

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. The securities referenced herein may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT

Dated: May 11, 2026

Ratings:
S&P: "AA"
Moody's: "Aa2"
See "OTHER INFORMATION - Ratings" herein

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Series 2026 Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.

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



\$35,665,000*
CITY OF MESQUITE, TEXAS
(Dallas and Kaufman Counties)

WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2026

Dated Date: May 15, 2026

Due: March 1, as shown on page 2

Interest to accrue from Date of Delivery

PAYMENT TERMS . . . Interest on the \$35,665,000* City of Mesquite, Texas, Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2026 (the "Series 2026 Bonds" or the "Bonds") will accrue from the date of delivery to the initial purchasers thereof (the "Underwriters") and will be payable March 1 and September 1 of each year commencing September 1, 2026, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds are being issued simultaneously with the City of Mesquite, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026, and the City of Mesquite, Texas, General Obligation Refunding and Improvement Bonds, Series 2026. The definitive Series 2026 Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Series 2026 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Series 2026 Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Series 2026 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2026 Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company N.A., Dallas, Texas (see "THE SERIES 2026 BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Series 2026 Bonds are issued pursuant to the general laws of the State of Texas, particularly Chapters 1207, 1371 and 1502, Texas Government Code, as amended, and an ordinance passed on March 16, 2026 by the City Council authorizing the issuance of Series 2026 Bonds (the "Bond Ordinance"), which delegated to an authorized officer of the City the authority to execute a pricing certificate (the "Pricing Certificate," and together with the Bond Ordinance, the "Ordinance") that will complete the final sale of the Series 2026 Bonds. The Series 2026 Bonds are special obligations of the City and, together with the outstanding Bonds (as defined in the Ordinance) and any additional parity obligations issued in the future, are payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City's combined waterworks and sewer system (the "System"). **The City has not covenanted nor obligated itself to pay the Series 2026 Bonds from monies raised or to be raised from taxation (see "THE SERIES 2026 BONDS – Security and Source of Payment").**

PURPOSE . . . Proceeds from the sale of the Series 2026 Bonds will be used for (i) acquiring, constructing, installing and equipping additions, improvements and extensions to the System, (ii) refunding a portion of the City's outstanding waterworks and sewer system debt (the "Refunded Bonds") in order to lower the overall debt requirements of the City (see "PLAN OF FINANCING – Refunded Bonds" for more detail and Schedule I for a detailed description of the Refunded Bonds), (iii) funding the Reserve Fund requirement for the Series 2026 Bonds, and (iv) paying the costs incurred in connection with the issuance of the Series 2026 Bonds.

CUSIP PREFIX: 590775

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page 2

LEGALITY . . . The Series 2026 Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Bond Counsel, Dallas, Texas (see Appendix D, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their Counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

DELIVERY . . . It is expected that the Series 2026 Bonds will be available for delivery through DTC on or about June 17, 2026 (the "Date of Delivery").

SAMCO CAPITAL

BOK FINANCIAL SECURITIES, INC.

UMB BANK N.A.

* Preliminary, subject to change.

MATURITY SCHEDULE*

| | Principal Amount | 1-Mar Maturity | Interest Rate | Initial Yield | CUSIP Suffix ⁽¹⁾ |
|----|---------------------|-------------------|------------------|------------------|--------------------------------|
| \$ | 2,210,000 | 2027 | | | |
| | 1,780,000 | 2028 | | | |
| | 1,475,000 | 2029 | | | |
| | 1,875,000 | 2030 | | | |
| | 1,975,000 | 2031 | | | |
| | 2,080,000 | 2032 | | | |
| | 2,175,000 | 2033 | | | |
| | 2,285,000 | 2034 | | | |
| | 2,015,000 | 2035 | | | |
| | 1,670,000 | 2036 | | | |
| | 1,275,000 | 2037 | | | |
| | 1,340,000 | 2038 | | | |
| | 1,410,000 | 2039 | | | |
| | 1,480,000 | 2040 | | | |
| | 1,555,000 | 2041 | | | |
| | 1,635,000 | 2042 | | | |
| | 1,720,000 | 2043 | | | |
| | 1,810,000 | 2044 | | | |
| | 1,900,000 | 2045 | | | |
| | 2,000,000 | 2046 | | | |

(Accrued Interest from the Date of Delivery)

(1) CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP® data herein provided is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the City, the Underwriters, or their agents or counsel assume responsibility for the accuracy of such numbers.

REDEMPTION . . . The City reserves the right, at its option, to redeem Series 2026 Bonds having stated maturities on and after March 1, 20____, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 20____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE SERIES 2026 BONDS - Optional Redemption").

If two or more consecutive serial maturities of the Series 2026 Bonds are grouped into a single maturity (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Ordinance and will be described in the Official Statement.

CONCURRENT OFFERINGS . . . The Series 2026 Bonds are being offered concurrently with the City’s Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2026 (the “Certificates”) and the City’s General Obligation Refunding and Improvement Bonds, Series 2026 (the “General Obligation Bonds”) but pursuant to a separate offering document. Such separate offering document should be reviewed and analyzed independently, including, without limitation, the types of obligations being offered, their respective terms for payment, the security for their payment, and the rights of the holders. Initial delivery of the Certificates and General Obligation Bonds through the facilities of DTC is expected to occur on or about June 17, 2026.

* Preliminary, subject to change.

For purpose of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule"), this document, as the same may be supplemented or corrected from time to time, may be treated as an Official Statement with respect to the Series 2026 Bonds described herein deemed "final" by the City as of the date hereof (or of any supplement or correction) except for the omission of no more than the information provided by Subsection (b)(1) of Rule 15c2-12.

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

No dealer, broker, salesman or other person has been authorized by the City to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell Series 2026 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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

The prices and other terms respecting the offering and sale of the Series 2026 Bonds may be changed from time to time by the Underwriters after the Series 2026 Bonds are released for sale, and the Series 2026 Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Series 2026 Bonds into investment accounts.

THE SERIES 2026 BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE SERIES 2026 BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE SERIES 2026 BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE CITY, THE UNDERWRITERS OR THE CITY'S MUNICIPAL ADVISOR MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN FURNISHED BY THE DEPOSITORY TRUST COMPANY.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2026 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2026 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED MAY BE DISCONTINUED AT ANY TIME.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy of or completeness of such information.

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

The agreements of the City and others related to the Series 2026 Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer of sale of the Series 2026 Bonds is to be construed as constituting an agreement with the purchasers of the Series 2026 Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

TABLE OF CONTENTS

PRELIMINARY OFFICIAL STATEMENT
SUMMARY 5

CITY OFFICIALS, STAFF AND CONSULTANTS 7
 ELECTED OFFICIALS 7
 SELECTED ADMINISTRATIVE STAFF..... 7
 CONSULTANTS AND ADVISORS..... 7

INTRODUCTION 9

PLAN OF FINANCING 9

THE SERIES 2026 BONDS 10
 DESCRIPTION OF THE SERIES 2026 BONDS 10
 AUTHORITY FOR ISSUANCE 10
 SECURITY AND SOURCE OF PAYMENT 10
 RESERVE FUND..... 11
 RATES AND CHARGES 11
 ADDITIONAL BONDS 11
 OPTIONAL REDEMPTION 11
 MANDATORY REDEMPTION..... 12
 NOTICE OF REDEMPTION 12
 AMENDMENTS 12
 DEFEASANCE 12
 BOOK-ENTRY-ONLY SYSTEM 13
 USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS
 OFFICIAL STATEMENT 14
 EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY
 SYSTEM 14
 PAYING AGENT/REGISTRAR 14
 TRANSFER, EXCHANGE AND REGISTRATION 14
 RECORD DATE FOR INTEREST PAYMENT 15
 BONDHOLDERS’ REMEDIES 15
 SOURCES AND USES OF BOND PROCEEDS. 16

**RETIREMENT PLAN AND OTHER POST
 EMPLOYMENT BENEFITS..... 17**
 RETIREMENT PLAN 17

THE SYSTEM 24
 WATER SUPPLY AND WASTEWATER TREATMENT
 CONTRACTS 24
 WATER SUPPLY 24
 WASTEWATER TREATMENT 24
 THE WATER SYSTEM 25
 BILLINGS 25

FINANCIAL POLICIES 25
 BASIS OF ACCOUNTING 25
 GENERAL FUND BALANCE 25
 WATER SEWER FUND AND DRAINAGE UTILITY FUND . 25
 USE OF BOND PROCEEDS, GRANTS, ETC 25
 DEBT POST ISSUANCE COMPLIANCE POLICY 25
 BUDGETARY PROCEDURES 26
 FUND INVESTMENTS 26
 LEGAL INVESTMENTS 26
 INVESTMENT POLICIES 27
 ADDITIONAL PROVISIONS 27
 CURRENT INVESTMENTS 28

SELECTED PROVISIONS OF THE ORDINANCE .. 28

TAX MATTERS 34

CONTINUING DISCLOSURE OF INFORMATION 36
 ANNUAL REPORTS..... 36
 EVENT NOTICES 36
 AVAILABILITY OF INFORMATION 37
 LIMITATIONS AND AMENDMENTS 37
 COMPLIANCE WITH PRIOR UNDERTAKINGS 37

OTHER INFORMATION 38
 RATINGS 38
 LITIGATION 38
 CYBERSECURITY 38
 REGISTRATION AND QUALIFICATION OF SERIES 2026
 BONDS FOR SALE 38
 LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE
 PUBLIC FUNDS IN TEXAS..... 38
 LEGAL MATTERS 39
 MUNICIPAL ADVISOR 39
 UNDERWRITING 39
 FORWARD-LOOKING STATEMENTS DISCLAIMER 39
 LINKS TO WEBSITES 40
 MISCELLANEOUS..... 40

SCHEDULE OF REFUNDING BONDS.....Schedule I

APPENDICES
 FINANCIAL INFORMATION REGARDING THE SYSTEM .. A
 GENERAL INFORMATION REGARDING THE CITY B
 EXCERPTS FROM THE ANNUAL FINANCIAL REPORT .. C
 FORM OF BOND COUNSEL'S OPINION D

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Series 2026 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY..... The City of Mesquite is a home rule municipality located in Dallas and Kaufman Counties, Texas. For information regarding the City and its economy, see Appendices A and B.

THE SERIES 2026 BONDS The Series 2026 Bonds are issued as \$35,665,000* Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2026. The Series 2026 Bonds are issued as serial bonds maturing March 1, 2027 through March 1, 2046, unless the Underwriters elect to designate one or more maturities as Term Bonds (see "THE SERIES 2026 BONDS - Description of the Series 2026 Bonds").

PAYMENT OF INTEREST Interest on the Series 2026 Bonds accrues from the Date of Delivery to the Underwriters and is payable September 1, 2026 and each March 1 and September 1 thereafter until maturity or prior redemption (see "THE SERIES 2026 BONDS - Description of the Series 2026 Bonds" and "THE SERIES 2026 BONDS - Optional Redemption").

AUTHORITY FOR ISSUANCE The Series 2026 Bonds are issued pursuant to the general laws of the State, including particularly Chapters 1207, 1371 and 1502 Texas Government Code, as amended, and an ordinance passed by the City Council on March 16, 2026 which authorized the issuance of Series 2026 Bonds (the "Bond Ordinance") and delegated to an authorized officer of the City the authority to execute a pricing certificate (the "Pricing Certificate") and together with the Bond Ordinance, the "Ordinance") that will complete the final sale of the Series 2026 Bonds (see "THE SERIES 2026 BONDS - Authority for Issuance").

SECURITY FOR THE SERIES..... The Series 2026 Bonds constitute special obligations of the City and, together with the outstanding Bonds (hereinafter defined) and any additional parity obligations issued in the future, are payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Net Revenues of the City's combined waterworks and sewer system (the "System"). **The City has not covenanted nor obligated itself to pay the Series 2026 Bonds from monies raised or to be raised from taxation (see "THE SERIES 2026 BONDS - Security and Source of Payment").**

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS The City **will not designate** the Series 2026 Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

REDEMPTION The City reserves the right, at its option, to redeem Series 2026 Bonds having stated maturities on and after March 1, 20____, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 20____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE SERIES 2026 BONDS - Optional Redemption").

If two or more consecutive serial maturities of the Series 2026 Bonds are grouped into a single maturity (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Ordinance and will be described in the Official Statement.

TAX EXEMPTION..... In the opinion of Bond Counsel, under existing law, interest on the Series 2026 Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.

* Preliminary, subject to change.

USE OF PROCEEDS Proceeds from the sale of the Series 2026 Bonds will be used for (i) acquiring, constructing, installing and equipping additions, improvements and extensions to the System, (ii) to refund a portion of the City’s outstanding waterworks and sewer system debt (the “Refunded Bonds”) in order to lower the overall debt service requirements of the City, (iii) funding the Reserve Fund requirement for the Bonds, and (iv) paying the costs incurred in connection with the issuance of the Bonds.

RATINGS The Series 2026 Bonds and the presently outstanding System revenue debt of the City are rated "AA" by S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") and “Aa2” by Moody’s Investors Service, Inc. (“Moody’s”), without regard to credit enhancement. Applications have been made to S&P and Moody’s for contract ratings on the Series 2026 Bonds (see "OTHER INFORMATION - Ratings").

BOOK-ENTRY-ONLY

SYSTEM..... The definitive Series 2026 Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Series 2026 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Series 2026 Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Series 2026 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2026 Bonds (see "THE SERIES 2026 BONDS - Book-Entry-Only System").

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

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

CITY COUNCIL

| | |
|--------------------------|---------------------------|
| Daniel Alemán, Jr. | Mayor |
| Jeff Casper | Councilmember, District 1 |
| Kenny Green | Councilmember, District 2 |
| Elizabeth Rodriguez-Ross | Councilmember, District 3 |
| Andrew Hubacek | Councilmember, District 4 |
| B.W. Smith | Councilmember, District 5 |
| Brandon Murden | Councilmember, District 6 |

SELECTED ADMINISTRATIVE STAFF

ADMINISTRATIVE OFFICERS

| | |
|-------------------|------------------------|
| Cliff Keheley | City Manager |
| Raymond Rivas | Deputy City Manager |
| Suzy Cluse | Assistant City Manager |
| Chris Sanchez | Assistant City Manager |
| Ted A. Chinn | Director of Finance |
| Sonja Land | City Secretary |
| David L. Paschall | City Attorney |

CONSULTANTS AND ADVISORS

| | |
|-------------------------|--|
| Auditors | FORVIS Mazars, LLP, Dallas, Texas |
| Bond Counsel | Bracewell LLP, Dallas, Texas |
| Municipal Advisor | Hilltop Securities Inc., Dallas, Texas |

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PRELIMINARY OFFICIAL STATEMENT

RELATING TO

\$35,665,000*

CITY OF MESQUITE, TEXAS

WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2026

INTRODUCTION

This Official Statement, which includes the Appendices and Schedule I hereto, provides certain information regarding the issuance of \$35,665,000* City of Mesquite, Texas (the “City” or the “Issuer”), Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2026 (the “Series 2026 Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Ordinance adopted by the City Council (see “Selected Provisions of the Ordinance”).

There follows in this Official Statement descriptions of the Series 2026 Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Municipal Advisor, Hilltop Securities Inc., Dallas, Texas.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see “OTHER INFORMATION - Forward Looking Statements Disclaimer”).

This Official Statement speaks only as of its date and the information contained herein is subject to change. A copy of the final Official Statement will be submitted to the Municipal Securities Rulemaking Board (the “MSRB”) and will be available through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE INFORMATION” for information regarding the EMMA system and for a description of the City’s undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1887, and first adopted its Home Rule Charter in 1953. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The Mayor and Councilmembers are elected for staggered two year terms with elections held every odd-numbered year in November. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire personnel and equipment), health inspection and enforcement, water and sewer facilities, street and drainage facilities and parks and recreational facilities. The 2020 Census population for the City was 150,108 and the estimated population for 2026 is 157,436. The City covers approximately 46.96 square miles.

PLAN OF FINANCING

PURPOSE . . . The Bonds are being issued for the purpose of (i) providing funds for improvements, additions and extensions to the System, (ii) refunding a portion of the City’s outstanding waterworks and sewer system debt (the “Refunded Bonds”) in order to lower the overall debt service requirements of the City, (iii) funding the additional amount required to be accumulated in the Reserve Fund (as defined herein) as a result of the issuance of the Bonds, and (iv) paying the costs of issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Bonds and their call date at par.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the redemption date of such Refunded Bonds, from funds to be deposited pursuant to a certain deposit agreement (the “Deposit Agreement”) between the City and the paying agent for the Refunded Bonds (the “Refunded Bonds Paying Agent”). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters and other funds of the City, if any, the City will deposit with the Refunded Bonds Paying Agent an amount which, together with other funds of the City, if any, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption date.

* Preliminary, subject to change.

The City's financial advisor or the Refunded Bonds Paying Agent will certify that the funds on deposit pursuant to the Deposit Agreement will be sufficient to pay, when due, the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. By the deposit of the cash with the Refunded Bonds Paying Agent pursuant to the Deposit Agreement, the City will have effected the defeasance of all of the Refunded Bonds in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the Deposit Agreement, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the cash held for such purpose by the Refunded Bonds Paying Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from the Net Revenues of the System nor for the purpose of applying any limitation on the issuance of debt, and the City will have no further responsibility with respect to amounts available pursuant to the Deposit Agreement for the payment of the Refunded Bonds.

THE SERIES 2026 BONDS

DESCRIPTION OF THE SERIES 2026 BONDS . . . The Series 2026 Bonds are dated May 15, 2026, and mature on March 1 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the Date of Delivery (defined on the cover page) to the Underwriters of the Series 2026 Bonds, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1, commencing September 1, 2026. The definitive Series 2026 Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Series 2026 Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Series 2026 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2026 Bonds. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Series 2026 Bonds are issued pursuant to the general laws of the State of Texas, particularly Texas Government Code, Chapters 1207, 1371 and 1502, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Series 2026 Bonds are special obligations of the City, and together with the outstanding Bonds (hereinafter defined), are payable, both as to principal and interest, solely from and equally secured by a first lien on and pledge of the Net Revenues of the System. "Net Revenues" are defined to mean "all income, revenues and receipts of every nature derived from and received by virtue of the operation of the System (including interest income and earnings received from the investment of moneys in the special funds created by the Ordinance) after deducting and paying, and making provisions for the payment of, current expenses of maintenance and operation thereof, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided however, that only such expenses for repairs and extensions as in the judgment of the City's governing body, reasonably and fairly exercised, are necessary to keep the System in operation and to render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from the Net Revenues of the System, shall be deducted in determining the Net Revenues". Payments made by the City for water supply or treatment of sewage which (i) under the law and (ii) pursuant to the terms of the contract therefor, are to be, operation and maintenance expenses are considered as expenses incurred in the operation and maintenance of the System. Depreciation is not considered as an expense of operation and maintenance for the purpose of determining Net Revenues.

