accounts Receivable

The accounts receivable at September 30, 2025 are as follows:

Accounts Receivable	Governmental Activities	Business-type Activities	Total
Franchise tax	10,812	$ -	$ 10,812
Property tax	18,466	-	18,466
Customer billed	-	125,172	125,172
Allowance for doubtful accounts	(16,783)	(5,968)	(22,751)
Total Accounts Receivable, Net	$ 12,495	$ 119,204	$ 131,699

Capital Assets

Capital Assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and in the fund financial statements for the proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date of donation. Repairs and maintenance are recorded as expenses. Improvements are capitalized. Interest has not been capitalized during the period of construction of capital assets. As of October 1, 2004, new infrastructure assets, such as roads, bridges, underground pipe (other than those related to utilities), traffic signals, etc., are required to be depreciated under GASB 34.

Depreciation is calculated by using the straight-line method and is allocation based on the location and function of the asset. Estimated useful lives of assets are:

Buildings	5 - 20 years
Office Furniture and Equipment	5 - 10 years
Pumps and Treatment Equipment	5 - 20 years
Equipment and Tools	3 - 7 years
Line and Storage	10 - 50 years
Water meters	10 years
Sewer system	7 - 50 years

Long-Term Debt

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 Issuance Costs

Bond and debt issuance costs are reported as expense in the year incurred.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements. All interfund transactions between governmental funds are eliminated on the government-wide statements.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated. Transfers between governmental funds, business-type activities or the component unit have not been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Pensions

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

GASB Statement 68, *Accounting and Financial Reporting for Pensions,* issued June 2012 was adopted for the year ending September 30, 2015. The City participates in the Texas Municipal Retirement System. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

Other Postemployment Benefits

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* issued June 2015 was adopted for the year ending September 30, 2018. The City participates in the TMRS Supplemental Death Benefits (SDB) plan. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Because the OPEB calculated amounts are immaterial for the City of Redwater, these amounts are not recorded in the financial statements.

Fund Equity

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories as following:

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the Council. Committed resources cannot be used for any other purposes unless the Council removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amount the City intends to use for specific purposes as expressed by the Council or an official delegated with the authority.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition or construction of those assets. Net position restricted for debt service consists of restricted cash accounts related to debt reduced by accrued interest payable.

Certain Disclosures Related to Debt

GASB Statement 88, Certain Disclosure Related to Debt, Including Direct Borrowing and Placements

The primary objective of this statement is to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with financial-related consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses.

For notes to the financial statements related to debt, this Statement also requires existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

NOTE B –DEPOSITS AND INVESTMENTS

Custodial Credit Risk for Deposit – Statutes authorize the City to invest in bank certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, banker's acceptances repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P- I by Moody's Commercial Paper Record. The City's policy is to invest in instruments or require collateral so as to not expose the City to credit, custodial credit, custodial concentration, interest rate, or foreign currency risks. Since the City complies with this law, it has no custodial credit risk for deposits.

The captions and amounts of cash and cash equivalents on the Balance Sheet and Statement of Net Position at September 30, 2025 consist of the following:

	General Fund	Capital Projects Fund	Water & Sewer Fund	Component Unit
Cash in Bank	352,324	256,406	435,749	95,398
Investment Pools	37,335	-	90,219	-
Total Cash and Equivalents	389,659	256,406	525,968	95,398

Deposits

At September 30, 2025, the bank balances, including certificate of deposits, were fully insured by FDIC or additional coverage of pledged securities at all financial institutions.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Public Funds Investment Act (PFIA) governs the City's investment policies and types of investments. The City's management believes that it complied with the requirements of the PFIA and the City's investment policies.

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

Investment Type	Amortized Cost
Texas Short Term Asset Reserve (TexSTAR)	127,554
Total	127,554

Texas Short Term Asset Reserve Program ("TexSTAR") is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

TexSTAR is governed by a Board of Directors composed of participants from eligible local government entities within Texas. The boards oversee the business and affairs and ensures compliance with its investment policies and applicable state laws. Pursuant to the Participation Agreement, investment management, fund accounting, transfer agency, and custodial services are provided by J.P. Morgan Investment Management Inc.. Administrative, marketing, and participant services are provided by Hilltop Securities Inc. The governing boards, as required by the Public Funds Investment Act, are composed of representatives of participant entities and individuals who do not have a business relationship with TexSTAR but are qualified to advise on matters relating to the investment of public funds.

Additional policies and contractual provisions governing investments for City of Redwater, Texas are specified below:

Custodial Credit Risk for Investments– To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments in Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; certificates of deposit; fully collateralized repurchase agreements that have a defined termination date and secured by obligations of the United States or its agencies and instrumentalities; securities lending program; banking acceptances; commercial paper; no-load money market mutual funds and no-load mutual funds; guaranteed investment contracts as an investment vehicle for bond proceeds and public investment pools. As of September 30, 2025 the City's investments in public funds investment pools in TexSTAR were rated AAAm by Standard's & Poor's.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City shall use final and weighted-average-maturity limits and diversification. The City monitors interest rate_risk using weighted-average-maturity and specific identification.

NOTE C – PROPERTY TAXES

Property taxes are levied by October 1 and may be paid without penalty until January 31. Penalty and interest are then added to payments received February 1 through June 30. An enforceable lien is attached when property taxes become delinquent. City property taxes are recognized as revenue in the accounting period when they become susceptible to accrual, i.e., when they become both measurable and available to pay liabilities of the current period. Only property taxes available within 60 days from the end of the fiscal period are subject to accrual. The City accrued $311 of delinquent property taxes at September 30, 2025.

The Bowie County Appraisal District bills and collects property taxes for the City of Redwater. The State of Texas Constitution limits the City's ad valorem tax rate for all purposes to $1.50 per one hundred dollars of assessed valuation. Ad valorem tax revenue during the year ended September 30, 2025, was levied using a rate of $0.1811 per one hundred dollars of assessed valuation. Based on 100% of estimated market value, the City has a tax margin of $1.3189 per $100 and could raise an additional $596,114 per year from the present assessed valuation of $45,197,786 before the limit is reached. The amount assessed for the 2024 tax roll was $81,853.

NOTE D – FINANCING AND RELATED INSURANCE ISSUES

In the normal course of business, the City is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by council members and employees, negligent acts by employees, automobile and mobile equipment accidents, and injuries to employees during the course of performing duties for the City.

The City attempts to cover these losses by the purchase of insurance. Currently the City purchases 100% of its risk-related insurance through the Texas Municipal League Intergovernmental Risk Pool. The City purchases insurance from the pool with annual maximum limits and to the extent of these maximum limits the City will incur no additional liability due to excess insurance purchases by the risk pool. The City would be liable for claims in excess of the policy limits. In management's estimation, there are no current loss claims that exceed the insured maximum limits. Significant loss experiences could subject the City to significant premium increases.

There was no reduction in insurance coverage from the prior year and in management's estimation maximum coverage limits are adequate.

NOTE E – CAPITAL ASSETS

Governmental activities capital asset activity for the year ended September 30, 2025, are as follows:

	Balance September 30, 2024	Additions	Deletions	Balance September 30, 2025
Governmental activities-cost				
Land (non-depreciable)	$ 25,401	$ -	$ -	25,401
Park land (non-depreciable)	133,000	-	-	133,000
Buildings	99,020	-	-	99,020
Office furniture and equipment	32,250	-	-	32,250
Equipment and tools	88,735	-	-	88,735
Park facilities	651,630	-	-	651,630
Total	$ 1,030,036	$ -	$ -	1,030,036

	Balance September 30, 2024	Additions	Deletions	Balance September 30, 2025
Accumulated depreciation				
Buildings	$ 88,586	$ 1,262	$ -	89,848
Office furniture and equipment	26,894	1,848	-	28,742
Equipment and tools	88,734	-	-	88,734
Park facilities	600,614	32,171	-	632,785
Total	$ 804,828	$ 35,281	$ -	840,109
Total Governmental activities capital assets, net	$ 225,208	$ (35,281)	$ -	189,927

Governmental activities depreciation expense charged to program activities was:

General and administration	$ 3,110
Parks	32,171
	$ 35,281

Business-type activities capital asset activity for the year ended September 30, 2025, are as follows:

	Balance September 30, 2024	Additions	Deletion / Reclassifications	Balance September 30, 2025
Business-type activities-cost				
Land (non-depreciable)	$ 25,331	$ -	$ -	$ 25,331
Construction in progress (non-depreciable)	250,645	33,400	-	284,045
Buildings	39,427	-	-	39,427
Office furniture and equipment	54,849	-	-	54,849
Equipment and tools	791,209	-	-	791,209
Pumps and treatment	304,243	-	-	304,243
Lines and storage	2,407,118	3,983	-	2,411,101
Water meters	197,159	-	-	197,159
Sewer system	2,898,949	37,667	-	2,936,616
Total	$ 6,968,930	$ 75,050	$ -	$ 7,043,980

	Balance September 30, 2024	Additions	Deletions	Balance September 30, 2025
Accumulated depreciation				
Buildings	$ 39,427	$ -	$ -	$ 39,427
Office furniture and equipment	48,330	1,742	-	50,072
Equipment and tools	553,591	72,790	-	626,381
Pumps and treatment	284,674	9,700	-	294,374
Lines and storage	1,591,398	59,618	-	1,651,016
Water meters	134,481	20,353	-	154,834
Sewer system	1,989,439	76,959	-	2,066,398
Total	$ 4,641,340	$ 241,162	$ -	$ 4,882,502
Total Business-type activities capital assets, net	$ 2,327,590	$ (166,112)	-	$ 2,161,478

Business–type activities - All depreciation expense of $241,162 recorded in the business-type activities was charged to the Water and Sewer Fund.

During fiscal year 2023, the City incurred $20,735 in engineering costs related to the Jones Street Project. In fiscal year 2024, the City entered into a construction contract with Mike Rogers totaling $224,850 with change orders of ($27,750). for this project. The City incurred $189,850 in cost related to this contract in fiscal year 2024. In addition, the City incurred $14,703 in engineering costs in fiscal year 2024. In the current year, the City incurred $7,250 in construction costs, $2,263 in engineering, and $4,307 in other project costs. The project was funded with American Rescue Plan Act (ARPA) funds and partial local funds. As of year-end, the project was not yet completed and the accumulated costs remained recorded in Construction in Progress.

In fiscal year 2024, the City started a project that involved upgrading the AMI system. In fiscal year 2024, the City spent $25,357 related to this project. In fiscal year 2025, the City incurred $19,580 related to this project. As of year-end, the project was not completed and accumulated costs remained in Construction in Progress.

NOTE F – LONG-TERM DEBT

Business-type activities long-term debt at September 30, 2025 is comprised of the following:

Water and Sewer Fund:	
$603,000 in Series 2003A Revenue Bonds, due in semiannual installments of varying amounts on each December 1 and June 1 through 2043 at an interest rate of 4.25%.	$ 393,000
$609,000 in Series 2003B Revenue Bonds, due in semiannual installments of varying amounts on each December 1 and June 1 through 2043 at an interest rate of 4.25%	396,000
$470,000 in Series 2005 Certificates of Obligations, due in semiannual installments of varying amounts on each December 1 and June 1 through 2026, at interest rates of 3.70% to 4.10%	5,000
$256,169 Public Property Finance Act Contract (Notes Payable) due in annual installments on October 8, 2025 through 2034, at an interest rate of 5.711%	256,169
$253,340 Public Property Finance Act Contract (Notes Payable) due in annual installments on October 6, 2024 through October 6, 2033, at an interest rate of 6.016%	230,774
$83,391 Guaranty Bank & Trust (Loans Payable) due in semiannual installments of varying amounts on each June 5 and December 5 through 2026 at an interest rate of 2.2738%	36,500
$68,944 Guaranty Bank & Trust (Loans Payable) due in semiannual installments of varying amounts on each June 5 and December 5 through 2026 at an interest rate of 2.25%	20,854
Total Water and Sewer Fund - Business-Type Activities	$ 1,338,297

Business-type transactions long term debts for the year ended September 30, 2025 are summarized as follows:

Type of Debt	September 30, 2024	Additions	Retirements	September 30, 2025	Due within one year
Business-type Activities					
Revenue Bonds	$ 818,000	$ -	$ 29,000	$ 789,000	$ 30,000
Certificates of Obligations	40,000	-	35,000	5,000	5,000
Notes Payable	499,567	9,942	22,566	486,943	40,736
Loans Payable	85,319	-	27,965	57,354	28,612
	$ 1,442,886	$ 9,942	$ 114,531	$ 1,338,297	$ 104,348

The City refinanced an existing loan during the year. Closing costs totaling $9,942 were financed and included in the revised outstanding balance.