After the issuance of the Series 2026 Bonds, the City will have the following bonds outstanding (the "Bonds") secured by and payable from Net Revenues on parity with the Series 2026 Bonds:

| Dated Date | Outstanding Debt ⁽¹⁾ | Issue Description |
|---------------|------------------------------------|--|
| 07/15/12 | \$ 1,715,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2012 |
| 05/15/13 | 2,135,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2013 |
| 05/15/14 | 900,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2014 |
| 05/01/17 | 6,860,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2017 |
| 05/01/18 | 5,615,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2018 |
| 05/01/19 | 11,265,000 | Waterworks and Sewer System Revenue Bonds, Series 2019 |
| 12/01/19 | 3,880,000 | Waterworks and Sewer System Revenue Refunding Bonds, Series 2019A |
| 05/01/20 | 15,550,000 | Waterworks and Sewer System Revenue Bonds, Series 2020 |
| 06/01/21 | 20,735,000 | Waterworks and Sewer System Revenue Bonds, Series 2021 |
| 05/15/22 | 28,985,000 | Waterworks and Sewer System Revenue Bonds, Series 2022 |
| 08/01/23 | 28,100,000 | Waterworks and Sewer System Revenue Bonds, Series 2023 |
| 08/15/24 | 16,670,000 | Waterworks and Sewer System Revenue Bonds, Series 2024 |
| 05/15/25 | 16,140,000 | Waterworks and Sewer System Revenue Bonds, Series 2025 |
| 05/15/26 | 35,665,000 | Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2026 |
| | <u>\$ 194,215,000</u> | |

(1) As of April 1, 2026. Excludes the Refunded Bonds. Preliminary, subject to change.

The Series 2026 Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the System, except with respect to the Net Revenues. The Ordinance does not create a lien or mortgage on any property or assets of the System other than the Net Revenues and any judgment against the City with respect to the Series 2026 Bonds may not be enforced by levy and execution against any property owned by the City. **The Owners of the Series 2026 Bonds shall never have the right to demand payment of the Series 2026 Bonds out of any funds raised or to be raised by taxation.**

RESERVE FUND . . . As additional security for the payment of the Series 2026 Bonds, there has been established a Reserve Fund which is required to be funded from Net Revenues over a sixty month period or from other sources, including from bond proceeds, in an amount at least equal to the average annual debt service requirements of all Outstanding Bonds and Additional Bonds in accordance with the provisions of the Ordinance. In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient amounts, all in an aggregate amount at least equal to the Required Reserve Fund, then the Issuer shall satisfy the Required Reserve Fund by depositing into the Reserve Fund in monthly installments of not less than 1/60 of the Required Reserve Fund made on or before the 10th day of each month following such termination or expiration.

Additionally, the Ordinance provides that, subject to certain conditions set forth in the Ordinance, the City may from time to time replace or substitute all or a portion of the cash and investments in the Reserve Fund with a surety bond, a policy of municipal bond insurance or a letter or line of credit issued by a Credit Facility Provider (as defined in the Ordinance) in support of Outstanding Bonds and Additional Bonds (the "Credit Facility"). If the City is required to make a withdrawal from the Reserve Fund to pay principal and/or interest on the Bonds, such withdrawal will be made first from cash and investments in the Reserve Fund and next from a drawing under the Credit Facility. In the event there is a draw upon the Credit Facility, the City shall reimburse the Credit Facility provider for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Bonds or Additional Bonds. See "SELECTED PROVISIONS OF THE ORDINANCE" herein.

RATES AND CHARGES . . . For the benefit of the owners of the Bonds and Additional Bonds (as defined below), and in addition to all provisions of the laws of the State and covenants and provisions in the Ordinance, the City has covenanted in the Ordinance, at all times, while any of the Bonds or Additional Bonds are outstanding and unpaid to maintain rates and collect charges for the facilities and services afforded by the System, as required by Section 1502.057, Texas Government Code, which will provide revenues sufficient at all times to:

- (a) Pay for all maintenance, operation, debt service, depreciation, replacement and betterment charges of the System;
- (b) Establish and maintain the Interest and Sinking Fund and the Reserve Fund as provided for in the Ordinance;
- (c) Produce Net Revenues each year in an amount reasonably anticipated to be not less than 1.50 times the average annual principal and interest requirements of the Bonds and Additional Bonds from time to time outstanding; and
- (d) Pay all outstanding indebtedness against the System, other than the Bonds and Additional Bonds as and when the same become due.

ADDITIONAL BONDS . . . Under the Ordinance, the City may issue additional revenue bonds ("Additional Bonds") which are on a parity with the Bonds and the Series 2026 Bonds and equally secured by a first lien on and pledge of the Net Revenues of the System. No Additional Bonds may be issued unless the City has met certain conditions concerning the debt service coverage for the proposed Additional Bonds and all outstanding Bonds. See "SELECTED PROVISIONS OF THE ORDINANCE - Issuance of Additional Bonds" herein.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Series 2026 Bonds having stated maturities on and after March 1, 20___, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 20___, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Series 2026 Bonds are to be redeemed, the City may select the maturities of Series 2026 Bonds to be redeemed. If less than all the Series 2026 Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Series 2026 Bonds are in Book-Entry-Only form) shall determine by lot the Series 2026 Bonds, or portions thereof, within such maturity to be redeemed. If a Series 2026 Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Series 2026 Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

With respect to any optional redemption of the Series 2026 Bonds, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Series 2026 Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and

receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Series 2026 Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Series 2026 Bonds have not been redeemed.

The City reserves the right to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default

MANDATORY REDEMPTION. . . If two or more consecutive serial maturities of the Series 2026 Bonds are grouped into a single maturity (the "Term Bonds") by the Underwriters of the Series 2026 Bonds, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Ordinance and will be described in the Official Statement.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Series 2026 Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Series 2026 Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE SERIES 2026 BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY SERIES 2026 BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH SERIES 2026 BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

AMENDMENTS . . . In the Ordinance, the City has reserved the right to amend the Ordinance in any manner not detrimental to the interests of the registered owner or owners of the Series 2026 Bonds, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, with the written consent of the registered owner or owners holding a majority in aggregate principal amount of the Series 2026 Bonds then outstanding affected thereby, the City may amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all registered owners of outstanding Series 2026 Bonds, no such amendment, addition or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Series 2026 Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Series 2026 Bonds, (ii) given any preference to any Series 2026 Bond over any other Series 2026 Bond, or (iii) reduce the aggregate principal amount of Series 2026 Bonds required for consent to any such amendment, addition or rescission.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Series 2026 Bonds when payment of the principal of and premium, if any, on Series 2026 Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Series 2026 Bonds have been provided for, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Series 2026 Bonds. Current State law currently permits defeasance with the following types of securities: (1) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City may modify the definition of Defeasance Securities in the Pricing Certificate.

Upon such deposit as described above, such Series 2026 Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Series 2026 Bonds have been made as described above, all rights of the City to initiate proceedings to call the Series 2026 Bonds for redemption or take any other action amending the terms of the Series 2026 Bonds are extinguished; provided, however, that the right to call the Series 2026 Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Series 2026 Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Series 2026 Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Series 2026 Bonds. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Series 2026 Bonds is to be transferred and how the principal of, premium, if any, and interest on the Series 2026 Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Series 2026 Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The City and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Series 2026 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2026 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Series 2026 Bonds. The Series 2026 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each stated maturity of the Series 2026 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Series 2026 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2026 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Obligation (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2026 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2026 Bonds, except in the event that use of the book-entry system for the Series 2026 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2026 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2026 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2026 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2026 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2026 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2026 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Series 2026 Bonds may wish to ascertain that the nominee holding the Series 2026 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the register and request that copies of the notices be provided directly to them.

Redemption notices for the Series 2026 Bonds shall be sent to DTC. If less than all of the Series 2026 Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2026 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2026 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2026 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar of each series, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar of each series, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar of each series, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Series 2026 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Series 2026 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System of the Series 2026 Bonds is discontinued, printed Series 2026 Bonds will be issued to the DTC Participants or the holder, as the case may be, and such Series 2026 Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE SERIES 2026 BONDS - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company N.A., Dallas, Texas. In the Bond Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants in the Bond Ordinance to maintain and provide a Paying Agent/Registrar at all times until the Series 2026 Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, trust company or financial institution or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Series 2026 Bonds. Upon any change in the Paying Agent/Registrar for the Series 2026 Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Series 2026 Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Series 2026 Bonds will be delivered to the registered owners and thereafter the Series 2026 Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such

transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Series 2026 Bonds may be assigned by the execution of an assignment form on the Series 2026 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Series 2026 Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Series 2026 Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Series 2026 Bonds issued in an exchange or transfer of Series 2026 Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Series 2026 Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Series 2026 Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate designated amount as the Series 2026 Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Series 2026 Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Series 2026 Bonds on any interest payment date means the close of business on the fifteenth business day of the preceding month.

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

BONDHOLDERS' REMEDIES . . . The Bond Ordinance establishes specific events of default with respect to the Series 2026 Bonds. If the City defaults in payments to be made to the Interest and Sinking Fund or Reserve Fund as required by the Bond Ordinance or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, set forth in the Bond Ordinance, the Bond Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Series 2026 Bonds or the Bond Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Series 2026 Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Series 2026 Bonds upon any failure of the City to perform in accordance with the terms of the Bond Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous language." Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Series 2026 Bonds may not be able to bring such a suit against the City for breach of the covenants in the Series 2026 Bonds or in the Bond Ordinance. Chapter 1371, Texas Government Code, which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its debt, but in connection with the issuance of the Series 2026 Bonds, the City has not waived sovereign immunity. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Series 2026 Bonds.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 5 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question; Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers

such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Series 2026 Bonds, the City is not using the authority provided by Chapter 1371 and has not waived sovereign immunity in the proceedings authorizing the Series 2026 Bonds.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors, holders of the Series 2026 Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Series 2026 Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

See "Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of the Series 2026 Bonds. Initially, the only registered owner of the Series 2026 Bonds will be DTC.

SOURCES AND USES OF BOND PROCEEDS . . . Proceeds from the sale of the Series 2026 Bonds are expected to be expended as follows:

| | |
|-----------------------------------|-------------|
| <u>Sources of Funds</u> | |
| Par Amount of Bonds | |
| Reoffering Premium | |
| Total Sources of Funds | <u>\$ -</u> |
| <u>Uses of Funds</u> | |
| Deposit to Construction Fund | |
| Deposit to Reserve Fund | |
| Deposit to Current Refunding Fund | |
| Costs of Issuance ⁽¹⁾ | |
| Total Uses of Funds | <u>\$ -</u> |

(1) Includes Underwriters' Discount, which is not part of the proceeds to the City.

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RETIREMENT PLAN AND OTHER POST EMPLOYMENT BENEFITS

RETIREMENT PLAN

Plan Description - The City participates as one of over 900 plans in the defined benefit cash balance pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

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

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

Plan provisions for the City were as follows:

| | |
|------------------------------------|----------------|
| Deposit Rate: | 7% |
| Matching ratio (City to Employee): | 2 to 1 |
| A member is vested after: | 5 years |
| Updated Service Credit: | 100% Transfers |
| Annuity Increase to Retirees: | 50% CPI |

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 | 1,018 |
| Inactive employees entitled to but not yet receiving benefits | 718 |
| Active employees | <u>1,246</u> |
| | <u>2,982</u> |

Contributions- The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, 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 actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 19.01% and 20.19% in calendar years 2023 and 2024, respectively. The City’s contributions to TMRS for the year ended September 30, 2025 were \$23,535,294, and were equal to the actuarially required contributions.

Net Pension Liability- The City’s net pension liability was measured as of December 31, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total pension liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| Inflation | 2.5% per year |
| Overall payroll growth | 2.75% per year |
| Investment rate of return | 6.75% net of pension plan investment expense, including inflation |

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

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

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|----------------------|---|
| Global Equity | 35.00% | 7.10% |
| Core Fixed Income | 6.00% | 0.50% |
| Non-Core Fixed Income | 6.00% | 0.68% |
| Hedge Funds | 5.00% | 0.64% |
| Private Equity | 13.00% | 0.85% |
| Private Debt | 13.00% | 0.82% |
| Real Estate | 12.00% | 0.67% |
| Infrastructure | 6.00% | 0.60% |
| Other Private Markets | 4.00% | 0.73% |
| | 100.00% | |

Discount Rate – The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Liability

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|---|-----------------------------------|---------------------------------------|---------------------------------------|
| Balance at September 30, 2024 | \$ 692,368,322 | \$ 542,749,570 | \$ 149,618,752 |
| Changes for the year: | | | |
| Service cost | 18,163,198 | - | 18,163,198 |
| Interest (on the total pension liability) | 46,034,071 | - | 46,034,071 |
| Difference between expected and actual experience | 4,956,224 | - | 4,956,224 |
| Benefit payments, including refunds of employee contributions | (38,927,369) | (38,927,369) | - |
| Administrative expense | - | (361,677) | 361,677 |
| Contributions - member | - | 7,236,334 | (7,236,334) |
| Contributions - employer | - | 21,709,004 | (21,709,004) |
| Net investment income | - | 56,250,041 | (56,250,041) |
| Other | - | (8,460) | 8,460 |
| Net Changes | 30,226,124 | 45,897,873 | (15,671,749) |
| Balance at September 30, 2025 | \$ 722,594,446 | \$ 588,647,443 | \$ 133,947,003 |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the sensitivity of the net pension liability to changes in the discount rate when calculating it at 1-percentage-point-lower (5.75%) and 1-percentage-point-higher (7.75%).

| | 1% Decrease 5.75% | Current Rate Assumption 6.75% | 1% Increase 7.75% |
|---------------|----------------------|-------------------------------------|----------------------|
| Discount Rate | \$ 227,731,572 | \$ 133,947,003 | \$ 56,250,432 |

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2025, the City recognized pension expense of \$24,684,788.

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 |
|---|-----------------------------------|----------------------------------|
| Difference in expected and actual experience | \$ 8,734,787 | \$ - |
| Difference between projected and actual investment earnings on pension plan investments | - | 5,413,460 |
| Changes in assumptions | - | 2,101,395 |
| Changes in proportion | 3,453,093 | 3,453,093 |
| Employer contributions subsequent to the measurement date | 18,471,615 | - |
| | \$ 30,659,495 | \$ 10,967,948 |

\$18,471,615 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended September 30,</u> | |
|---------------------------------|---------------------|
| 2026 | \$ 4,246,504 |
| 2027 | 8,383,607 |
| 2028 | (7,548,474) |
| 2029 | <u>(3,861,705)</u> |
| Total | <u>\$ 1,219,932</u> |

Allocation of Pension Items

The City allocates pension items between governmental activities and business-type activities on the basis of employee payroll funding. For the governmental activities, the net pension liability is liquidated by the general fund. For the business type activities, the net pension liability is liquidated by the airport fund, water and sewer fund, drainage utility district fund, municipal airport fund, and municipal golf course fund.

Deferred Compensation Plan

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

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

SELF INSURANCE

Group Health Insurance - The City established the Group Medical Insurance internal service fund in 1984 to account for the provision of group life and health insurance coverage for employees and their dependents. The City's health insurance program is a "self-insured" plan funded by both the City and participating employees. The City makes a predetermined contribution to the plan each biweekly payroll for group life and health insurance coverage for qualifying City employees and a subsidy toward employee dependent coverage. Employees contribute through payroll deductions for the balance of dependent health insurance coverage. The City's health insurance program includes stop loss coverage with a \$300,000 deductible per individual with an unlimited liability limit per claim. According to the Health Care Reform Act lifetime maximums are no longer allowed. The coverage is consistent with prior years, and settled claims did exceed this self-insured coverage in fiscal year 2024 by \$53,065 and fiscal year 2025 by \$778,463.

All claims are reviewed and processed by an independent insurance company. The insurance company pays claims based on the health plan, and the City reimburses the insurance company for the amount of each claim paid. The insurance company charges the City a fee for each claim processed.

The estimated claims payable of \$1,385,885 reported in the Group Medical Insurance internal service fund is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB No. 10), which requires that a liability be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2024 and 2025 were:

| Fiscal Year | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | End of Fiscal Year Liability |
|----------------|--|---|-------------------|------------------------------------|
| 2024 | \$ 730,223 | \$ 20,184,309 | \$ 19,766,355 | \$ 1,148,177 |
| 2025 | 1,148,177 | 22,662,900 | 22,425,192 | 1,385,885 |

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by the City.

General Liability Insurance – The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1985, the City established the General Liability internal service fund to account for the provision of property, general liability, and workers' compensation insurance. The City's insurance coverage is through scheduled specific policies with large deductibles with the primary carrier being the Texas Municipal League Risk Pool. Under this program, the General Liability Fund provides coverage for up to a maximum of:

\$10,000 retention for each real and personal property claim and a scheduled limit on coverage,

\$10,000 retention for each mobile equipment claim and a scheduled limit on coverage,

\$10,000 retention for each auto physical damage claim and a \$1,000,000 limit on coverage,

\$100,000 retention for each auto catastrophe claim and a \$10,000,000 limit on coverage,

\$50,000 retention for each law enforcement claim and a \$5,000,000 limit on coverage with a \$10,000,000 annual aggregate,

\$50,000 retention for each general liability claim and a \$1,000,000 limit on coverage with a \$2,000,000 annual aggregate,

\$2,500 retention for each airport hangar-keeper claim and a \$1,000,000 limit on coverage,

\$50,000 retention for each auto liability claim and a \$1,000,000 limit on coverage,

\$5,000 retention for each error and omission claim with an aggregate \$250,000 limit per claim, and a \$5,000,000 limit on coverage with a \$10,000,000 annual aggregate,

\$300,000 retention for each worker's compensation claim,

\$25,000 retention for each crime coverage claim with a \$500,000 limit on coverage,

\$10,000 retention for each storage tank pollution claim with a \$1,000,000 limit on coverage with a \$2,000,000 annual aggregate.

The General Liability Fund is funded through revenues from participating governmental and proprietary funds of the City. The above coverage is consistent with prior years and settled claims have not exceeded the self-insured coverage in any of the past three fiscal years.

The estimated claims payable of \$2,223,385 reported in the General Liability internal service fund is based on the requirements of GASB No. 10. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2024 and 2025 were:

| Fiscal Year | Beginning of Fiscal Year Liability | Current Year | | End of Fiscal Year Liability |
|----------------|--|---------------------------------------|-------------------|------------------------------------|
| | | Claims and Changes in Estimates | Claim Payments | |
| 2024 | \$ 2,248,882 | \$ 1,792,469 | \$ 1,776,101 | \$ 2,265,250 |
| 2025 | 2,265,250 | 2,283,133 | 2,324,998 | 2,223,385 |

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provisions for reported claims and for claims incurred but not yet reported are determined by an independent consultant.

POSTEMPLOYMENT BENEFITS

General Information about the Other Post-Employment Benefits (“OPEB”) Plan

Plan description- In addition to the pension benefits described in Note 11, the City provides postretirement healthcare benefits to retirees and their dependents through a single-employer defined benefit healthcare. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The plan does not issue a separate financial report.

Benefits provided- Healthcare benefits provided to retired employees and their dependents are under the same plan options as active employees in accordance with City ordinances. To be eligible for City-subsidized coverage, retired employees who were hired before October 1, 2004 must have 20 years of full-time service with the City or 10 years of service and be at least 60. Former employees aged 60 and over with at least 5 years of service may participate in the plan after retirement. However, the City makes no contribution towards those benefits unless the employee had at least 10 years of service with the City.

Employees hired on and after October 1, 2004 may retire with City-subsidized coverage after the later of 15 years of service and attainment of age 55.

Prior to Medicare eligibility, retirees can remain in a high-deductible health plan (HDHP) with a \$5,000 deductible. Effective January 1, 2018, the City no longer makes contributions to the HSA account for retirees.

Retirees over the age of 65 are offered coverage in one of two fully-insured Medicare Supplement plans (“High Option” and “Low Option”) issued by United American.

Participating retirees must make monthly contributions. The contribution rates are set by the City, and generally change on each January 1. The retiree’s contribution rate for the HDHP depends on the dependents covered. The retiree’s contribution rate may also vary based on the number of years of service at retirement, depending on the date of retirement. The Medicare Supplement policies are funded by both city and retiree contributions.

Employees covered by benefit terms – At the September 30, 2024 actuarial valuation date, the following employees were covered by the benefit terms:

| | |
|--|---------------------|
| Inactive employees or beneficiaries currently receiving benefits | 337 |
| Inactive employees entitled to but not yet receiving benefits | - |
| Active employees | <u>1,208</u> |
| | <u><u>1,545</u></u> |

Total OPEB Liability – The City’s total OPEB liability of \$30,330,120 was measured as of September 30, 2025 and was determined by an actuarial valuation as of September 30, 2024.

Actuarial assumptions and other inputs – The total OPEB liability measured as of September 30, 2025 determined by an actuarial valuation as of September 30, 2024, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--|---|
| Inflation | 2.40% |
| Salary increases | 3.0%, including inflation |
| Discount rate | 4.50% |
| Prior year discount rate | 4.06% |
| Healthcare cost trend rates - pre-65 | 6.5% for 2025, decreasing annually, to an ultimate rate of 4.04% for 2078 and later years |
| Healthcare cost trend rates - post-65 | No increases are assumed. All premium increases are assumed to be paid by retirees. |
| Retirees' share of benefit-related costs | Future contributions for pre-65 retirees are assumed to increase at the same rate as medical trend. |

The discount rate of 4.50% was based on September 30, 2025, S&P Municipal Bond 20 Year High Grade Index yield. The prior year discount rate was 4.06%, based on the S&P Municipal Bond 20 Year High Grade Index yield.

Mortality rates for active employees were based on the PubG.H-2010 tables for general employees and PubS.H-2010 tables for public safety, Generational with Projection Scale MP-2021 for males or females, as appropriate.

Mortality rates for retirees were based on the PubG.H-2010 tables for general employees and PubS.H-2010 tables for public safety, Generational with Projection Scale MP-2021 for males or females, as appropriate.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|--|-------------------------|
| Balance as of October 1, 2024 | \$ 31,610,826 |
| Changes for the year | |
| Service cost | 1,448,564 |
| Interest | 1,312,995 |
| Differences between expected and actual experience | (2,703,061) |
| Changes in assumptions/inputs | 45,795 |
| Benefit payments | (1,384,999) |
| Net changes | (1,280,706) |
| Balance as of September 30, 2025 | <u>\$ 30,330,120</u> |

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate- The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.50%) or 1-percentage-point higher (5.50%) than the current discount rate:

| 1% Decrease (3.50%) | Discount Rate (4.50%) | 1% Increase (5.50%) |
|------------------------|--------------------------|------------------------|
| \$ 33,248,844 | \$ 30,330,120 | \$ 27,712,661 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates- The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| 1% Decrease | Healthcare Cost Trend Rates | 1% Increase |
|---------------|--------------------------------|---------------|
| \$ 27,279,603 | \$ 30,330,120 | \$ 33,996,232 |

OPEB Expense and Deferred Inflows of Resources Related to OPEB – For the year ended September 30, 2025, the City recognized OPEB expense of \$2,292,369. At September 30, 2025, the City reported deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference in expected and actual experience | \$ - | \$ 2,732,170 |
| Changes in assumptions | 131,103 | 489,581 |
| Changes in proportion | 1,048,621 | 1,048,621 |
| | <u>\$ 1,179,724</u> | <u>\$ 4,270,372</u> |

Amounts reported as deferred inflows of resources related to OPEB will be recognized as a reduction of OPEB expense as follows:

| <u>Year ended September 30,</u> | |
|---------------------------------|-----------------------|
| 2026 | \$ (469,192) |
| 2027 | (469,192) |
| 2028 | (469,192) |
| 2029 | (283,469) |
| 2030 | (283,469) |
| Thereafter | (1,116,134) |
| Total | <u>\$ (3,090,648)</u> |

Allocation of OPEB Items - The City allocates OPEB items between governmental activities and business-type activities on the basis of employee payroll funding. For the governmental activities, the total OPEB liability is liquidated by the general fund. For the business type activities, the total OPEB liability is liquidated by the water and sewer fund, drainage utility district fund, municipal airport fund, municipal golf fund, and solid waste and equipment services fund.

THE SYSTEM

WATER SUPPLY AND WASTEWATER TREATMENT CONTRACTS . . . Under State law the City is authorized to enter into water supply and wastewater treatment contracts with other public entities, and may provide in such agreements that the payments thereunder constitute the operation and maintenance expenses of the System.

WATER SUPPLY . . . The City, together with 12 other "member cities" and 34 other customer cities and utilities, is party to a contract with the North Texas Municipal Water District (the "District") a conservation and reclamation district and a political subdivision of the State, which calls for the District to deliver to member cities wholesale treated water in volumes contracted for, to the extent water is available, in the Lavon Dam and Reservoir ("Lavon").

As the region has grown, so has the District's water supply needs, which has expanded from Lavon to include water rights to portions of Lake Texoma, Lake Tawakoni, Lake Bonham, Chapman Lake, the East Fork Wetlands and Wilson Creek water reuse systems, and the recently constructed Bois d'Arc Lake. Lavon is located on the East Fork of the Trinity River approximately 60 miles north of its confluence with the main stream and about 25 miles northeast of the City of Dallas. Lavon was constructed and is owned by the United States Army Corps of Engineers (the "Corps") and the District's access to the water storage capacity of Lavon exists pursuant to a contract with the Corps executed in 1954 and amended in 1967. The District owns storage rights to the entire water conservation pool in Lavon, approximately 412,000 acre-feet.

All payments by each member city under the contracts are to be made solely from its water revenues, and such payments constitute operating expenses of its waterworks system. Each member city agrees in its contract to fix and collect such rates and charges for water service to be supplied by its waterworks system, including all payments required under its contract with the District, and the prompt payment of the principal of and interest on its obligations payable from the revenues of its waterworks system. As of April 30, 2026, the District has fifteen series of bonds with \$4,190,185,000 outstanding. The City's annual payment to the District for treated water for the year ended September 30, 2025 was \$29,790,000.

The City of Dallas ("Dallas") has a 90-inch water transmission main that crosses through the City to transport treated water from its East Side Treatment Plant to its delivery system. In consideration of the City's granting permission for this installation inside its City limits, Dallas provided one delivery point along the 90-inch line from which the City may obtain treated water. The combination of District and Dallas water delivery points provides the City with two independent sources of water supply. The Dallas connection is to be used only in emergency situations and has never been used.

WASTEWATER TREATMENT . . . In 1975, the City entered into a contract with the District whereby the District agreed to provide a wastewater treatment and disposal system for the benefit of the City and any "additional member city" as defined in said contract. Each member city pays an "annual payment" for its share of operating expenses and debt service of the District. The City's annual payment to the District was approximately \$15,450,000 for the year ended September 30, 2025. As of April 30, 2026, the District has fourteen issues of revenue bonds outstanding: Regional Wastewater System Revenue Bonds, Series 2012, outstanding in the amount of \$5,275,000; Regional Wastewater System Revenue Bonds, Series 2013, outstanding in the amount of \$12,050,000; Regional Wastewater System Revenue Refunding and Improvement Bonds, Series 2015, outstanding in the amount of \$39,955,000 and Regional Wastewater System Revenue Refunding and Improvement Bonds, Series 2016, outstanding in the amount of \$52,725,000; Regional Wastewater System Revenue Bonds, Series 2017, outstanding in the amount of \$61,250,000; Regional Wastewater System Revenue Refunding Bonds, Series 2017, outstanding in the amount of \$9,045,000; Regional Wastewater System Revenue Bonds, Series 2018, outstanding in the amount of \$48,700,000; Regional Wastewater System Revenue Bonds, Series 2019, outstanding in the amount of \$36,725,000; Regional Wastewater System Revenue Bonds, Series 2020, outstanding in the amount \$431,790,000; Regional Wastewater System Revenue Bonds, Series 2020A (Green Bonds), outstanding in the amount of \$31,320,000; Regional Wastewater System Revenue Bonds, Series 2021, outstanding in the amount of \$32,205,000; Regional Wastewater System Revenue Bonds, Series 2021A, outstanding in the amount of \$22,320,000; Regional Wastewater System Revenue Bonds, Series 2025, outstanding in the amount of \$37,855,000; and Regional Wastewater System Revenue Refunding and Improvement Bonds, Series 2025, outstanding in the amount of \$276,965,000. Expansion of the plant was completed in December 1992 and increased daily treatment capacity from 12.6 million gallons per day to 25 million gallons per day. The City began reimbursing the District for debt service on the construction during the fiscal year ended September 30, 1992. The contract will have been paid in full and will remain in force thereafter throughout the useful life of the system.

The City entered into separate agreements with the North Texas Municipal Water District (District) and Kingsborough Municipal Utility District Nos. 1, 2, 3, 4, and 5 (MUDs) to provide sewer service within the City's extraterritorial jurisdiction. As a member city of the District, the City's involvement was required to develop capacity for a wastewater service requirement of 13.1 million gallons per day to service the area. The District has agreed to construct and operate a project known as the Lower East Fork Sewer Interceptor System and obtained financing on August 24, 2006 in the amount of \$19,190,000. The City's share of the debt service payments on the project is \$105,584 per month over 20 years and is being passed through to the MUDs. The City is not liable for this debt. As additional security for the payments due the City, the MUDs agreed to establish, levy, and collect an ad valorem tax on all taxable property within the MUDs.

THE WATER SYSTEM . . . The District delivers water to the City at three locations which have ground storage capacities totaling 24.5 million gallons. In addition, the City has a total of five overhead storage sites with a total storage capacity of 9.7 million gallons. With this storage capacity, the City is able to deliver up to 81.5 million gallons of water per day through its distribution system.

In accordance with its master plan, the City has constructed a system of 30-inch, 24-inch, and 18-inch trunk mains to provide the major transmission components of the water system. As development takes place, the City requires developers to provide water mains up to and including 12-inch in size, and if a line size larger than 12-inch is required according to the over-all master plan, the developer pays the cost of the 12-inch line and the City pays the remaining cost of the line and the size main for ultimate development is installed. This planning and administration has developed a basic water system of water mains 12 inches in size and larger which provides sufficient water supply and pressures for future residential and industrial development. In addition, the City has completed an updated total water system overview, including future facilities and pump station upgrades. These upgrades will add large trunk mains up to 42 inches in diameter to meet total build out needs of the City.

BILLINGS . . . Charges for all utility services are billed monthly on one statement. Customers cannot pay for one utility service only; they must pay for all services billed Bills computed at the net monthly rate are due when rendered and are payable within 15 days from date of bill. A bill not paid by the due date incurs a penalty of 10% of the water charge. A customer whose bill is not paid by the following billing date is notified that service will be disconnected within 15 days from billing date. The reconnection charges are \$25.00 during regular hours (7:00 AM – 6:00 PM) and \$50.00 after regular hours and on holidays. Additional deposits are required for reconnections: Residential – a minimum of \$10.00 up to a maximum deposit of \$75.00 or an average three months’ water bill, whichever is greater.

For information regarding usage, billing rates and customers, see the tables in Appendix A to this Official Statement.

FINANCIAL POLICIES

BASIS OF ACCOUNTING . . . The City policy is to adhere to accounting principles generally accepted in the United States (see “APPENDIX C - Excerpts From The City Of Mesquite, Texas Annual Financial Report for the Fiscal Year Ended September 30, 2025”).

GENERAL FUND BALANCE . . . The General Fund Reserve Policy, as approved in January 2019, requires maintaining a minimum unassigned fund balance equivalent to 60 days of working capital to be calculated as 60 days of General Fund budget revenues. Total fund balance for the General Fund is projected to remain flat in fiscal year 2025-26. The projected ending fund balance is approximately 60 days of working capital for the unassigned fund balance based on total revenues.

WATER SEWER FUND AND DRAINAGE UTILITY FUND . . . The City will maintain the following minimum reserve levels in each Water Sewer Fund and Drainage Utility Fund, consistent with State law and the terms of ordinances pursuant to which obligations have been issued or incurred that are secured in whole or in part by revenues held in or credited to an Water Sewer Fund and Drainage Utility Fund:

1. A goal of a minimum level of Working Capital equivalent to three months (25%) of regular, on-going Operating Expenses (including operating transfers out). This calculation shall not include Non-Recurring Items.
2. A goal of a minimum level of Working Capital equivalent to three months (25%) of the amount being paid in Debt Service payments for the subsequent fiscal year.
3. A minimum Reserve of 60 Days Cash on Hand with a goal of 120 Days Cash on Hand

USE OF BOND PROCEEDS, GRANTS, ETC . . . The City policy is to use bond proceeds, grants or other nonrecurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

DEBT POST ISSUANCE COMPLIANCE POLICY . . . These Procedures for Post-Issuance Compliance (the “Procedures”) are for the purpose of maintaining and evidencing compliance with the federal tax requirements that apply to the bond financings of the City. In furtherance of such purposes the City has adopted these Procedures with respect to the following:

- General Recordkeeping & Record Retention
- Timely return filings
- Proper and timely use of bond proceeds and proper use of bond-financed property
- Arbitrage - yield restriction and rebate
- Reissuance requirements
- Corrective Action

These Procedures apply to any obligations to which Sections 103 and 141 through 150 of the Internal Revenue Code of 1986 (the “Code”) are applicable, whether or not such obligations are in fact tax-exempt. For example, these Procedures will be followed with respect to any issue of tax credit bonds to which such sections of the Code apply. It is the intention of the City to modify or amend these Procedures in the future in order to comply with any requirements set forth in subsequent rulings and other advice published by the Internal Revenue Service (the “Service” or the “IRS”), as such authorities may apply to the City and its obligations.

The City acknowledges that as the issuer of debt obligations subject to the Code, it is responsible for post-issuance compliance with respect to such debt obligations. The Director of Finance of the City has general oversight of the post-issuance compliance of bond financings. In addition, the following parties are responsible for the duties listed next to their title:

| | |
|-----------------------------|--|
| Director of Finance | – oversees all financial functions of the City |
| Manager of Accounting | – responsible for all accounting functions of the City |
| Cash and Debt Administrator | – responsible for banking, cash management, investment, and certain debt administration activities of the City |
| Treasury Analyst | – responsible for the cataloguing and storage of various financial records of the City |

Parties responsible for the financing aspects and the operations aspects of bond-financed facilities will coordinate efforts to ensure that any actions taken with respect to a bond-financed facility will be in compliance with the requirements of the Code. The City will provide training and/or make available educational materials regarding compliance requirements (e.g., private use requirements) to the parties responsible for the oversight of bond-financed facilities.

BUDGETARY PROCEDURES . . . The City policy is to begin the budgetary procedure at the department level in March of each year. The budget proceeds through departmental levels until it reaches the City Manager level where it is refined and presented to the City Council in mid-July. The City Council considers, amends, and refines the budget until its final adoption in September.

FUND INVESTMENTS . . . The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. Both state law and the City’s investment policies are subject to change.

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) interest-bearing banking deposits that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National credit Union Share Insurance Fund or its successor or (B) are invested through (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the City adopts or (ii) a depository institution with a main office or branch office in this state that the City selects; and (a) the broker or depository institution selected arranges for the deposit of the funds in the banking deposits in one or more federal insured depository institutions, regardless of where located, for the City’s account; and (b) the full amount of the principal and accrued interest of the banking deposits is insurance by the United States or an instrumentality of the United States; and (c) the City appoints as the City’s custodian of the banking deposits issued for the City’s account: (1) the depository institution selected pursuant to (ii) above or (2) an entity described by Section 2256.041(d); or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3., (8) certificates of deposit (iv) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance City or the National Credit Union Share Insurance Fund, or are secured as to principal by Certificates described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (v) where; (a) the funds are invested by the City through a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (10) bankers’ acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (13) no-load mutual funds registered with the Securities and Exchange Commission that have an

average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (14) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the "PFIA").

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service and has or which has a weighted average maturity no greater than 90 days. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value, and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City.

ADDITIONAL PROVISIONS . . . Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City ; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer, and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in non-money market mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements (9) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

CURRENT INVESTMENTS

As of January 31, 2026, the City's investable funds were invested in the following categories:

| Description | % of Portfolio | Book Value | Market Value |
|---------------------------------|----------------|----------------|----------------|
| U.S. Government Agency Issues | 38.86% | \$ 153,167,605 | \$ 153,645,996 |
| Investment Pools ⁽¹⁾ | 54.97% | 216,702,228 | 216,702,228 |
| State and Local Instruments | 3.04% | 11,989,807 | 11,996,451 |
| Money Market Fund Accounts | 3.13% | 12,325,681 | 12,325,681 |
| Total | 100.00% | \$ 394,185,321 | \$ 394,670,356 |

(1) Investment Pools includes Texpool, Texpool Prime, Texstar and Texas Class investment pools.

SELECTED PROVISIONS OF THE ORDINANCE

The following sets forth certain selected provisions of the Ordinance. This summary is qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the Ordinance, a copy of which may be obtained from the City.

DEFINITIONS. For all purposes of this Ordinance and in particular for clarity with respect to the issuance of the Series 2026 Bonds herein authorized and the pledge and appropriation of revenues therefor, the following definitions are provided:

(a) The term "System" shall mean the Issuer's existing combined waterworks and sanitary sewer systems, including all properties (real, personal or mixed, tangible or intangible), owned, operated, maintained, and vested in, the Issuer for the supply, treatment and distribution of treated water for domestic, commercial, industrial and other uses and the collection and treatment of water-carried wastes, together with all future additions, extensions, replacement and improvements thereto.

b) The term "Bonds" shall mean the City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2008, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2009, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2010, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2011, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2012, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2013, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2014, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2015, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2016, and the City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2017, the City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2018 authorized by this Ordinance and the City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2019, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2020, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2021, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2022, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2023, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2024, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2025 and City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2026 authorized by the Ordinance.

(c) The term "Ordinance" shall mean the Ordinance under which the Series 2026 Bonds are authorized.

(d) The term "Outstanding", when used in this Ordinance with respect to Bonds, shall mean, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except (i) those Bonds theretofore canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the Issuer of the irrevocable deposit with the Paying Agent/Registrar of money in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Ordinance or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; (iii) those Bonds that have been mutilated, destroyed, lost or stolen and replacement bonds have been registered and delivered in lieu thereof as; provided in Section 24 hereof; and (iv) those Bonds for which the payment of the principal of, premium, if any, and interest on has been fully provided for by the Issuer in accordance with law.

(e) The term "Additional Bonds" shall mean the additional parity revenue bonds which the Issuer reserves the right to issue and deliver in the future, as provided by this Ordinance.

(f) The term "Net Revenues" shall mean all income, revenues and receipts of every nature derived from and received by virtue of the operation of the System (including interest income and earnings received from the investment of moneys in the special funds created by this Ordinance) after deducting and paying, and making provisions for the payment of, current expenses of maintenance and operation thereof, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such expenses for repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and to render adequate service to the Issuer and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from the Net Revenues of the System, shall be deducted in determining "Net Revenues". Payments made by the Issuer for water supply or treatment of sewage which (i) under the law and (ii) pursuant to the terms of the contract therefor, are to be, operation and maintenance expenses shall be considered herein as expenses incurred in the operation and maintenance of the System. Depreciation shall never be considered as an expense of operation and maintenance.