The annual requirements to retire bonded debt as of September 30, 2025:

Year Ending	2003 Series		2005 Series		
September 30,	Principal	Interest	Principal	Interest	Total
2026	30,000	33,533	5,000	205	68,738
2027	31,000	32,258	-	-	63,258
2028	32,000	30,940	-	-	62,940
2029	34,000	29,580	-	-	63,580
2030	36,000	28,135	-	-	64,135
2031-2035	201,000	116,703	-	-	317,703
2036-2040	250,000	69,912	-	-	319,912
2041-2043	175,000	15,086	-	-	190,086
Totals	$ 789,000	$ 356,147	$ 5,000	$ 205	$ 1,150,352

The annual requirements to retire notes/loans payable (direct borrowing) as of September 30, 2025:

Year Ending	Notes Payable		Notes Payable		Loan Payable - Equipment Loan		Loan Payable - Trucks Loan	
September 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2026	20,580	13,750	20,156	13,943	14,198	752	14,414	390
2027	20,825	13,505	21,369	12,731	22,302	484	6,440	73
2028	22,065	12,265	22,654	11,445	-	-	-	-
2029	23,325	11,005	24,017	10,082	-	-	-	-
2030	24,657	9,673	25,462	8,638				
2031 - 2034	144,717	25,564	117,116	18,283	-	-	-	-
Totals	$ 256,169	$ 85,762	$ 230,774	$ 75,122	$ 36,500	$ 1,236	$ 20,854	$ 463

NOTE G – DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Redwater participates as one of 938 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at tmrs.com.

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

Benefits Provided

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

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

Employees of the City of Redwater are eligible for retirement at age 60 with 5 years of service or at any age with 20 years of service. Employees contribute to the fund at the rate of 7%. The City matches dollar for dollar. The City match vests after 5 years of service.

Employees covered by benefit terms:

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

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	11
Active employees	8
Total	21

Contributions

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

Employees for the City of Redwater were required to contribute 7% of their annual compensation during the fiscal year. The contribution rates for the City of Redwater was 2.29% and 2.46% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025 were $8,338 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, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate 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 the most recent Scale UMP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage.

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

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

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

Changes in the Net Pension (Asset) Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2023	$ 472,778	$ 473,485	$ (707)
Changes for the year:			
Service cost	35,802	-	35,802
Interest	32,080	-	32,080
Change of benefit terms	-	-	-
Difference between expected and actual experience	(15,697)	-	(15,697)
Change of assumptions	-	-	-
Contributions - employer	-	8,603	(8,603)
Contributions - employee	-	26,297	(26,297)
Net investment income	-	49,445	(49,445)
Benefit payments, including refunds to employees	(30,841)	(30,841)	-
Administrative expense	-	(316)	316
Other changes	-	(7)	7
Net changes	21,344	53,181	(31,837)
Balance at 12/31/2024	$ 494,122	$ 526,666	$ (32,544)

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension (asset) 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:

	Discount Rate (5.75%)	Discount Rate (6.75%)	Discount Rate (7.75%)
City's net pension (asset) liability	$ 27,722	$ (32,544)	$ (83,331)

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2025 the City recognized pension expense of $251.

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	$ 640	$ 14,537
Changes in actuarial assumptions	-	2,136
Difference between projected and actual investment earnings	-	6,072
Contributions subsequent to the measurement date	6,060	-
	$ 6,700	$ 22,745

$6,060 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net deferred outflows (inflows) of resources
2026	$ (8,777)
2027	(2,317)
2028	(7,515)
2029	(3,496)
Total	$ (22,105)

Supplemental Death Benefits Fund

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

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

Your city offers supplemental death to:	Plan Year 2023	Plan Year 2024	Plan Year 2025
Active employees (yes or no)	Yes	Yes	Yes
Retirees (yes or no)	Yes	Yes	Yes

<u>*Contributions*</u>

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

The City's contributions to the TMRS SDBF for the years ended 2025, 2024, and 2023 were $706, $733, and $559, respectively, which equaled the required contributions each year.