(g) The term "Subordinate Debt" shall mean any obligation of the Issuer heretofore or hereafter issued which is payable (i) in whole or in part from the Net Revenues and (ii) secured by a lien on and pledge of Net Revenues which is not, by its terms, a first lien on and pledge of such Net Revenues.

(h) The term "Fiscal Year" shall mean the twelve month period ending September 30 of each year, unless otherwise designated by the Issuer.

(i) The term "Credit Facility" shall mean a policy of municipal bond insurance, a surety bond or a letter or line of credit issued by a Credit Facility Provider in support of any Bonds or Additional Bonds.

(j) The term "Investment" shall mean cash, investments, any Credit Facility, or any combination of the foregoing.

(k) The term "Credit Facility Provider" shall mean (i) with respect to any Credit Facility consisting of a policy of municipal bond insurance or a surety bond, an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations such as the Bonds or Additional Bonds, provided that a Rating Agency having an outstanding rating on the Bonds or Additional Bonds would rate the Bonds or Additional Bonds fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) with respect to any Credit Facility consisting of a letter or line of credit, any financial institution, provided that a Rating Agency having an outstanding rating on the Bonds or Additional Bonds would rate the Bonds or Additional Bonds in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the series of Bonds or Additional Bonds and the interest thereon.

(l) The term "Rating Agency" shall mean any nationally recognized municipal securities rating service.

PLEDGE OF REVENUES. The Issuer covenants and agrees that the Net Revenues of the System, to the extent required, are irrevocably pledged for the payment and security of the principal of and interest on the Bonds and Additional Bonds.

RATES AND CHARGES. For the benefit of the original purchasers as well as the ultimate owners of the Bonds and Additional Bonds, and in addition to all provisions and covenants in the laws of the State of Texas and in the Ordinance, it is expressly stipulated that the Issuer shall, at all times, while any of the Bonds or Additional Bonds are outstanding and unpaid, maintain rates and collect charges for the facilities and services afforded by the System, as required by Section 1502.057 and Chapter 1502, Texas Government Code, which will provide revenues sufficient at all times to:

(a) Pay for all maintenance, operation, debt service, depreciation, replacement and betterment charges of the System;

(b) Establish and maintain the Interest and Sinking Fund and the Reserve Fund as provided for in the Ordinance;

(c) Produce Net Revenues each year in an amount reasonably anticipated to be not less than 1.50 times the average annual principal and interest requirements of the Bonds and Additional Bonds from time to time outstanding; and

(d) Pay all outstanding indebtedness against the System, other than the Bonds and Additional Bonds as and when the same become due.

REVENUE FUND. The Issuer covenants that it will deposit, as collected, all revenues of every nature derived from the operation of the System, into a separate account known as the City of Mesquite, Texas Waterworks and Sewer System Revenue Fund (herein called the "Revenue Fund") established in the Ordinance, which shall be kept separate and apart from all other funds of the Issuer, and, further, that said Revenue Fund shall be pledged and appropriated to the following uses and in order of precedence shown:

First: To the payment of all necessary and reasonable maintenance and operation expenses of the System as said expenses are defined by law.

Second: To the "Interest and Sinking Fund" and the "Reserve Fund" for the payment of principal of and interest on the Bonds and Additional Bonds, when and as the same fall due and mature.

Third: To any other purpose of the Issuer now or hereafter permitted by law, including the payment of Subordinate Debt, to the extent provided in the ordinance authorizing the issuance of such Subordinate Debt.

INTEREST AND SINKING FUND. The following provisions shall govern the establishment, maintenance and use of the City of Mesquite, Texas Waterworks and Sewer System Interest and Sinking Fund (the "Interest and Sinking Fund"):

(a) The Issuer covenants that from the funds in the Revenue Fund, the Issuer shall pay into the Interest and Sinking Fund during each year in which any of the Bonds are outstanding, an amount equal to 100% of the amount required to meet the principal and interest payments falling due on or before the next maturity or redemption date of the Bonds, such payment to be made in equal monthly installments. If the revenues of the System in any month, after deductions for maintenance and operation expenses, are then insufficient to make the required payments into the Interest and Sinking Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Sinking Fund in the next month. All moneys paid into the Interest and Sinking Fund shall be deposited in the Issuer's depository bank, and said depository bank shall, not later than any principal or interest payment date, transfer the amount then to become due to the Paying Agent/Registrar. Said moneys not invested shall be continuously secured by a valid pledge to the Issuer of direct obligations of the United States of America, having an aggregate market value, exclusive of accrued interest, at all times at least equal to such uninvested moneys in the Interest and Sinking Fund.

(b) Chapter 1208, Government Code, applies to the issuance of the Series 2026 Bonds and the pledge of the revenues granted by the Issuer under this Section, and is therefore valid, effective, and perfected. Should Texas law be amended at any time while the Series 2026 Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the revenues granted by the Issuer under this Section is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, in order to preserve to the Registered Owners of the Series 2026 Bonds a security interest in said pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing of a security interest in said pledge to occur.

RESERVE FUND. The following provisions shall govern the establishment, maintenance and use of the City of Mesquite, Texas Waterworks and Sewer System Reserve Fund (the "Reserve Fund"):

(a) There shall be established and maintained a Reserve Fund for the purposes of (i) finally retiring the last of the Bonds or Additional Bonds and (ii) paying principal of and interest on the Bonds or Additional Bonds in the event moneys on hand in the Interest and Sinking Fund are insufficient for such purpose.

(b) The amount to be accumulated and maintained in the Reserve Fund shall be equal to the average annual debt service requirements on all outstanding Bonds and Additional Bonds (the "Required Reserve Fund"), which amount after the issuance of the Series 2026 Bonds is hereby determined to be \$_____. The Required Reserve Fund shall be calculated as of the last day of each fiscal year and upon the issuance of any Additional Bonds. In connection with the issuance of the Bonds, the City Council has determined to fund the additional amount required in the Reserve Fund as a result of the issuance of the Bonds by the deposit of proceeds of the Bonds.

(c) In the event money in said Reserve Fund is used for the purpose for which the same is established, the amount required to make up the deficiency so that the Required Reserve Fund is on deposit in such Fund shall be paid into such Fund in not more than 60 months, in equal consecutive monthly installments.

(d) The depository bank of the Issuer is designated as the custodian of the Reserve Fund and the deposits above prescribed shall be transmitted to said Fund in said depository bank.

(e) The Issuer may replace or substitute a Credit Facility for cash or investments in the Reserve Fund.

(f) Upon such replacement or substitution, cash or investments on deposit in the Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve Fund may be withdrawn by the Issuer, at its option, and transferred to the Revenue Fund; provided that the face amount of any Credit Facility may be reduced at the option of the Issuer in lieu of such transfer; and further provided that any such surplus funds that are withdrawn from the Reserve Fund and that consist of proceeds of Bonds or interest thereon shall only be used for purposes for which such Bonds were issued or deposited to the Interest and Sinking Fund.

(g) If the Issuer is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the Issuer shall promptly notify any applicable Credit Facility Provider of the necessity for a withdrawal from the

Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys or investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency.

(h) In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient amounts, all in an aggregate amount at least equal to the Required Reserve Fund, then the Issuer shall satisfy the Required Reserve Fund by depositing into the Reserve Fund in monthly installments of not less than 1/60 of the Required Reserve Fund made on or before the 10th day of each month following such termination or expiration.

(i) In the event of the redemption or defeasance of any Bonds, any amounts on deposit in the Reserve Fund in excess of the Required Reserve Fund may be withdrawn and transferred, at the option of the Issuer, to the Revenue Fund, as a result of (i) the redemption of any Bonds, or (ii) funds for the payment of any Bonds having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in any ordinance authorizing the issuance of Bonds, the result of such deposit being that such Bonds no longer are deemed to be outstanding under the terms of any such ordinance; provided that any such surplus funds that are withdrawn from the Reserve Fund and that consist of proceeds of Bonds or interest thereon shall only be used for purposes for which such Bonds were issued or deposited to the Interest and Sinking Fund.

(j) In the event there is a draw upon the Credit Facility, the Issuer shall reimburse the Credit Facility Provider for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Bonds or Additional Bonds.

INVESTMENT OF CERTAIN FUNDS.

(a) The Interest and Sinking Fund may be invested in such securities or in such manner as may be lawful investments for an Interest and Sinking Fund. All moneys resulting from the investment of said Fund shall be transferred to the Revenue Fund as received.

(b) The Reserve Fund may be invested or reinvested from time to time in direct obligations of, or obligations, the principal and interest of which are guaranteed by the United States of America or invested in direct obligations of, or participation certificates guaranteed by, the Federal Intermediate Credit Banks, Federal Land Banks, Federal National Mortgage Association, Federal Home Loan Banks, Banks for Cooperatives, and in certificates of deposit of any bank or trust company, the deposits of which are fully secured by a pledge of securities of any of the kinds hereinabove specified, such obligations or securities to mature in not more than ten years from the date of such investment or not later than the final maturity of the Bonds outstanding for which the Reserve Fund is established, whichever is shorter. Any obligations in which money is so invested shall be kept in escrow with the custodian of the Reserve Fund, and shall be promptly sold and the proceeds of sale applied in the making of payments required to be made from the Reserve Fund, whenever such payments are necessary to be made under the provisions of the Ordinance. All moneys resulting from the investment of the Reserve Fund shall be transferred to the Revenue Fund as the same are received.

(c) The Issuer's depository bank shall invest the Interest and Sinking Fund and Reserve Fund as directed by the Issuer's Director of Finance or such other appropriate representative of the Issuer. If it becomes necessary to sell or dispose of investments in order to utilize the funds for such purposes for which such funds were created, the depository bank shall sell or dispose of such investment and give the Director of Finance notice thereof.

FURTHER COVENANTS. The Issuer further covenants and agrees by and through the Ordinance as follows:

(a) The Bonds shall be special obligations of the Issuer, and the Registered Owners thereof shall never have the right to demand payment out of any funds raised or to be raised by taxation.

(b) It has the lawful power to pledge the revenues supporting the Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, and that the Bonds issued under the ordinance shall be ratably secured in such manner that no one Bond shall have preference over any other Bond or Bonds.

(c) Other than for the payment of the Bonds and Additional Bonds, the Net Revenues have not been in any manner pledged to the payment of any debt or obligation of the Issuer or the System, other than heretofore made for the payment of Subordinate Debt.

ISSUANCE OF ADDITIONAL BONDS.

(a) In addition to the right to issue bonds of inferior lien as authorized by law, the Issuer reserves the right to issue Additional Bonds, under and in accordance with this Ordinance, for the purpose of improving, extending, equipping and repairing the System, and for the purpose of refunding in any lawful manner, any part or all of the Bonds, any Additional Bonds or Subordinate Debt then outstanding. The Additional Bonds shall be secured by and payable from a first lien on and pledge of the Net Revenues in the same manner and to the same extent as any then outstanding Bonds, and the Additional Bonds then

proposed to be issued shall in all respects be on a parity and of equal dignity as to lien and right. Additional Bonds may be issued under the Ordinance in one or more installments; provided, however, that none of the Additional Bonds shall be issued unless and until the following conditions have been met, to-wit:

(i) The Issuer is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of the outstanding Bonds or Additional Bonds;

(ii) Each of the special Funds created for the payment and security of the Bonds and Additional Bonds contain the amount of money then required to be on deposit therein;

(iii) The Issuer has secured from a certified public accountant a certificate showing that the Net Earnings for either the completed Fiscal Year next preceding the date of the Additional Bonds or a consecutive twelve-month period out of the last fifteen months next preceding the date of the Additional Bonds is equal to at least 1.50 times the average annual principal and interest requirements (calculated on a Fiscal Year basis at the time of issuance of Additional Bonds) of all Bonds and Additional Bonds which will be outstanding after the issuance of the proposed Additional Bonds. However, should the certificate of the accountant certify that the Net Earnings of the System for the period covered thereby were less than required above, and a change in the rates and charges for services afforded by the System became effective at least 60 days prior to the last day of the period covered by the accountant's certificate and an independent engineer or engineering firm having a favorable reputation with respect to such matters will certify that, had such change in rates and charges been effective for the entire period covered by the accountant's certificate, the Net Earnings covered by the accountant's certificate would have been, in his or their opinion, equal to at least 1.50 times the average annual principal and interest requirements (calculated on a fiscal year basis at the time of issuance of Additional Bonds) of the outstanding Bonds and Additional Bonds after giving effect to the issuance of the proposed Additional Bonds, then, in such event, the coverage specified in the first sentence of this paragraph (iii) shall not be required for the period specified, and such accountant's certificate will be sufficient if accompanied by an engineer's certificate to the above effect;

(iv) The ordinance authorizing the Additional Bonds requires that deposits shall be made into the Interest and Sinking Fund in amounts adequate to pay the principal and interest requirements of the Additional Bonds as the same become due; and provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be an amount equal to the Required Reserve Fund for all outstanding Bonds and the amount equal to the amount required by any ordinance authorizing the issuance of any Additional Bonds theretofore issued and to be outstanding after the issuance of said Additional Bonds. Such additional amount shall be so accumulated in not more than sixty months in equal monthly installments from the date of the Additional Bonds; and

(v) The Additional Bonds are scheduled to mature only on March 1 or September 1 or both.

(b) The term "Net Earnings", as used in the Ordinance, shall mean all income, receipts and revenues derived from the operation of the System, including interest earned on invested moneys in the special Funds created therein for the payment and security of the Bonds and Additional Bonds, after deduction of maintenance and operating expenses but not deducting depreciation, and other expenditures which, under standard accounting practice, should be classified as capital expenditures. Revenues and receipts resulting from the ownership of the System (grants, meter deposits and gifts) shall not be treated or included as income, revenues or receipts from the operation of the System for purposes of determining "Net Earnings".

(c) Wherever, in the Ordinance, the Issuer reserves the right to issue Additional Bonds, such term shall also include, mean and refer to any other form; or types of obligations which may be made lawfully payable from and secured by the Net Revenues.

MAINTENANCE AND OPERATION; INSURANCE. The Issuer shall maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. So long as any Bonds or Additional Bonds are outstanding, the Issuer agrees to maintain insurance for the benefit of the Registered Owners thereof on the System of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business. Nothing in the Ordinance shall be construed as requiring the Issuer to expend any funds derived from sources other than the operation of the System, but nothing therein shall be construed as preventing the Issuer from doing so. No free service of the System shall be allowed, and should the Issuer or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the Issuer out of funds from sources other than the revenues and income of the System.

RECORDS, ACCOUNTS; ACCOUNTING REPORTS.

(a) The Issuer covenants and agrees that so long as any Bonds, or any interest thereon, remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of its System separate and apart from all other records and accounts; complete and correct entries shall be made of all transactions relating to the System, as provided by Chapter 1502, Texas Government Code, and that the Registered Owners of any Bonds or any duly authorized agent or agents of such Registered Owners shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The Issuer further agrees that

following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountant, shall particularly include the following:

(i) A detailed statement of the income and expenditures of the System for such Fiscal Year.

(ii) A balance sheet as of the end of such Fiscal Year.

(iii) A list of the insurance policies in force at the end of the Fiscal Year on the System properties, setting out as to each policy the amount thereof, the risks covered, the name of the insurer, and the policy's expiration date.

(b) Expenses incurred in making the audits; referred to hereinabove are to be regarded as maintenance and operation expenses and paid as such. Copies of the aforesaid annual audit shall be immediately furnished, upon request, to the original purchaser or any subsequent Registered Owner of the Series 2026 Bonds.

EXCESS REVENUES. As provided in Section 8 hereof, all revenues in excess of those required to establish and maintain the Interest and Sinking Fund and the Reserve Fund as required may be used for any proper purpose now or hereafter permitted by law.

SECURITY FOR FUNDS. All funds created by the Ordinance shall be secured in the manner and to the fullest extent permitted by law for the security of public funds and the funds created by the ordinance shall be used only for the purposes therein specified.

REMEDY IN EVENT OF DEFAULT. In addition to all the rights and remedies provided by the laws of the State of Texas, the Issuer covenants and agrees particularly that in the event the Issuer (a) defaults in payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance (each an "Event of Default"), the Registered Owner or owners of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the Issuer and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy provided shall be cumulative of all other existing remedies and the specifications of such remedy shall not be deemed to be exclusive.

BONDS ARE SPECIAL OBLIGATIONS. The Bonds are and shall be special obligations of the Issuer payable from the pledged Net Revenues, and the Registered Owner or owners thereof shall never have the right to demand payment of said obligations out of funds raised or to be raised by taxation.

BONDS ARE NEGOTIABLE INSTRUMENTS. Each of the Series 2026 Bonds authorized shall be deemed and construed to be a "security", and as such a negotiable instrument, within the meaning of Article 8 of the Texas Uniform Commercial Code.

COMPETITION, SALE OF SYSTEM. So far as it legally may, the Issuer covenants and agrees, for the protection and security of the Bonds, and the Registered Owner or owners thereof from time to time, that it will not grant a franchise for the operation of any competing system in the Issuer until all Bonds shall have been retired. Neither the System, nor a substantial part thereof, shall be sold while the Bonds are outstanding, but nothing in the Ordinance shall prevent the sale or disposal of properties constituting a part of the System which are no longer needed or useful in connection with the operation thereof.

ORDINANCE TO CONSTITUTE CONTRACT; AMENDMENTS. The provisions of the ordinance shall constitute a contract between the Issuer and the Registered Owner or owners from time to time of the Series 2026 Bonds and no change, variation or alteration of any kind of the provisions of the Ordinance may be made, except as permitted in this Section. The Issuer, may, without the consent of or notice to any Registered Owner or owners, from time to time, and at any time, amend this Ordinance in any manner not detrimental to the interests of the Registered Owner or owners of the Series 2026 Bonds, including the curing of any ambiguity, in consistency or formal defect or omission therein. In addition, with the written consent of the Registered Owner or owners holding a majority in aggregate principal amount of the Series 2026 Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Registered Owners of outstanding Series 2026 Bonds, no such amendment, addition or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Series 2026 Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Series 2026 Bonds, (ii) given any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Series 2026 Bonds required for consent to any such amendment, addition or rescission.

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Series 2026 Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Series 2026 Bonds.

TAX EXEMPTION . . . In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Series 2026 Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2026 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Series 2026 Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the City and other parties involved with the issuance of the Series 2026 Bonds with respect to matters solely within the knowledge of the City and such parties, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Series 2026 Bonds could become includable in gross income from the date of delivery of the Series 2026 Bonds, regardless of the date on which the event causing such inclusion occurs.

Bond Counsel will express no opinion as to the amount or timing of interest on the Series 2026 Bonds or, except as stated above, to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Series 2026 Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Ordinance upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel’s ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Series 2026 Bonds from gross income for federal income tax purposes.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Series 2026 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Series 2026 Bonds could adversely affect the value and liquidity of the Series 2026 Bonds regardless of the ultimate outcome of the audit.

COLLATERAL TAX CONSEQUENCES . . . Prospective purchasers of the Series 2026 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Series 2026 Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Series 2026 Bonds.

An “applicable corporation” (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its “adjusted financial statement income” (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Series 2026 Bonds, is included in a corporation’s “adjusted financial statement income,” ownership of the Series 2026 Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Series 2026 Bonds.

Prospective purchasers of the Series 2026 Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2026 Bonds, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM . . . If the issue price of a maturity of the Series 2026 Bonds exceeds the stated redemption price payable at maturity of such Series 2026 Bonds, such Series 2026 Bonds (the “Premium Series 2026 Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess.

The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Series 2026 Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Series 2026 Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Series 2026 Bonds.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . If the issue price of a maturity of the Series 2026 Bonds is less than the stated redemption price payable at maturity of such Series 2026 Bonds (the “OID Series 2026 Bonds”), the difference between (i) the amount payable at the maturity of each OID Bond, and (ii) the initial offering price to the public of such OID Series 2026 Bond constitutes original issue discount with respect to such OID Series 2026 Bond in the hands of any owner who has purchased such OID Series 2026 Bond in the initial public offering of the Series 2026 Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such OID Series 2026 Bond equal to that portion of the amount of such original issue discount allocable to the period that such OID Series 2026 Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Series 2026 Bonds under the captions “TAX MATTERS – Tax Exemption,” “– Collateral Tax Consequences” and “–Tax Legislative Changes” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such OID Series 2026 Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such OID Series 2026 Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such OID Series 2026 Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Series 2026 Bonds for contemporaneous sale to the public and (ii) all of the OID Series 2026 Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on page 2 of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the OID Series 2026 Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each OID Series 2026 Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Series 2026 Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner’s basis for such OID Series 2026 Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such OID Series 2026 Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of OID Series 2026 Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of OID Series 2026 Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such OID Series 2026 Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such OID Series 2026 Bonds.

TAX LEGISLATIVE CHANGES . . . Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Series 2026 Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Series 2026 Bonds. Prospective purchasers of the Series 2026 Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreements for the benefit of the holders and beneficial owners of the Series 2026 Bonds. The City is required to observe the agreements for so long as it remains obligated to advance funds to pay the Series 2026 Bonds. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”). This information will be available from the MSRB via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

ANNUAL REPORTS. . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 11 in Appendix A. The City will update and provide the information in Tables numbered 1 through 11 in Appendix A within six months after the end of each fiscal year ending in and after 2026. The City will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in and after 2026. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. The City may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the “SEC”).

The City’s current fiscal year end is September 30. Accordingly, updated unaudited financial information and operating data included in the above-referenced tables must be provided by March 31 in each year, and financial statements must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES. . . The City shall notify the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Series 2026 Bonds: (1) Principal and interest payment delinquencies; (2) Non-payment related defaults, if material; (3) Unscheduled draws on debt service reserves reflecting financial difficulties; (4) Unscheduled draws on credit enhancements reflecting financial difficulties; (5) Substitution of credit or liquidity providers, or their failure to perform; (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2026 Bonds, or other material events affecting the tax status of the Series 2026 Bonds; (7) modifications to rights of holders of the Series 2026 Bonds, if material; (8) Bond calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution, or sale of property securing repayment of the Series 2026 Bonds, if material; (11) Rating changes; (12) Bankruptcy, insolvency, receivership or similar event of the City; (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) Appointment of a successor or additional Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material; (15) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under “Annual Reports.” The City shall also file, in a timely manner, notice of a failure by the City to provide required annual financial information and notices of material events in accordance with the continuing disclosure agreement.

For the purposes of the event identified in (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City; and the words used in clauses (15) and (16) in the immediately preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. The Ordinance defines “Financial Obligation” as a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

The City shall also provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, notice of a failure by the City to provide required annual financial information and notices of material events. All documents provided to the MSRB pursuant to this section shall be accompanied by identifying information as prescribed by the MSRB.

AVAILABILITY OF INFORMATION. . . All information and documentation filings required to be made by the City in accordance with its undertaking made for the Series 2026 Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided by the MSRB, without charge to the general public, at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS. . . The City has agreed to update information and to provide notices of events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2026 Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Series 2026 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Series 2026 Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Series 2026 Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Series 2026 Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Series 2026 Bonds in the primary offering of the Series 2026 Bonds.

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

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

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OTHER INFORMATION

RATINGS

The Series 2026 Bonds and the presently outstanding underlying rating of the System revenue debt of the City are rated "AA" by S&P and "Aa2" by Moody's. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective views of such organizations and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating company, if in the judgment of the company, circumstances so warrant.

Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Series 2026 Bonds.

LITIGATION

Various lawsuits pending against the City involve claims relating to general liability, automotive liability, workers' compensation, civil rights actions and various contractual matters. In the opinion of the City's management, of the pending litigation, if decided adversely to the City will not have a material adverse effect on the City's financial position or operations or the Series 2026 Bonds.

CYBERSECURITY

The City's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the City continually assesses and monitors its cybersecurity risks, the City has been (and may be in the future) subject to cyber-attacks from time to time. In response to such assessments and monitoring, the City takes actions it deems appropriate in response to cybersecurity risks, including, but not limited to, implementing cybersecurity training programs, obtaining technology improvements to mitigate cybersecurity risks, and taking other similar measures. To date, the City has not been the victim of any cyber-attack that has had a material adverse effect on its operations or financial condition. However, no assurance can be given that the City will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the City's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. Any such occurrence could materially and adversely affect the City's operations and/or financial condition.

RISK FROM WEATHER EVENTS

All of the State, including the City, is subject to extreme weather events that can cause loss of life and damage to property through strong winds, wildfires, hurricanes, tropical storms, flooding, heavy rains and freezes. If a future weather event significantly damages all or part of the properties comprising the tax base within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenue and/or necessitate an increase in the City's tax rate. There can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or that property owners will carry flood or the appropriate, applicable other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds or that insurance proceeds will be used to rebuild or repay any damaged improvements within the City or be sufficient for such purposes. Even if insurance proceeds are available and improvements.

REGISTRATION AND QUALIFICATION OF SERIES 2026 BONDS FOR SALE

The sale of the Series 2026 Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Series 2026 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2026 Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Series 2026 Bonds under the securities laws of any jurisdiction in which the Series 2026 Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Series 2026 Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Series 2026 Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Series 2026 Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Series 2026 Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Series 2026 Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Series 2026 Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Series 2026 Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Series 2026 Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Series 2026 Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bracewell LLP, Bond Counsel, with respect to the Series 2026 Bonds being issued in compliance with the provisions of applicable law. The form of Bond Counsel's opinion is attached hereto as Appendix D.

Though it may represent the Municipal Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Series 2026 Bonds, Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions and subcaptions "PLAN OF FINANCING", "THE SERIES 2026 BONDS" (excluding the information under the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), "SELECTED PROVISIONS OF THE ORDINANCE", "OTHER INFORMATION - Registration and Qualification of Series 2026 Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" (excluding the last sentence of the second paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Series 2026 Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Series 2026 Bonds, such information conforms to the provisions of the Bond Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Series 2026 Bonds is contingent upon the sale and delivery of the Series 2026 Bonds. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, counsel for the Underwriters, whose legal fees are contingent upon the sale and delivery of the Series 2026 Bonds.

The legal opinions to be delivered concurrently with the delivery of the Series 2026 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

MUNICIPAL ADVISOR

Hilltop Securities Inc. is employed as Municipal Advisor to the City in connection with the issuance of the Series 2026 Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the Series 2026 Bonds is contingent upon the issuance and delivery of the Series 2026 Bonds. Hilltop Securities Inc., in its capacity as Municipal Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2026 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2026 Bonds from the City, at an underwriting discount of \$ _____. The Underwriters will be obligated to purchase all of the Bonds if any Series 2026 Bonds are purchased. The Series 2026 Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2026 Bonds into investment trusts) at prices lower than the public offering prices of such Series 2026 Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

One of the Underwriters of the Bonds is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

SAMCO Capital Markets Inc., an Underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, SAMCO Capital Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, SAMCO Capital Markets Inc. will compensate Fidelity for its selling efforts.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

LINKS TO WEBSITES

The City has provided links to websites in this Official Statement to allow investors independent access to information or expertise that may be of value. INFORMATION ON SUCH WEBSITES IS NOT INCORPORATED INTO THIS OFFICIAL STATEMENT BY REFERENCE OR OTHERWISE. The inclusion of any links does not imply a recommendation or endorsement of the information or views expressed within a website. The City has not participated in the preparation, compilation or selection of information or views in any website referenced in this Official Statement and assumes no responsibility or liability for the information or views, or accuracy or completeness thereof, in any website referenced herein.

MISCELLANEOUS

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

The Bond Ordinance delegated to the Authorized Officer the authority to approve the form and content of this Preliminary Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Series 2026 Bonds by the Underwriters in accordance with the provisions of Rule 15c2-12.

SCHEDULE OF REFUNDED BONDS*

**Waterworks & Sewer System Revenue Refunding and Improvement Bonds,
Series 2014**

| <u>Original Dated Date</u> | <u>Original Maturity Date</u> | <u>Interest Rates</u> | <u>Amount</u> | <u>Redemption Date</u> |
|--------------------------------|-----------------------------------|---------------------------|---------------------|----------------------------|
| 5/15/2014 | 3/1/2030 | 4.000% | \$ 320,000 | 6/23/2026 |
| | 3/1/2031 | 4.000% | 335,000 | 6/23/2026 |
| | 3/1/2032 | 4.000% | 350,000 | 6/23/2026 |
| | 3/1/2033 | 4.000% | 360,000 | 6/23/2026 |
| | 3/1/2034 | 4.000% | 375,000 | 6/23/2026 |
| | | | <u>\$ 1,740,000</u> | |

**Waterworks & Sewer System Revenue Refunding and Improvement Bonds,
Series 2015**

| <u>Original Dated Date</u> | <u>Original Maturity Date</u> | <u>Interest Rates</u> | <u>Amount</u> | <u>Redemption Date</u> |
|--------------------------------|-----------------------------------|---------------------------|---------------------|----------------------------|
| 5/15/2015 | 3/1/2027 ⁽¹⁾ | 5.000% | \$ 310,000 | 6/23/2026 |
| | 3/1/2028 | 4.000% | 325,000 | 6/23/2026 |
| | 3/1/2029 | 4.000% | 335,000 | 6/23/2026 |
| | 3/1/2030 | 4.000% | 350,000 | 6/23/2026 |
| | 3/1/2031 | 5.000% | 365,000 | 6/23/2026 |
| | 3/1/2032 | 4.000% | 385,000 | 6/23/2026 |
| | 3/1/2033 | 4.000% | 400,000 | 6/23/2026 |
| | 3/1/2034 | 4.000% | 415,000 | 6/23/2026 |
| | 3/1/2035 | 4.000% | 430,000 | 6/23/2026 |
| | | | <u>\$ 3,315,000</u> | |

(1) Represents a term bond maturing on March 1, 2027.

**Waterworks & Sewer System Revenue Refunding and Improvement Bonds,
Series 2016**

| <u>Original Dated Date</u> | <u>Original Maturity Date</u> | <u>Interest Rates</u> | <u>Amount</u> | <u>Redemption Date</u> |
|--------------------------------|-----------------------------------|---------------------------|---------------------|----------------------------|
| 3/15/2016 | 3/1/2027 | 5.000% | \$1,200,000 | 6/23/2026 |
| | 3/1/2028 | 5.000% | 720,000 | 6/23/2026 |
| | 3/1/2029 | 5.000% | 365,000 | 6/23/2026 |
| | 3/1/2030 | 4.000% | 385,000 | 6/23/2026 |
| | 3/1/2031 | 4.000% | 400,000 | 6/23/2026 |
| | 3/1/2032 | 4.000% | 415,000 | 6/23/2026 |
| | 3/1/2033 | 4.000% | 430,000 | 6/23/2026 |
| | 3/1/2034 | 4.000% | 450,000 | 6/23/2026 |
| | 3/1/2035 | 4.000% | 470,000 | 6/23/2026 |
| | 3/1/2036 | 4.000% | 490,000 | 6/23/2026 |
| | | | <u>\$ 5,325,000</u> | |

* Preliminary, subject to change.

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APPENDIX A

**FINANCIAL INFORMATION REGARDING
THE
WATERWORKS AND SEWER SYSTEM**

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FINANCIAL INFORMATION

TABLE 1 – PRO FORMA WATERWORKS AND SEWER SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

| Fiscal Year Ending 9/30 | Outstanding Debt Service ⁽¹⁾ | | | The Bonds ⁽²⁾ | | | Total Debt Service | % of Principal Retired |
|----------------------------------|---|----------------------|-----------------------|--------------------------|----------------------|----------------------|--------------------------|------------------------------|
| | Principal | Interest | Total | Principal | Interest | Total | | |
| 2026 | \$ 11,055,000 | \$ 7,467,319 | \$ 18,522,319 | \$ - | \$ 376,464 | \$ 376,464 | \$ 18,898,783 | |
| 2027 | 9,525,000 | 6,616,031 | 16,141,031 | 2,210,000 | 1,728,000 | 3,938,000 | 20,079,031 | |
| 2028 | 9,960,000 | 6,181,034 | 16,141,034 | 1,780,000 | 1,628,250 | 3,408,250 | 19,549,284 | |
| 2029 | 10,250,000 | 5,728,125 | 15,978,125 | 1,475,000 | 1,546,875 | 3,021,875 | 19,000,000 | |
| 2030 | 9,785,000 | 5,287,069 | 15,072,069 | 1,875,000 | 1,463,125 | 3,338,125 | 18,410,194 | 28.21% |
| 2031 | 9,695,000 | 4,865,506 | 14,560,506 | 1,975,000 | 1,366,875 | 3,341,875 | 17,902,381 | |
| 2032 | 9,710,000 | 4,445,994 | 14,155,994 | 2,080,000 | 1,265,500 | 3,345,500 | 17,501,494 | |
| 2033 | 9,810,000 | 4,027,688 | 13,837,688 | 2,175,000 | 1,159,125 | 3,334,125 | 17,171,813 | |
| 2034 | 9,885,000 | 3,611,200 | 13,496,200 | 2,285,000 | 1,047,625 | 3,332,625 | 16,828,825 | |
| 2035 | 10,300,000 | 3,187,925 | 13,487,925 | 2,015,000 | 940,125 | 2,955,125 | 16,443,050 | 57.41% |
| 2036 | 10,750,000 | 2,749,413 | 13,499,413 | 1,670,000 | 848,000 | 2,518,000 | 16,017,413 | |
| 2037 | 10,345,000 | 2,303,588 | 12,648,588 | 1,275,000 | 774,375 | 2,049,375 | 14,697,963 | |
| 2038 | 9,180,000 | 1,881,825 | 11,061,825 | 1,340,000 | 709,000 | 2,049,000 | 13,110,825 | |
| 2039 | 8,975,000 | 1,506,775 | 10,481,775 | 1,410,000 | 640,250 | 2,050,250 | 12,532,025 | |
| 2040 | 8,280,000 | 1,155,650 | 9,435,650 | 1,480,000 | 568,000 | 2,048,000 | 11,483,650 | 84.06% |
| 2041 | 7,140,000 | 833,841 | 7,973,841 | 1,555,000 | 492,125 | 2,047,125 | 10,020,966 | |
| 2042 | 6,375,000 | 542,691 | 6,917,691 | 1,635,000 | 412,375 | 2,047,375 | 8,965,066 | |
| 2043 | 4,750,000 | 295,450 | 5,045,450 | 1,720,000 | 328,500 | 2,048,500 | 7,093,950 | |
| 2044 | 2,550,000 | 128,000 | 2,678,000 | 1,810,000 | 240,250 | 2,050,250 | 4,728,250 | |
| 2045 | 1,285,000 | 32,125 | 1,317,125 | 1,900,000 | 147,500 | 2,047,500 | 3,364,625 | 99.03% |
| 2046 | - | - | - | 2,000,000 | 50,000 | 2,050,000 | 2,050,000 | 100.00% |
| Total | <u>\$ 169,605,000</u> | <u>\$ 62,847,248</u> | <u>\$ 232,452,248</u> | <u>\$ 35,665,000</u> | <u>\$ 17,732,339</u> | <u>\$ 53,397,339</u> | <u>\$ 285,849,586</u> | |

(1) Excludes the Refunded Bonds.

(2) Average life of the Series 2026 Bonds – 9.944 years. Interest estimated for purposes of illustration. Preliminary, subject to change.

TABLE 2 – WATERWORKS AND SEWER SYSTEM COVERAGE AND FUND BALANCES⁽¹⁾

| | |
|--|----------------|
| Net Revenue Available for Debt Service | \$ 34,014,907 |
| Average Annual Principal and Interest Requirements, 2026-2045 | \$ 12,251,687 |
| Coverage of Average Requirements by 9/30/25 Net Available for Debt Service | 2.78x |
| Maximum Principal and Interest Requirements, 2026 | \$ 18,744,719 |
| Coverage of Maximum Requirements by 9/30/25 Net Available for Debt Service | 1.81x |
| Waterworks and Sewer System Revenue Bonds Outstanding, 9/30/2025 | \$ 179,985,000 |
| Interest and Sinking Fund, 9/30/2025 | \$ 2,624,865 |
| Reserve Fund, 9/30/2025 | \$ 12,533,272 |

(1) Includes the Series 2026 Bonds. Excludes the Refunded Bonds. Preliminary, subject to change.

(2) Preliminary, subject to change.

TABLE 3 – WATER AND SEWER FUND FINANCIAL RATIOS (\$ THOUSANDS)

| | Fiscal Year Ending September 30, | | | | |
|--|----------------------------------|------------|------------|------------|------------|
| | 2025 | 2024 | 2023 | 2022 | 2021 |
| Revenue Bond Coverage | | | | | |
| Net Revenue (Revenue less O&M Expense) | \$ 18,392 | \$ 27,461 | \$ 31,011 | \$ 20,878 | \$ 17,693 |
| Average Annual Debt Service-Revenue Bond | 12,252 | 11,821 | 11,302 | 9,661 | 7,657 |
| Historical Coverage Ratio | 1.5x | 2.3x | 2.7x | 2.2x | 2.3x |
| Debt to Equity | | | | | |
| Long-term Debt | \$ 179,985 | \$ 174,065 | \$ 166,375 | \$ 143,695 | \$ 117,875 |
| Equity | 282,207 | 257,528 | 217,810 | 173,405 | 159,472 |
| Debt to Equity Ratio - | 63.78% | 67.59% | 76.39% | 82.87% | 73.92% |
| % Debt | 38.94% | 40.33% | 43.31% | 45.32% | 42.50% |
| % Equity | 61.06% | 59.67% | 56.69% | 54.68% | 57.50% |

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TABLE 4 – MONTHLY WATER AND SEWER RATES (Effective 11/1/2025)

| <u>Residential and Commercial</u> | | |
|-----------------------------------|----|---|
| 0.625 inch meter | \$ | 20.24 (Minimum) |
| 1.000 inch meter | | 28.13 (Minimum) |
| 1.500 inch meter | | 37.47 (Minimum) |
| 2.000 inch meter | | 46.82 (Minimum) |
| 3.000 inch meter | | 56.17 (Minimum) |
| 4.000 inch meter | | 65.52 (Minimum) |
| 6.000 inch meter | | 73.31 (Minimum) |
| | | |
| 0-1,000 gallons | \$ | - included in minimum |
| 1,001 - 5,000 gallons | | 8.78 per 1,000 gallons |
| 5,001 - 10,000 gallons | | 9.46 per 1,000 gallons |
| 10,001 - 50,000 gallons | | 9.92 per 1,000 gallons |
| 50,001 - 70,000 gallons | | 10.39 per 1,000 gallons |
| 70,001 - 500,000 gallons | | 10.87 per 1,000 gallons |
| Over 500,000 gallons | | 8.99 per 1,000 gallons |
| | | |
| <u>Apartments (per unit)</u> | | |
| 0-1,000 gallons | \$ | - minimum per unit ⁽¹⁾ |
| 1,001 - 5,000 gallons | | 8.78 per 1,000 gallons per unit ⁽¹⁾ |
| 5,001 - 10,000 gallons | | 9.46 per 1,000 gallons per unit ⁽¹⁾ |
| 10,001 - 50,000 gallons | | 9.92 per 1,000 gallons per unit ⁽¹⁾ |
| 50,001 - 70,000 gallons | | 10.39 per 1,000 gallons per unit ⁽¹⁾ |
| 70,001 - 500,000 gallons | | 10.87 per 1,000 gallons per unit ⁽¹⁾ |
| Over 500,000 gallons | | 8.99 per 1,000 gallons per unit ⁽¹⁾ |

(1) Apartment complexes with more than one unit are billed by dividing the total number of gallons consumed by the number of units in the apartment complex and computing the bill as though each unit was a separate residence using the average number of gallons.