NOTE H – CONTRACTS AND PARTICIPATION AGREEMENT

The City executed a water supply contract with the City of Texarkana, Texas on March 7, 1978. The contract has been amended to change the terms and provisions of the original contract. The amendment also recognizes the establishment of the Riverbend Water Resources District which was created by the 81st Texas Legislature, codified in Title 6, Special District Local Laws Code, Subtitle L, Chapter 9601, effective June 19, 2009, to which, the City became a member in December 2011.

The City incurred $216,261 of expenditures for water under the water supply contract for the year ending September 30, 2025. The amount incurred is based on actual water consumption.

Each Member City agrees to make monthly payments to Riverbend Water Resources District in an amount deemed adequate to discharge its pro rata part of maintenance and operating and administrative expense of Riverbend Water Resource District. Membership fees paid to Riverbend totaled $6,270 for the year ending September 30, 2025.

In FY 2020, Riverbend Water Resources District was approved for $200 million funding from the Texas Water Development Board's Drinking Water State Revolving Fund for the construction of a new regional water treatment facility. New water supply contracts with the participating member cities have been completed. The water supply contracts support the payment of the multi-year bond issuance package. The new contract began in September 2020. The City incurred $368,800 of expenditures to Riverbend during the year ended September 30, 2025.

In FY 2025, the City signed a maintenance agreement with Riverbend Water Resources District. Total costs incurred in relation to this contract are $99,075.

NOTE I – DISCLOSURES OF REDWATER INDUSTRIAL DEVELOPMENT CORPORATION

The Redwater Industrial Development Corporation (RIDC) is a discrete component unit of the City of Redwater, Texas. The board of RIDC is appointed by the City Council. Its mission is to improve economic growth in the City of Redwater, Texas. A special sales tax was passed by the citizens of the City to support the RIDC. The sales tax is to be used for future economic development of the City, which are legally restricted to expenditures for certain purposes.

<u>*Cash and Deposits*</u>

Custodial Credit Risk for Deposit – Statutes authorize the City to invest in bank certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, banker's acceptances repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P- I by Moody's Commercial Paper Record. The City's policy is to invest in instruments or require collateral so as to not expose the City to credit, custodial credit, custodial concentration, interest rate, or foreign currency risks. Since the City complies with this law, it has no custodial credit risk for deposits.

At September 30, 2025, the bank balances, including time deposits, were fully insured by FDIC at all financial institutions.

Capital Assets

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

	Balance October 1, 2024	Additions	Deletions	Balance September 30, 2025
Component unit-cost				
Land	$ 468,525	$ -	$ -	$ 468,525
Total Component unit capital assets	$ 468,525	$ -	$ -	$ 468,525

Long-Term Debt

On September 22, 2014, Redwater Industrial Development Corporation borrowed money from First National Bank of Hughes Springs for purchase of land in the amount of $100,000. The note is payable in 120 monthly installments of $1,036 at an interest rate of 4.5%. The loan was refinanced with a note payable from Bancorp South on October 12, 2017. The City borrowed $200,000 which is payable in 240 monthly installments of $1,107 at an interest rate of 2.93%. The additional funds were utilized for construction of a road and land improvements.

Long-term debt (direct borrowing) transactions for the year ended September 30, 2025 are summarized as follows:

	Balance September 30, 2024	Additions	Retirements	Balance September 30, 2025	Due within one year
Note payable	$ 121,235	$ -	$ 6,120	$ 115,115	$ 6,311
	$ 121,235	$ -	$ 6,120	$ 115,115	$ 6,311

The annual requirements to retire long-term debt as of September 30, 2025 follow:

	Direct Borrowing		
For the Year Ending:	Principal	Interest	Total
2026	6,311	3,275	9,586
2027	10,937	2,956	13,893
2028	11,266	2,626	13,892
2029	10,979	2,302	13,281
2030	11,316	1,965	13,281
2031-2035	64,306	5,081	69,387
	$ 115,115	$ 18,205	$ 133,320

NOTE J – SUBSEQUENT EVENTS

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through March 20, 2026, which is the date the financial statements were available to be issued.