Monthly Sewer Rates (Effective 11/1/2025)

Residential

| | |
|---|----------------------|
| First 1,000 Gallons of water used | \$20.10 |
| Over 1,000 Gallons of water used (8,000 gallons maximum) | \$7.89/1,000 gallons |

Commercial

| | |
|-----------------------------------|----------------------|
| First 1,000 Gallons of water used | \$20.10 |
| Over 1,000 Gallons of water used | \$7.89/1,000 gallons |

Apartments

| | |
|-----------------------------------|----------------------|
| First 1,000 Gallons of water used | \$20.10 |
| Over 1,000 Gallons of water used | \$7.89/1,000 gallons |

TABLE 5 – TEN LARGEST WATER AND SEWER CUSTOMERS FISCAL YEAR 2025-2026

| Customer Name | Nature of Property | Revenue | % of Revenues ⁽¹⁾ |
|--|----------------------|---------------------|------------------------------|
| Mesquite Independent School District | Public School System | \$ 2,136,616 | 1.87% |
| Pepsi Bottling Group US | Soft Drink Bottling | 1,911,347 | 1.67% |
| CNC Swagat Nine, Ltd Partners P-1 | Apartments | 823,729 | 0.72% |
| S2 Camelot, LLC d/b/a Camelot Village | Apartments | 678,975 | 0.59% |
| City of Mesquite | Municipal Government | 642,088 | 0.56% |
| Town East Mall | Shopping Mall | 574,177 | 0.50% |
| Residence at Tradewind Apartments, LLC | Apartments | 563,617 | 0.49% |
| Anthem Mesquite Apartments | Apartments | 554,545 | 0.48% |
| Samuell Apartments, LLC | Apartments | 519,787 | 0.45% |
| 5800 Northwest Drive Property LLC | Apartments | 517,890 | 0.45% |
| | | <u>\$ 8,922,769</u> | <u>7.80%</u> |

(1) Based upon total 2025 actual revenues of \$114,356,936.

TABLE 6 – METER DISTRIBUTION

| Fiscal Year Ended 9/30 | % Commercial/Industrial | |
|------------------------|-------------------------|------------|
| | Residential | Industrial |
| 2016 | 91.6 | 8.4 |
| 2017 | 91.5 | 8.5 |
| 2018 | 91.5 | 8.5 |
| 2019 | 91.4 | 8.6 |
| 2020 | 91.4 | 8.6 |
| 2021 | 90.5 | 9.5 |
| 2022 | 90.5 | 9.5 |
| 2023 | 91.1 | 8.9 |
| 2024 | 90.5 | 9.5 |
| 2025 | 90.7 | 9.3 |

TABLE 7 – HISTORICAL WATER USAGE

| Fiscal Year Ending 9/30 | Average Daily Use In Gallons | Maximum Daily Use In Gallons | Total Gallons for Year |
|-------------------------|------------------------------|------------------------------|------------------------|
| 2016 | 16,366,140 | 20,632,000 | 5,973,641,000 |
| 2017 | 15,762,830 | 18,899,000 | 5,753,433,000 |
| 2018 | 16,913,356 | 20,264,800 | 6,173,375,000 |
| 2019 | 16,326,789 | 19,318,200 | 5,959,278,000 |
| 2020 | 16,158,216 | 27,369,000 | 5,897,749,000 |
| 2021 | 17,290,000 | 29,712,000 | 6,315,906,000 |
| 2022 | 19,421,000 | 36,534,000 | 7,103,267,000 |
| 2023 | 19,845,226 | 32,716,133 | 7,243,507,552 |
| 2024 | 21,325,000 | 37,055,000 | 7,804,994,000 |
| 2025 | 21,656,000 | 31,093,000 | 7,539,596,000 |

TABLE 8 – WATERWORKS AND SEWER SYSTEM OPERATING SYSTEM

| | Fiscal Year Ending September 30, | | | | |
|--|----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2025 | 2024 | 2023 | 2022 | 2021 |
| Revenue ⁽¹⁾ | \$ 102,990,378 | \$ 105,756,280 | \$ 92,958,536 | \$ 78,166,437 | \$ 71,914,724 |
| Expense ⁽²⁾ | | | | | |
| Excluding Depreciation and Interest Expense | 68,975,471 | 62,874,866 | 61,947,329 | 56,515,903 | 54,222,142 |
| Net Available for Debt Service | <u>\$ 34,014,907</u> | <u>\$ 42,881,414</u> | <u>\$ 31,011,207</u> | <u>\$ 21,650,534</u> | <u>\$ 17,692,582</u> |
| Water Customers | 43,994 | 43,238 | 43,067 | 42,738 | 42,228 |
| Sewer Customers | 41,943 | 41,122 | 41,218 | 40,845 | 40,386 |
| Coverage of Average Annual Debt Service | 2.78x | 3.50x | 2.58x | 1.85x | 2.31x |
| Coverage of Maximum Annual Debt Service | 1.81x | 2.29x | 1.72x | 1.24x | 1.45x |

(1) Includes operating and non-operating income.

(2) Effective beginning fiscal year 2016, transfers out are included in Expenses.

TABLE 9 – BOOK VALUE OF THE WATERWORKS AND SEWER SYSTEM

| | Fiscal Year Ending September 30, | | | | |
|--------------------------------|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2025 | 2024 | 2023 | 2022 | 2021 |
| Fixed Assets | | | | | |
| Land | \$ 2,275,141 | \$ 2,275,141 | \$ 2,275,141 | \$ 2,275,141 | \$ 2,200,038 |
| Utility Plant and Equipment | 418,494,961 | 387,698,215 | 303,942,754 | 271,939,815 | 268,358,606 |
| Equipment | 12,324,529 | 12,041,523 | 10,784,299 | 9,797,968 | 9,590,399 |
| Construction in Progress | 25,558,011 | 24,649,558 | 70,894,306 | 61,790,884 | 33,752,772 |
| Total Book Value | <u>\$ 458,652,642</u> | <u>\$ 426,664,437</u> | <u>\$ 387,896,500</u> | <u>\$ 345,803,808</u> | <u>\$ 313,901,814</u> |
| Less: Accumulated Depreciation | <u>(146,681,212)</u> | <u>(137,813,723)</u> | <u>(130,191,736)</u> | <u>(123,687,322)</u> | <u>(119,108,984)</u> |
| Net Plant Book Value | <u>\$ 311,971,430</u> | <u>\$ 288,850,714</u> | <u>\$ 257,704,764</u> | <u>\$ 194,792,830</u> | <u>\$ 194,792,830</u> |

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TABLE 10 – EQUITY IN THE SYSTEM

| | Fiscal Year Ending September 30, | | | | |
|---|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2025 | 2024 | 2023 | 2022 | 2021 |
| Resources | | | | | |
| Net Plant Book Value | \$ 311,871,430 | \$ 288,850,714 | \$ 257,886,444 | \$ 222,116,486 | \$ 194,792,830 |
| Construction, Interest & Sinking and Reserve Funds | 62,072,127 | 61,849,344 | 68,411,361 | 30,443,393 | 51,850,524 |
| Cash, Invest, Receivables and Deferred Outflows of Resources | 122,454,109 | 116,542,506 | 99,214,809 | 99,958,145 | 64,133,306 |
| Total Resources | \$ 496,397,666 | \$ 467,242,564 | \$ 425,512,614 | \$ 352,518,024 | \$ 310,776,660 |
| Liabilities | | | | | |
| Revenue Obligations Payable- Noncurrent | \$ 180,103,115 | \$ 167,708,001 | \$ 167,991,345 | \$ 146,302,423 | \$ 119,152,969 |
| Current Liabilities | 23,264,741 | 22,467,053 | 8,494,471 | 9,554,983 | 6,486,424 |
| Liabilities for Comp. Absences | 441,530 | 812,346 | 771,697 | 747,059 | 757,470 |
| Other Obligations | 10,481,114 | 25,664,003 | 30,444,439 | 22,508,367 | 24,907,459 |
| Total Obligations | \$ 214,290,500 | \$ 216,651,403 | \$ 207,701,952 | \$ 179,112,832 | \$ 151,304,322 |
| City's Equity in the System | \$ 282,107,166 | \$ 250,591,161 | \$ 217,810,662 | \$ 173,405,192 | \$ 159,472,338 |
| Percentage of Equity in the System | 56.83% | 53.63% | 51.19% | 49.19% | 51.31% |

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TABLE 11 – COMPARATIVE WATER AND SEWER OPERATING INFORMATION

| | Fiscal Year Ending September 30, | | | | |
|---------------------------------------|----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2025 | 2024 | 2023 | 2022 | 2021 |
| Operating Revenue | | | | | |
| Customer Charges | \$ 96,315,935 | \$ 98,306,316 | \$ 88,124,002 | \$ 78,324,996 | \$ 70,873,220 |
| Total Operating Revenue | <u>\$ 96,315,935</u> | <u>\$ 98,306,316</u> | <u>\$ 88,124,002</u> | <u>\$ 78,324,996</u> | <u>\$ 70,873,220</u> |
| Operating Expenses | | | | | |
| Personnel Services | \$ 12,510,861 | \$ 11,739,843 | \$ 9,886,349 | \$ 7,695,641 | \$ 7,483,937 |
| Supplies | 806,004 | 767,104 | 611,218 | 563,981 | 336,272 |
| Contractual Services | 55,658,606 | 50,367,919 | 46,137,978 | 42,925,901 | 41,327,593 |
| Depreciation | 8,948,909 | 7,970,288 | 6,621,065 | 6,316,298 | 6,547,569 |
| Lease amortization | - | - | - | 56,554 | - |
| Total Operating Expenses | <u>\$ 77,924,380</u> | <u>\$ 70,845,154</u> | <u>\$ 63,256,610</u> | <u>\$ 57,558,375</u> | <u>\$ 55,695,371</u> |
| Operating Income | <u>\$ 18,391,555</u> | <u>\$ 27,461,162</u> | <u>\$ 24,867,392</u> | <u>\$ 20,766,621</u> | <u>\$ 15,177,849</u> |
| Non-Operating Revenue (Expense) | | | | | |
| Interest Earned | \$ 6,674,443 | \$ 7,449,964 | \$ 4,668,602 | \$ (232,373) | \$ 78,500 |
| Gain (Loss) on sale of capital assets | (2,407,342) | 63,430 | 165,932 | 43,055 | - |
| Other Non-Operating Revenue | - | - | - | 30,759 | 963,004 |
| Interest Expense | (6,002,759) | (5,558,233) | (4,892,335) | (3,395,166) | (2,857,964) |
| Other Non-Operating Expense | (427,632) | (294,140) | (525,550) | (404,587) | (281,443) |
| Total Non-Operating Revenue (Expense) | <u>(2,163,290)</u> | <u>1,661,021</u> | <u>(583,351)</u> | <u>(3,958,312)</u> | <u>(2,097,903)</u> |
| Income before operating transfers | <u>\$ 16,228,265</u> | <u>\$ 29,122,183</u> | <u>\$ 24,284,041</u> | <u>\$ 16,808,309</u> | <u>\$ 13,079,946</u> |
| Capital Contributions | \$ 13,306,994 | \$ 15,503,137 | \$ 24,052,213 | \$ 1,074,925 | \$ 3,748,587 |
| Transfers In | 1,380,000 | 1,380,000 | 1,380,000 | 1,380,000 | 600,000 |
| Transfers Out | <u>(6,235,654)</u> | <u>(6,287,424)</u> | <u>(5,311,784)</u> | <u>(5,330,380)</u> | <u>(5,074,340)</u> |
| Net Income | <u>\$ 24,679,605</u> | <u>\$ 39,717,896</u> | <u>\$ 44,404,470</u> | <u>\$ 13,932,854</u> | <u>\$ 12,354,193</u> |

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APPENDIX B

**GENERAL INFORMATION REGARDING
THE
CITY OF MESQUITE, TEXAS**

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THE CITY

The City is a political subdivision of the State of Texas, comprising approximately 46.96 square miles in Dallas and Kaufman Counties adjacent to the City of Dallas and the City of Garland. Mesquite was incorporated in 1887 and operates as a home-rule city under the general laws of the State of Texas and a charter approved by the voters in 1953. The City has a Council/Manager form of government in which the mayor and six council members are elected for two-year terms with elections held semi-annually in November. Policy making is the responsibility of, and vested in, the City Council. The Council delegates the operational authority of the City to the City Manager who is the chief administrative officer of the City.

The City provides all the functions normally associated with a municipality including, but not limited to, public safety (i.e., police and fire personnel and EMS), health inspection and enforcement, water and sewer facilities, street and drainage facilities and parks and recreational facilities. The City presently employs approximately 1,440 persons full time.

POPULATION

The City has had a steady population increase during the past several years as reflected in the following table:

| <u>Year</u> | <u>Population</u> | <u>Source</u> |
|-------------|-------------------|------------------------------------|
| 1950 | 1,696 | U.S. Census |
| 1960 | 27,526 | U.S. Census |
| 1970 | 55,131 | U.S. Census |
| 1980 | 67,053 | U.S. Census |
| 1990 | 101,484 | U.S. Census |
| 2000 | 124,523 | U.S. Census |
| 2010 | 139,824 | U.S. Census |
| 2011 | 139,870 | N. Central Texas Council of Gov't. |
| 2012 | 139,950 | N. Central Texas Council of Gov't. |
| 2013 | 140,240 | N. Central Texas Council of Gov't. |
| 2014 | 142,210 | N. Central Texas Council of Gov't. |
| 2015 | 142,230 | N. Central Texas Council of Gov't. |
| 2016 | 142,950 | N. Central Texas Council of Gov't. |
| 2017 | 143,060 | N. Central Texas Council of Gov't. |
| 2018 | 143,350 | N. Central Texas Council of Gov't. |
| 2019 | 145,030 | N. Central Texas Council of Gov't. |
| 2020 | 145,410 | N. Central Texas Council of Gov't. |
| 2021 | 150,108 | U.S. Census (2020) |
| 2022 | 152,020 | N. Central Texas Council of Gov't. |
| 2023 | 154,043 | N. Central Texas Council of Gov't. |
| 2024 | 155,382 | N. Central Texas Council of Gov't. |
| 2025 | 157,436 | N. Central Texas Council of Gov't. |

ECONOMIC

Products manufactured by the Mesquite industrial sector include architectural and ornamental metal products, ophthalmic lenses, sheet metal products, lighting fixtures, paint, polyethylene film, electric furnaces, terrazzo tiles, and adhesives, ready-mixed concrete products, printed products, aluminum and steel building materials, machine metal products, innerspring bedding, plastic advertising specialties, soft drinks, polyethylene containers, garments, aluminum castings, corrugated fiber containers, color televisions sets, electronic telephone switching equipment, upholstered furniture, vehicle accessories, wooden office fixtures and vehicle wiring apparatus.

In addition, the City is developing the eastern industrial sector surrounding the Mesquite Metro Airport. Alcott Station, Airport Logistics Center, Ashley Furniture, and Airport East Business Parks and campuses comprise approximately 1,000 acres in size. Including the existing Skyline Business Park, Mesquite is home to the largest concentration of industries on the east side of the Dallas/Fort Worth Metroplex. Employers range in size from the small manufacturer employing less than 10 people to United Parcel Service which employs over 2,000 people.

Mesquite currently has 12 million square feet with plans to add 18 million square feet of industrial space, bringing 8,000 to 15,000 new jobs to the city between 2020 and 2030. New companies and expansions since 2020 include Ashley Furniture, 1,000 Bulbs, Steve Silver Company, Elements International, Vehicle Accessories, and more. The city has eight business parks either existing or in the construction phases: in addition to the locations listed above, existing and future business parks include: Twenty East at Trinity Pointe, Urban District 30, East Dallas Logistics Center, Mesquite 635, and the IH-20 Business Park.

Retail and entertainment anchors include Town East Mall, Market East Shopping Center, the Peachtree Entertainment Area which includes the AMC Theater, as well as Super Target, Hampton Inn & Suites, Courtyard by Marriott, and more.

Top private employers include Town East Mall, United Parcel Service, Canadian Solar, Dallas Regional Medical Center, Pepsi Bottling, Walmart, and Ashley Furniture Industries. Top property tax revenue producers include Town East Mall, Pepsi Bottling Group, Ashley Furniture Industries, IRIS USA, Inc., Market East, and the Mesquite Airport Logistics Center.

The average market value of single-family residential in Mesquite is \$280,000, with new home values in the \$375,000-\$400,000 range. There are 10,000 new home lots under construction or planned that will add 30,000 new residents to Mesquite over the next 10-years. Median household income has grown from the mid-\$50,000 range just two years ago to \$72,522 for 2025.

LABOR FORCE

City of Mesquite employment figures, as reported by the Texas Employment Commission, are as follows:

| | Average Annual <u>2025</u> | Average Annual <u>2024</u> | Average Annual <u>2023</u> | Average Annual <u>2022</u> | Average Annual <u>2021</u> |
|---------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Civilian Labor Force | 81,469 | 80,428 | 78,504 | 77,811 | 76,869 |
| Total Employed | 78,117 | 77,133 | 75,443 | 74,785 | 72,420 |
| Unemployed | 3,352 | 3,295 | 3,061 | 3,026 | 4,449 |
| % Unemployment | 4.1% | 4.1% | 3.9% | 3.9% | 5.8% |
| % Unemployment (State of Texas) | 4.1% | 4.1% | 4.0% | 3.9% | 5.6% |

Source: Texas Workforce Commission

Major employers in the City and the number of employees are set forth in the following table:

| <u>Company Name</u> | <u>Nature of Business</u> | <u>Number of Employees</u> |
|--------------------------------|----------------------------|------------------------------------|
| Mesquite ISD | Education | 5,940 |
| Town East Mall | Shopping Center | 2,750 |
| United Parcel Service Inc | Postal Carrier | 2,300 |
| Canadian Solar | Manufacturing | 1,500 |
| City of Mesquite | Public Administration | 1,448 |
| Pepsi Beverages Co | Manufacturing | 1,000 |
| Eastfield College | Education | 950 |
| Dallas Regional Medical Center | Health Care | 900 |
| Wal-Mart Supercenter | Retail | 850 |
| Ashley Furniture | Distribution/Manufacturing | 785 |

Source: Texas Workforce Commission

TRANSPORTATION

Four major highways cross through the Mesquite City Limits: Interstate Highways 20, 30 and 635 and U.S. Highway 80. These highways provide convenient access into the City, and reconstruction of the IH-635 and IH-30 interchange is nearing completion with similar improvements for the US Highway 80 and IH-635 interchange over the next five years. In addition, State Highway 352, (which connects with IH-635) and Military Parkway, a divided four-lane boulevard, both provide access to downtown Dallas. The City is also well served by a Union Pacific Railroad intermodal facility. Air transportation facilities include the City's municipal airport as well as convenient access to Dallas-Fort Worth International Airport and Dallas Love Field.