CITY OF REDWATER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION

CITY OF REDWATER, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts		GAAP Basis Actual Amount	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	$ 80,000	$ 80,220	$ 81,291	$ 1,071
Franchise taxes	25,000	25,000	21,620	(3,380)
Sales taxes	55,000	60,000	66,923	6,923
Refuse income	144,000	150,000	152,536	2,536
Rental income	9,000	9,000	9,300	300
Interest	1,000	1,295	1,297	2
Miscellaneous	7,310	6,060	6,080	20
Total revenues	321,310	331,575	339,047	7,472
Expenditures				
Accounting and audit fees	3,300	3,300	2,626	674
Appraisal district fees	1,705	2,020	2,018	2
Beautification	500	-	-	-
Insurance	18,850	19,215	19,162	53
Legal and filing fees	2,000	1,010	1,047	(37)
Mileage, travel and training	8,000	23,490	21,477	2,013
Office supplies/postage	5,300	6,500	6,895	(395)
Repairs and maintenance	2,440	600	391	209
Retirement	3,100	3,100	3,046	54
Salaries & taxes-admin	126,800	128,255	127,117	1,138
Street repairs	30,000	5,080	5,076	4
Utilities	38,245	47,262	46,215	1,047
Miscellaneous	16,150	20,255	19,268	987
Public safety	1,500	1,500	-	1,500
Capital Outlay	1,000	1,000	-	1,000
Total expenditures	258,890	262,587	254,338	8,249
Excess (deficiency) of revenues over expenditures	62,420	68,988	84,709	15,721
Net change in fund balance	62,420	68,988	87,578	18,590
Fund balance at beginning of year	301,693	301,693	301,693	301,693
Fund balance at end of year	$ 364,113	$ 370,681	$ 389,271	$ 320,283

CITY OF REDWATER
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed)

	FY 2016 Plan Year 2015	*FY 2017* Plan Year 2016	*FY 2018* Plan Year 2017	*FY 2019* Plan Year 2018	*FY 2020* Plan Year 2019	*FY 2021* Plan Year 2020	*FY 2022* Plan Year 2021	*FY 2023* Plan Year 2022	*FY 2024* Plan Year 2023	*FY 2025* Plan Year 2024
Total Pension Liability										
Service cost	$ 23,032	$ 23,487	$ 23,416	$ 24,141	$ 25,589	$ 25,920	$ 29,271	$ 30,362	$ 30,207	$ 35,802
Interest (on the Total Pension Liability)	13,953	15,329	14,669	16,975	19,540	22,051	25,018	27,737	30,210	32,080
Change of benefit terms	-	-	-	-	-	-	-	-	-	-
Difference between expected and actual experience	636	(28,094)	(1,447)	1,942	1,587	(2,529)	(1,394)	(753)	(7,962)	(15,697)
Change of assumptions	9,284	-	-	-	(2,013)	-	-	-	(3,399)	-
Benefit payments, including refunds to employees	(3,477)	(35,241)	(5,691)	-	(11,564)	(3,770)	(2,550)	(23,768)	(17,474)	(30,841)
Net Change in Total Pension Liability	43,428	(24,519)	30,947	43,058	33,139	41,672	50,345	33,578	31,582	21,344
Total Pension Liability - Beginning	189,548	232,976	208,457	239,404	282,462	315,601	357,273	407,618	441,196	472,778
Total Pension Liability - Ending (a)	232,976	208,457	239,404	282,462	315,601	357,273	407,618	441,196	472,778	494,122
Plan Fiduciary Net Position										
Contributions - employer	8,184	7,852	10,501	8,390	8,209	8,872	8,763	8,762	8,855	8,603
Contributions - employee	16,604	16,214	16,898	17,584	18,659	19,468	21,751	22,466	23,391	26,297
Net investment income	248	12,813	26,475	(7,170)	39,936	23,796	47,191	(31,941)	47,842	49,445
Benefit payments, including refunds to employees	(3,477)	(35,241)	(5,691)	-	(11,564)	(3,770)	(2,550)	(23,768)	(17,474)	(30,841)
Administrative expense	(151)	(144)	(137)	(138)	(225)	(153)	(218)	(275)	(303)	(316)
Other changes	(8)	(8)	(7)	(7)	(7)	(6)	1	328	(2)	(7)
Net Change in Plan Fiduciary Net Position	21,400	1,486	48,039	18,659	55,008	48,207	74,938	(24,428)	62,309	53,181
Plan Fiduciary Net Position - Beginning	167,868	189,268	190,754	238,793	257,452	312,460	360,666	435,604	411,176	473,485
Plan Fiduciary Net Position - Ending (b)	$ 189,268	$ 190,754	$ 238,793	$ 257,452	$ 312,460	$ 360,667	$ 435,604	$ 411,176	$ 473,485	$ 526,666
Net Pension Liability - Ending (a) - (b)	$ 43,708	$ 17,703	$ 611	$ 25,010	$ 3,141	$ (3,394)	$ (27,986)	$ 30,020	$ (707)	$ (32,544)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.24%	91.51%	99.74%	91.15%	99.00%	100.95%	106.87%	93.20%	100.15%	106.59%
Covered Payroll	237,198	231,627	241,405	251,203	266,551	278,108	310,732	320,947	334,150	375,676
Net Pension Liability as a Percentage of Covered Employee Payroll	18.43%	7.64%	0.25%	9.96%	1.18%	-1.22%	-9.01%	9.35%	-0.21%	-8.66%