SHOPPING CENTERS

Town East Mall, the first multi-level, air-conditioned regional shopping center in the Dallas-Tarrant County area, contains more than 1,200,000 square feet of floor space with three major department stores, approximately 170 other stores, and a parking lot capacity of 7,000 cars. Town East Mall is the second largest employer at 2,750 employees. The city has approximately 30 other retail centers with three in development, namely Shadow Creek Crossing, Iron Horse Village, and Heartland Town Center.

FINANCIAL INSTITUTIONS

Mesquite is home to the following financial institutions: Wells Fargo Bank, Truist Bank, American National Bank, Hancock-Whitney Bank, Chase Bank, Navy Federal Credit Union, PNC Bank (BBVA Compass) , Bank of America, Guaranty Bank; as well as other financial institutions.

EDUCATION

Mesquite Independent School District (the “MISD”) serves most of the City, encompassing approximately 59.41 square miles. Its western and southern boundaries are coterminous with the Dallas Independent School District, and it is bounded on the north and east by the Garland Independent School District, the Sunnyvale Independent School District, and the Kaufman County Line.

Scholastic enumeration of the District:

| | |
|------------------------------|------------------------------|
| 2006-07 School Term - 35,984 | 2016-17 School Term - 41,000 |
| 2007-08 School Term - 36,597 | 2017-18 School Term - 41,022 |
| 2008-09 School Term - 36,972 | 2018-19 School Term - 40,027 |
| 2009-10 School Term - 37,284 | 2019-20 School Term - 39,856 |
| 2010-11 School Term - 37,732 | 2020-21 School Term - 38,300 |
| 2011-12 School Term - 38,245 | 2021-22 School Term - 38,225 |
| 2012-13 School Term - 39,048 | 2022-23 School Term - 38,527 |
| 2013-14 School Term - 39,793 | 2023-24 School Term - 38,378 |
| 2014-15 School Term - 40,140 | 2024-25 School Term - 37,799 |
| 2015-16 School Term - 40,510 | 2025-26 School Term - 36,625 |

There are 52 school campuses in MISD (34 elementary, 10 middle, 6 senior high and 1 alternative and the Mesquite Academy) and over 5,900 employees. A master plan of development of the District will increase District facilities to 35 elementary schools, 10 middle schools and 6 senior high schools.

MISD owns and operates its own FM radio station, a 500-foot broadcast tower and a 2,500 Megahertz 16-channel television station equipped to produce filmed, live, or taped programs on four channels simultaneously, with a receiver in every classroom in the District. The station includes offices and studios as well as mechanical facilities.

DALLAS COLLEGE

Dallas College acquired 245 acres in Mesquite for the location of the first suburban campus in its county-wide system. Eastfield College, now known as Eastfield Campus, opened in September 1970, and has an average enrollment of approximately 15,000 students each year.

HOSPITALS

Dallas Regional Medical Center is centrally located in Mesquite and employs approximately 900 medical and staff personnel.

BUILDING PERMITS

Building Permits issued in the City of Mesquite for the last 10 completed years are as follows:

| Year Ended | New Commercial | | New Residential | | Other* | Total |
|---------------|--------------------|---------------|--------------------|--------------|----------------|----------------|
| | Number of Units | Amount | Number of Units | Amount | Value | Value |
| 2016 | 13 | \$ 39,403,500 | 35 | \$ 6,969,737 | \$ 144,401,369 | \$ 190,774,606 |
| 2017 | 17 | 57,714,401 | 70 | 18,928,753 | 310,826,836 | 387,469,990 |
| 2018 | 18 | 82,658,067 | 61 | 15,528,180 | 355,649,470 | 453,835,717 |
| 2019 | 16 | 94,592,063 | 84 | 22,966,508 | 126,722,987 | 244,281,558 |
| 2020 | 29 | 150,135,772 | 128 | 32,961,889 | 79,542,313 | 262,639,974 |
| 2021 | 18 | 72,693,130 | 521 | 141,977,511 | 75,475,040 | 290,145,681 |
| 2022 | 51 | 365,094,842 | 682 | 215,473,753 | 117,731,586 | 698,300,181 |
| 2023 | 30 | 160,870,950 | 493 | 173,913,244 | 51,098,001 | 385,882,195 |
| 2024 | 34 | 170,261,275 | 678 | 237,107,841 | 375,975,378 | 783,344,494 |
| 2025 | 36 | 177,362,862 | 583 | 196,625,951 | 311,297,826 | 685,286,639 |

Source: City of Mesquite

* Other includes schools, churches, city building repairs and alterations and swimming pools, fences and signs.

APPENDIX C

**EXCERPTS FROM THE
CITY OF MESQUITE, TEXAS
ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended September 30, 2025

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

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Independent Auditor's Report

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

Opinions

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously expressed unmodified opinions on the 2024 financial statements. The combining and individual fund financial statements and schedules for the year ended September 30, 2025 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended September 30, 2025.

Other Information

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

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

Forvis Mazars, LLP

**Dallas, Texas
February 20, 2026**

MESQUITE
T E X A S
Real. Texas. Flavor.

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

As management of the City of Mesquite, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2025. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the financial statements, which follow this section.

Financial Highlights

The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$654.5 million (net position). Within the total net position, unrestricted is \$14.6 million.

The City's total net position increased by \$101.6 million from operations during fiscal year 2025. Governmental activities which receive taxes and other non-exchange revenues, increased \$54.5 million and business type activities increased by \$47.0 million.

As of the close of the current fiscal year, the City of Mesquite's governmental funds reported combined ending fund balances of \$212.9 million, an increase of \$15.7 million from the prior year due primarily to an increase in property tax and intergovernmental revenue and proceeds from several debt issuances during the fiscal year.

At year-end, the unassigned fund balance for the General Fund was \$36.4 million and total fund balance was \$39.6 million. Total unassigned fund balance represents approximately 79 days of working capital, calculated in accordance with City Policy of General Fund Budgeted Revenues. For fiscal year 2025, the working days capital based on actuals on the budgetary basis concluded at 76 days working capital. On a current financial resources basis, total fund balance for the General Fund increased \$1.1 million, which was primarily the result of revenues coming in more than budgeted and the issuance of subscriptions.

The City's debt increased by \$22.6 million during this current fiscal year. The City issued certificates of obligation for infrastructure, capital replacement, and municipal building improvements and special assessment revenue bonds for the funding of capital projects in the Solterra Public Improvement District. In addition, the City issued revenue bonded debt for water, sewer, and drainage improvements.

Overview of Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. One of the most important questions asked about the City's finances is, "Is the City of Mesquite in a better financial position at the end of this fiscal year compared to last year?" The government-wide financial statements report information about the City as a whole and about its activities in a way that helps to answer this question. Other non-financial factors should be taken into consideration, such as changes in the City's property tax base and the condition of the City's streets to assess the overall health or financial condition of the City.

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

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

The statement of activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from the functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities include most of the City's basic services such as fire, police, code compliance, library, parks and recreation, and community services as well as general government activities. The business-type activities of the City include water and sewer, drainage utility, municipal airport services, and municipal golf course.

Fund Financial Statements

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

Governmental funds

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

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

The City maintains ten governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Local Finance Capital Project, Bond Finance Capital Project, Debt Service, and Other Grants funds, all of which are major funds. Data from the other five governmental funds are combined into a single, aggregated presentation titled Other Governmental Funds. Individual fund data for these nonmajor other governmental funds is provided in the form of combining statements and individual statements and schedules section of this report.

The City adopts an annual appropriated budget for the General Fund, which is presented as part of the basic financial statements to demonstrate compliance with the budget.

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

Proprietary funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, drainage utility, municipal airport, municipal golf course, and solid waste and equipment service operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its group health insurance and general liability insurance programs. Both programs are predominantly governmental activities; however, as they benefit both governmental and business-type activities, current year results have been allocated by function in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer, Drainage Utility, and Solid Waste and Equipment Services funds since all are considered major funds of the City. The nonmajor funds are the Municipal Airport and Municipal Golf. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the nonmajor funds and the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains two different types of fiduciary funds. The Private-purpose trust fund is used to report resources held in trust to maintain a small cemetery within the City. The Custodial funds report resources, not in a trust, that are held by the City for other parties outside of the City's reporting entity. One custodial fund, the tax collection fund, accounts for ad valorem taxes collected on behalf of the Mesquite Independent School District, which ended on February 1, 2024. Any remaining balances included in the tax collection fund are to be remitted in the next fiscal year, which is when the fund is anticipated to be fully closed. The other custodial fund, the seized assets fund, accounts for funds seized from court cases that are held in escrow until judgment.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and other postemployment benefits (OPEB). Required supplementary information immediately follows the notes to the basic financial statements.

City of Mesquite, Texas
Management’s Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are presented immediately following the required supplementary information on pensions and OPEB. Combining and individual fund statements and schedules follow the required supplementary information.

Government-wide Overall Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Mesquite, assets and deferred outflows exceeded liabilities and deferred inflows by \$654.5 million as of September 30, 2025.

The largest portion of the City’s net position (82.9%) reflects its investment in capital assets (e.g., land, buildings, equipment, improvements, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Mesquite’s Net Position

The following table reflects the condensed Statement of Net Position. Prior year comparative information has not been restated for the change in reporting entity at the beginning of fiscal year 2025.

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | FY2025 | FY2024 | FY2025 | FY2024 | FY2025 | FY2024 |
| Current and other assets | \$ 264,119,433 | \$ 264,408,926 | \$ 207,244,125 | \$ 195,361,465 | \$ 471,363,558 | \$ 459,770,391 |
| Capital, lease, and subscription assets, net | 572,962,296 | 528,246,229 | 431,365,892 | 387,091,793 | 1,004,328,188 | 915,338,022 |
| Total Assets | 837,081,729 | 792,655,155 | 638,610,017 | 582,453,258 | 1,475,691,746 | 1,375,108,413 |
| Deferred Outflows of Resources | 24,445,640 | 35,678,919 | 8,128,827 | 11,275,612 | 32,574,467 | 46,954,531 |
| Other liabilities | 32,916,037 | 52,066,055 | 13,579,435 | 13,725,201 | 46,495,472 | 65,791,256 |
| Long-term liabilities | 563,976,702 | 570,307,829 | 226,913,059 | 221,608,992 | 790,889,761 | 791,916,821 |
| Total Liabilities | 596,892,739 | 622,373,884 | 240,492,494 | 235,334,193 | 837,385,233 | 857,708,077 |
| Deferred Inflows of Resources | 15,015,500 | 10,883,937 | 1,342,077 | 537,055 | 16,357,577 | 11,420,992 |
| Net investment in capital assets | 255,702,330 | 220,862,342 | 286,639,784 | 247,076,318 | 542,342,114 | 467,938,660 |
| Restricted | 79,808,639 | 67,839,288 | 17,806,871 | 15,587,559 | 97,615,510 | 83,426,847 |
| Unrestricted | (85,891,839) | (93,625,377) | 100,457,618 | 95,193,745 | 14,565,779 | 1,568,368 |
| Total Net Position | \$ 249,619,130 | \$ 195,076,253 | \$ 404,904,273 | \$ 357,857,622 | \$ 654,523,403 | \$ 552,933,875 |

An additional portion of the City’s net position (14.9%) represents resources that are subject to external restriction on how they may be used. Within the total net position, unrestricted is a \$14.6 million surplus, which represents (2.2%) of the City’s net position.

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

The current and other assets decreased in the governmental activities by \$289.5 thousand and the business-type activities increased by \$11.9 million. The decrease in the governmental activities assets is primarily due to decrease in pooled cash and investments as bond proceeds from debt issuance in the prior year were expended during the current year for major capital projects still in progress. Increase in the business-type activities is primarily due to an increase in pooled cash and investments for bond proceeds received for major capital infrastructure still in progress.

The City's total liabilities decreased by \$20.3 million. Bonds payable increased \$18.7 million for new capital projects. The net pension liability decreased \$15.7 million due to strong investment performance during the measurement period.

Deferred inflows and outflows of resources are primarily due to pension and other postemployment benefit valuation activity including a significant swing in the difference between projected and actual earnings on pension assets and difference in expected and actual OPEB experience.

Analysis of the City's Operations

Governmental and Business-type activities increased the City's net position by \$101.6 million. The key elements of this increase and the prior year results are as follows:

**City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025**

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | FY2025 | FY2024 | FY2025 | FY2024 | FY2025 | FY2024 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 27,258,738 | \$ 30,166,873 | \$ 137,226,184 | \$ 130,159,001 | \$ 164,484,922 | \$ 160,325,874 |
| Operating grants and contributions | 43,989,281 | 40,229,682 | 474,921 | 455,479 | 44,464,202 | 40,685,161 |
| Capital grants and contributions | 8,662,744 | 11,012,042 | 19,673,841 | 26,419,282 | 28,336,585 | 37,431,324 |
| Total Program Revenues | 79,910,763 | 81,408,597 | 157,374,946 | 157,033,762 | 237,285,709 | 238,442,359 |
| General Revenues: | | | | | | |
| Ad valorem taxes | 100,843,049 | 89,842,408 | - | - | 100,843,049 | 89,842,408 |
| Gross receipts taxes | 6,677,904 | 6,630,522 | - | - | 6,677,904 | 6,630,522 |
| Sales taxes | 65,945,105 | 63,386,760 | - | - | 65,945,105 | 63,386,760 |
| Grants not restricted to specific programs | 17,860,028 | 3,329,018 | - | - | 17,860,028 | 3,329,018 |
| Gain on sale of capital assets | - | 201,664 | 50,599 | 70,923 | 50,599 | 272,587 |
| Investment income (loss) | 10,197,645 | 12,356,291 | 7,480,655 | 8,377,185 | 17,678,300 | 20,733,476 |
| Miscellaneous | 2,394,691 | 2,296,982 | 252,021 | 767,928 | 2,646,712 | 3,064,910 |
| Total General Revenues | 203,918,422 | 178,043,645 | 7,783,275 | 9,216,036 | 211,701,697 | 187,259,681 |
| Total Revenues | 283,829,185 | 259,452,242 | 165,158,221 | 166,249,798 | 448,987,406 | 425,702,040 |
| Expenses: | | | | | | |
| General government | 20,456,034 | 32,119,907 | - | - | 20,456,034 | 32,119,907 |
| Fire services | 48,156,985 | 42,267,381 | - | - | 48,156,985 | 42,267,381 |
| Police services | 65,043,061 | 55,440,410 | - | - | 65,043,061 | 55,440,410 |
| Public works | 19,661,259 | 17,591,553 | - | - | 19,661,259 | 17,591,553 |
| Planning and community development | 7,100,316 | 9,208,947 | - | - | 7,100,316 | 9,208,947 |
| Housing and community services | 31,710,992 | 28,206,183 | - | - | 31,710,992 | 28,206,183 |
| Library services | 3,207,328 | 3,045,057 | - | - | 3,207,328 | 3,045,057 |
| Parks and recreation | 15,473,364 | 14,284,547 | - | - | 15,473,364 | 14,284,547 |
| Interest on long-term debt | 15,254,464 | 13,971,699 | - | - | 15,254,464 | 13,971,699 |
| Contribution expense | - | - | - | - | - | - |
| Water and sewer | - | - | 87,036,115 | 76,697,527 | 87,036,115 | 76,697,527 |
| Drainage utility district | - | - | 5,086,623 | 3,611,593 | 5,086,623 | 3,611,593 |
| Municipal airport | - | - | 3,096,979 | 3,088,879 | 3,096,979 | 3,088,879 |
| Municipal golf | - | - | 1,985,816 | 1,766,648 | 1,985,816 | 1,766,648 |
| Solid Waste and equipment services | - | - | 24,128,542 | 20,472,779 | 24,128,542 | 20,472,779 |
| Total Expenses | 226,063,803 | 216,135,684 | 121,334,075 | 105,637,426 | 347,397,878 | 321,773,110 |
| Increase in net position before transfers | 57,765,382 | 43,316,558 | 43,824,146 | 60,612,372 | 101,589,528 | 103,928,930 |
| Transfers | (3,222,505) | 7,468,154 | 3,222,505 | (7,468,154) | - | - |
| Change in Net Position | 54,542,877 | 50,784,712 | 47,046,651 | 53,144,218 | 101,589,528 | 103,928,930 |
| Net Position, Beginning of Year | \$ 195,076,253 | \$ 144,291,541 | \$ 357,857,622 | \$ 304,713,404 | \$ 552,933,875 | \$ 449,004,945 |
| Net Position, End of Year | \$ 249,619,130 | \$ 195,076,253 | \$ 404,904,273 | \$ 357,857,622 | \$ 654,523,403 | \$ 552,933,875 |

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

Governmental Activities

Governmental activities increased the City of Mesquite's net position by \$54.5 million.

The City's program revenues from governmental activities decreased approximately \$1.5 million (1.8%) as compared to the prior year. Charges for services decreased approximately \$2.9 million, operating grants and contributions increased approximately \$3.8 million, and capital grants and contributions decreased approximately \$2.3 million.

Charges for services decreased primarily due to decreased ambulance revenue and inspection fees in the General fund. The decrease was partially offset by an increase in police and public works services. Operating grants increased due to an increase in housing grant allocations from the Department of Housing and Urban Development and a slight increase of interlocal agreement reimbursements related to ongoing construction projects. Capital contributions decreased 2.3 million (21.3%) due to decreased developer contributions as the City experienced less commercial and residential development than prior year.

General revenues and transfers of the City's governmental activities increased \$15.2 million (8.2%) during the year. General revenue from property taxes increased \$11.0 million due to increased property tax values and new property added to the tax roll. Gross receipts tax revenue increased \$47.4 thousand due to an increase in gas franchise taxes received. Sales tax revenues increased \$2.6 million due to an increase in retail activity. Investment income decreased \$2.2 million due to lower yields on investments throughout the year. Gain on sale of capital assets decreased by \$201.7 thousand due primarily to the disposal of damaged equipment and certain construction in progress projects during the current year.

Expenses for the City's governmental activities experienced a net increase of \$9.9 million (4.6%) compared with the prior fiscal year. The increase can be attributed to Fire Services, \$5.9 million, Police Services, \$9.6 million, Public Works, \$2.1 million, Interest on long-term debt, \$1.3 million, Housing and Community Services, \$3.5 million, Library Services, \$162.3 thousand, and Parks and Recreation Services, \$1.2 million. The increase was partially offset by a decrease attributed to General Government, \$11.7 million and Planning and Community development, \$2.1 million.