Note: Ten years of data is presented with GASB #68, paragraph 138.

CITY OF REDWATER
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
SCHEDULE OF CONTRIBUTIONS
Last 10 Years (will ultimately be displayed)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Actuarially Determined Contribution	$ 7,906	$ 9,772	$ 8,922	$ 8,416	$ 8,366	$ 8,794	$ 9,040	$ 8,540	$ 8,723	$ 8,338
Contributions in relation to the actuarially determined contribution	(7,906)	(9,772)	(8,922)	(8,416)	(8,366)	(8,794)	(9,040)	(8,540)	(8,723)	(8,338)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered employee payroll	$ 232,172	$ 237,688	$ 245,791	$ 267,575	$ 264,535	$ 301,367	$ 333,249	$ 319,938	$ 366,593	$ 345,812
Contributions as a percentage of covered employee payroll	3.41%	4.11%	3.63%	3.15%	3.16%	2.92%	2.71%	2.67%	2.38%	2.41%

Note: GASB #68, paragraph 81.2.b requires that the data in this schedule be presented as of the City's fiscal year as of the time period covered by the measurement date.

Note: Ten years of data is presented in accordance with GASB #86, paragraph 138.

CITY OF REDWATER
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Notes to Schedule of Contributions:
September 30, 2025

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 for Pensions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	20 Years (longest amortization ladder)
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for male and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis with Scale MP-2021 (with immediate convergence).
Other information:	There were no benefit changes during the year.

CITY OF REDWATER, TEXAS

REPORT ON COMPLIANCE AND INTERNAL CONTROLS

WILF & HENDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
Member of American Institute of Certified Public Accountants
Member of Private Company Practice Section
Member of AICPA Governmental Audit Quality Center

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Redwater, Texas

Members of the Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Redwater, Texas, (the City) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 20, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Redwater, Texas' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

1810 Galleria Oaks • Texarkana, Texas 75503 • 903.793.5646 • Fax 903.792.7630 • www.wilhen.com

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilf & Henderson, P.C.

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

March 20, 2026

CITY OF REDWATER, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

I. Summary of the Auditor's Results:

a. The type of report issued on the financial statements of the City of Redwater, Texas was an unmodified opinion.

b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.

c. No instances of noncompliance material to the financial statements of the City of Redwater, Texas was disclosed during the audit.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards.*

No current audit findings were noted.

CITY OF REDWATER, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

No prior audit findings were required to be reported.

CITY OF REDWATER, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2025

No current audit findings were noted.