- Fire services increased \$5.9 million and police services increased \$9.6 million due to an increase in salaries and personnel costs.
- Public works increased \$2.1 million due to the an increase in contractual services and repairs and maintenance expenditures.
- Interest on long-term debt increased \$1.3 million due to timing of interest payments on several debt instruments issued in the prior year.
- Housing and community services increased \$3.5 million due to an increase in expenditures covered by federal housing grant awards.
- Library services increased \$162.3 thousand due to an increase in salaries and personnel costs.
- Parks and recreation increased \$1.2 million due to an increase in salaries and contractual services.
- General Government decreased \$11.7 million primarily due to a decrease in professional services and the decrease of the compensated absences liability due to the implementation of GASB Statement No. 101, *Compensated Absences*.

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

- Planning and community development decreased \$2.1 million primarily due to a decrease in personnel and contractual services.

Business-type Activities

Business-type activities increased the City of Mesquite's net position by \$47.0 million.

The City's overall revenues for business-type activities decreased by \$1.1 million (0.7%) during the fiscal year. The majority of the program revenues for the City's business-type activities are from its water and sewer operations. Customer charges increased \$7.1 million primarily due to recording a full year of residential and commercial waste services activities during the current year versus seven months of activity in the prior year, as the residential and commercial waste services were transferred from the General fund to during the middle of the prior year, as well as, rate increases passed to residents and the addition of new utility accounts. Capital grants and contributions decreased \$6.7 million due to an overall decrease in developer contributions during the current year.

Expenses increased by approximately \$15.7 million (14.9%). The increase is mainly due to an increase in personnel and contractual services in the Water and Sewer and Solid Waste and Equipment Services funds.

Financial Analysis of the City's Funds

Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$212.9 million. Approximately 16.0% of this total amount (34.1 million) constitutes unassigned fund balance. The remainder of the fund balance is comprised of \$3.8 million for nonspendable, which represents funds already committed for prepaid and inventory items and notes receivable which will be repaid in future years, \$155.9 million for restricted, which represents funds restricted for specific purposes by their providers (such as grantors, bondholders, and higher levels of government), and \$19.1 million assigned, which represents amounts the City intends to use for specific purposes (such as encumbrances, promotion of tourism, and capital projects). The fund balances for all governmental funds increased by \$15.7 million, from the previous fiscal year. This overall increase is explained below individually by fund.

The General Fund is the chief operating fund of the City of Mesquite. At the end of the current fiscal year, unassigned fund balance of the General fund was \$36.4 million while the total fund balance was at \$39.6 million. The total fund balance increased by \$1.1 million.

In the General Fund, total revenues increased from the prior year as follows:

- Ad valorem taxes increased \$9.6 million due to an increase in assessed property values and growth.
- Sales tax increased over the prior year by \$2.1 million due to an increase in retail activity within the City .
- Gross receipts increased over the prior year by \$47.4 thousand due to an increase in gas franchise fee receipts.

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

- Licenses and permits increased \$170.8 thousand due to increased permitting associated with economic expansion.
- Fines and forfeitures increased \$225.8 thousand as a result of an increase in traffic related citations.
- Charges for services decreased \$1.0 million over the prior year. The decline can be attributed to a decrease in public works inspection fees as the majority of these transactions relate to activities recorded in the the Solid Waste and Equipment Services fund.
- Investment income increased \$140.7 thousand as a result of rising interest rates.

Total expenditures in the General Fund increased over the prior year as follows:

- General government services increased 1.1 million due to increased salary and maintenance expenses.
- Fire services increased \$3.1 million due to increased salary and overtime expenses.
- Police services increased \$4.8 million due increased salary and overtime expenses.
- Public works increased \$1.9 million due to increased salary and maintenance.
- Housing and community services increased \$1.3 million due to increased federal program expenditures related to increase in housing prices.

The Local Finance capital projects fund is reported as a major fund and is used to account for capital project expenditures from the proceeds of local revenue sources. Fund balance at year end is \$66.8 million, \$48.2 million of which is restricted for various capital projects and specified spending, \$17.8 million is assigned for other capital projects identified by the City, and \$771.1 thousand is nonspendable. The fund balance increased \$19.3 million primarily due to timing fluctuations of debt issuance versus capital project spending from year to year and the issuance of special assessment revenue bonds during the fiscal year. Project spending carries over from year to year depending on the scheduled activity.

The Bond Finance capital projects fund is a major fund used to account for capital project expenditures from the proceeds of governmental debt. See the Capital, Lease, and Subscription Asset section for highlights on project spending. Fund balance at year end is \$71.7 million, all of which is restricted for use for the capital projects approved within the various bond issues. The fund balance decreased \$3.0 million which is due to timing fluctuations of issuing of bonds (current year) versus capital project spending from year to year.

The Debt Service fund is a designated major fund used to account for the accumulation of financial resources for the payment of principal, interest, and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance was \$2.6 million at the end of the year, all of which is restricted for debt service. Fund balance decreased by \$3.2 million which is due to timing of transfers from other funds to cover prior and future debt payments.

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

The Other Grants fund is a major special revenue fund used to account for funds awarded to the City by all federal and state awarding agencies other than those funds accounted for in the Housing Grants fund. The fund deficit was \$(2.3) million at the end of the year, which is reported as unassigned. Fund balance increased by \$1.9 million in the current year due primarily to an increase in intergovernmental revenue receipts related to certain interlocal projects.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer fund at the end of the year amounted to \$95.8 million, the Drainage Utility District amounted to \$5.8 million and the Solid Waste and Equipment Services fund amounted to \$1.2 million. The change in net position was an increase of \$24.7 million, for the Water/Sewer Fund, an increase of \$7.3 million in the Drainage Utility District Fund, and an increase of \$15.4 million for the Solid Waste and Equipment Services Fund. The factors concerning the finances of the Water and Sewer fund have already been addressed in the discussion of the City of Mesquite's business-type activities. The Drainage Utility District fund operating results were consistent with prior year except for an increase of \$161.1 thousand in customer charges, \$357.5 thousand in contractual services, \$252.9 thousand in depreciation and amortization, and a decrease of \$4.5 million in capital contributions. The Solid Waste and Equipment Services fund increase is primarily due to a decrease of \$8.8 million in customer charges and an increase of \$13.2 million in capital contributions, which was partially offset by an increase of \$505.1 thousand in personnel costs and \$2.5 million in contractual services. The increase in customer charges is primarily the result of an entire year of operations compared to a partial year of operations and rate increases. The increase in capital contributions relates to the contribution of a building from the governmental funds of the City. The increase in personnel costs and contractual services relates to increased staffing levels and an entire year of operations.

General Fund Budgetary Highlights

The City revised the original appropriations approved by the City Council for the 2025 fiscal year budget. Overall, these changes resulted in an increase in budgeted revenues and transfers in by \$2.1 million and a decrease in expenditures and transfers out of \$8.4 thousand from the original budget.

The increase in budgeted revenues primarily was to reflect:

- Ad Valorem Tax increase of \$1.9 million due to an increase in assessed values.
- General Sales Tax collections increase of \$803 thousand due to inflation and increased retail activity.
- Charges for services decrease of \$801 thousand related decreased public works activities.

The decrease in budgeted expenditures were:

- \$1.9 million decrease in general government expenses.
- \$609 thousand increase in police services salary and overtime expenses.
- \$1.2 million decrease in public works expenses related to an increase in engineering work order credits for City inspection fees on City owned capital improvement projects.
- \$957 thousand decrease in parks and recreation services due to salary savings from position vacancies throughout the year.

City of Mesquite, Texas
Management’s Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

- \$896 thousand decrease in housing and community services due to salary savings from position vacancies throughout the year
- \$5.1 million increase in transfers out related to \$739 thousand in general obligation debt service obligations and \$4.75 million in one time transfers to the Group Medical Insurance fund and Capital Project Reserve fund from overall salary savings in the General fund.

Budget variances as compared to actuals were negative in revenues and transfers in of \$105.0 thousand and negative \$7.7 million in expenditures and transfers out. The negative variance in revenues was primarily due to decreased charges for services of \$456 thousand due to a decrease in public works inspection fees for decreased development activity, other revenues of \$297 thousand due to a decrease in various reimbursements, and transfers in of \$283 thousand due to special revenue funds revenue generated coming in less than projected. Other negative variances include \$61 thousand in investment income and \$20 thousand in contributions and donations. Positive variances versus budgeted revenues include \$192 thousand in ad valorem taxes for increased assessment values, \$25 thousand for gross receipts, \$426 thousand in sales taxes for inflation and increased retail activity, and \$364 thousand in fines and forfeitures due to increased citations.

The budget variance of \$7.7 million more in expenditures and transfers out was due to the fire services, police services, library services, housing and community services, parks and recreation services, capital outlay, and debt service expenditures coming in over amended budget, which was partially offset by general government expenditures, planning and community development, and transfers out coming in under amended budget. Fire services was over budget \$1.2 million and Police services was over budget \$3.8 million due to increased personnel costs from both an increase in staffing positions and pay rate increases. Public works was under budget \$3.4 million due to personnel vacancies. Housing and community services was over budget \$203 thousand as a result of increased activity within the housing federal programs and related cost of living increases. Capital outlay was over budget \$6.7 million and principal expenditures was over budget \$1.5 million both due to lease and subscription activity, discussed further below.

Capital, Lease, and Subscription Assets

At the end of fiscal year 2025, the City had over \$1.0 billion (net of accumulated depreciation/amortization) invested in capital, lease, and subscription assets for its governmental and business-type activities in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. The total increase in the City of Mesquite’s capital assets was 9.7% for the current fiscal year.

City of Mesquite’s Capital, Lease, and Subscription Assets, Net of Depreciation or Amortization

| | Governmental Activities | | Business-type Activities | | Totals | |
|-----------------------------------|-------------------------|-----------------------|--------------------------|-----------------------|-------------------------|-----------------------|
| | FY2025 | FY2024 | FY2025 | FY2024 | FY2025 | FY2024 |
| Land | \$ 26,132,561 | \$ 26,100,440 | \$ 13,591,153 | \$ 13,338,876 | \$ 39,723,714 | \$ 39,439,316 |
| Construction in progress | 94,734,353 | 120,672,339 | 26,253,907 | 29,494,131 | 120,988,260 | 150,166,470 |
| Buildings | 59,165,074 | 59,902,678 | 22,904,562 | 10,092,417 | 82,069,636 | 69,995,095 |
| Infrastructure | 335,199,551 | 273,666,484 | 346,157,853 | 317,726,151 | 681,357,404 | 591,392,635 |
| Improvements other than buildings | 20,541,439 | 17,159,058 | 9,754,756 | 4,910,902 | 30,296,195 | 22,069,960 |
| Equipment | 31,877,194 | 29,556,901 | 12,314,522 | 10,921,297 | 44,191,716 | 40,478,198 |
| Lease assets | 196,011 | 284,283 | 389,139 | 608,019 | 585,150 | 892,302 |
| Subscription assets | 5,116,113 | 904,046 | - | - | 5,116,113 | 904,046 |
| Totals | \$ 572,962,296 | \$ 528,246,229 | \$ 431,365,892 | \$ 387,091,793 | \$ 1,004,328,188 | \$ 915,338,022 |

**City of Mesquite, Texas
Management’s Discussion and Analysis (Unaudited)
Year Ended September 30, 2025**

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

- Over \$71.6 million was expended for governmental type activities for capital projects in 2025 and \$53.8 million was completed and placed into service. Major components of projects placed into service include the following:
- Over \$9.4 million was expended on vehicles and equipment replacements including police and fire vehicles and equipment, public works vehicles and equipment and various other types of equipment.
- Over \$4.9 million in infrastructure improvements and additions for Talia Phase 1A Paving construction.
- Over \$7.9 million in infrastructure and improvements for South Parkway Street reconstruction.
- Over \$6.7 million in infrastructure and improvements for Fire Station #2 construction.
- Over \$6.7 million in infrastructure and improvements for Trinity Point Public Safety Facility construction.
- Over \$11.1 million in infrastructure and improvements for the FP Lucas Reconstruction: Cartwright - McKenzie project
- The water and sewer system expended \$13.8 million in capital projects that were completed and placed into service.

Additional information on the City’s capital, lease, and subscription assets can be found in *Note 6* of the Notes to the Financial Statements.

Debt Administration

At year-end, the City had \$604.8 million in net bonded debt outstanding. Of this total amount, \$311.9 million, 51.6%, is comprised of bonded debt backed by the full faith and credit of the City; \$82.2 million, 13.6%, is comprised of special assessment bonds which are to be paid from special assessments on each property owner in the Heartland Town Center PID, Iron Horse PID, Polo Ridge PID, Solterra PID and is secured by special assessments; \$204.9 million, 36.9%, represents revenue bonds secured by specified revenue sources related to the revenue bond projects; \$608.3 thousand represents lease obligations; and \$5.1 million represents subscription obligations.

City of Mesquite’s Outstanding Debt

| | Governmental Activities | | Business-type Activities | | Totals | |
|----------------------------|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | FY2025 | FY2024 | FY2025 | FY2024 | FY2025 | FY2024 |
| General obligation bonds | \$ 101,610,000 | \$ 112,185,000 | \$ - | \$ - | \$ 101,610,000 | \$ 112,185,000 |
| Certificates of obligation | 192,050,000 | 174,465,000 | - | - | 192,050,000 | 174,465,000 |
| Special assessment bonds | 82,183,000 | 78,231,000 | - | - | 82,183,000 | 78,231,000 |
| Revenue bonds | - | - | 193,075,000 | 184,060,000 | 193,075,000 | 184,060,000 |
| Premiums on bonds | 18,281,043 | 19,186,643 | 11,835,880 | 12,246,142 | 30,116,923 | 31,432,785 |
| Lease obligations | 199,122 | 285,886 | 409,220 | 625,770 | 608,342 | 911,656 |
| Subscription obligations | 5,120,571 | 871,094 | - | - | 5,120,571 | 871,094 |
| Totals | \$ 399,443,736 | \$ 385,224,623 | \$ 205,320,100 | \$ 196,931,912 | \$ 604,763,836 | \$ 582,156,535 |

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

During the fiscal year, the City had four debt issuances in 2025. The first debt issue was for \$5.4 million of special assessment revenue bonds for funding a portion of the Improvement Area C-3 Project costs in the Solterra Public Improvement District. The second debt issue was for \$16.7 million of revenue bonds for water and sewer improvements. The third debt issue was for \$3.6 million of revenue bonds for municipal drainage improvements. The fourth debt issue was \$29.9 million of certificates of obligation for acquisitions and installation of City information technology infrastructure and equipment; designing, engineering, developing, constructing, improving and repairing, extending and expanding streets, thoroughfares and bridges, including streetscaping, related storm drainage improvements, signalization and other traffic controls, sidewalks, street lights and the acquisition of any right-of-way therefor; designing, developing, constructing, improving and renovating existing City buildings and facilities, including City Hall, recreation facilities, service center facilities, police facilities, public safety training facilities, solid waste service facilities, arts facilities, field service facilities, and fire stations; acquisition of equipment and vehicles for various City services and departments, including police, animal services, parks and recreation, enforcement services, neighborhood services, public works, fire, and facilities maintenance services and professional services incurred in connection with above items.

Standard and Poor's Rating Services assigned its 'AA' long-term rating to the City's series 2025 combination tax and limited surplus revenue certificates of obligation. Standard and Poor's Rating Services assigned its 'AA' rating and stable outlook to the City's series 2025 waterworks and sewer system revenue bonds. Standard and Poor's Rating Services assigned its 'AAA' long-term rating to the City's series 2025 municipal drainage utility system revenue bonds. Standard and Poor's affirmed its 'AA' rating on the City's existing system revenue debt. The City's special assessment bonds were not rated by Standard and Poor's Rating Services. Moody's Investor Services, Inc. assigned its 'Aa2' long-term rating to the City's series 2025 combination tax and limited surplus revenue certificates of obligation. Moody's assigned its 'Aa2' rating to the City's series 2025 waterworks and sewer system revenue bonds. Moody's assigned its 'Aa2' rating to the City's 2025 municipal drainage utility system revenue bonds. Moody's affirmed its 'Aa2' rating on the City's existing system revenue debt. The City's special assessment bonds were not rated by Moody's Investor Services, Inc.

Additional information on the City's long-term bonded debt can be found in *Note 10* of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget and Rates

As with many other cities, Mesquite's main challenges for fiscal year 2025-26 are statutory limitations on property tax revenue, maintaining aging infrastructure, and meeting the needs of the community.

The City of Mesquite continued to utilize the hybrid form of budgeting known as *Budgeting for Outcomes* and the Performance Management framework to guide the preparation of the budget to better align City Council goals and limited resources with the needs of the community.

The 2025-26 budget includes a 5.00% merit increase for all general government employees on their anniversary date effective January 1, 2026. In addition, sworn public safety employees with less than six years of service will receive 5.00% step increases. The 2025-26 budget also includes \$500,000 for salary market adjustments for low wage-earning positions, and a contribution rate of 21.75% to the Texas Municipal Retirement System (TMRS), with 50% cost of living adjustments (COLAs) for retirees. The budget also includes an increase of two police officer positions for a total 265 authorized sworn police positions, and an increase of three firefighters for a total of 251 authorized firefighter positions. Other staffing changes include the addition of a Police Property Room Clerk, Equipment Mechanic, and IT Audio/Visual Specialist positions. However, the hiring of these additional employees may be deferred to the following fiscal year.

At time of adoption, the budget was based on a property tax rate of \$0.73 per \$100 valuation, which exceeded the statutory voter-approval rate of \$0.704692, and thus required Voter approval at a general election that was

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2025

subsequently held on November 4, 2025. This proposition failed and the City's property tax rate reverted to \$0.704692, which reduced the property tax levy for fiscal year 2025-26. At the time of publication of this Annual Comprehensive Financial Report, City management and City Council were still considering funding options for planned pay increases and the proposed new positions, either from service reductions and/or using fund balance reserves.

General Fund expenditures and transfers out are budgeted at a 5.7% increase over the 2024-25 final budget. The 2025-26 budget includes a 5.00% merit increase for all general government employees on their anniversary date effective on January 1, 2026. In addition, sworn public safety employees are budgeted to receive 5.00% step increases for firefighters and police officers with less than six years of service, and the addition of a seventh step for public safety positions. The 2025-26 budget also includes decreases for contributions to Texas Municipal Retirement System (TMRS), and an increase in Group Medical Insurance Fund and worker's compensation and general liability expenses. The budget includes full-time positions for growth and expansion including two police officers and three additional firefighters. Expenditures also include additional funding for continuation of transit services, community care team services, roadway, park, and public safety projects, inflationary increases, special events, and economic development studies.

The General Fund Reserve Policy, as approved in January 2019, requires maintaining a minimum unassigned fund balance equivalent to 60 days of working capital to be calculated as 60 days of General Fund budget revenues. Total fund balance for the General Fund is projected to increase by \$2 million, in fiscal year 2025-26, unless fund balance reserves are utilized for planned personnel increases. The projected ending fund balance is approximately 76 days of working capital for the unassigned fund balance based on total revenues.

The Water and Sewer Fund budget includes 5.00% water and sewer rate increase for fiscal year 2025-26 to offset the increases imposed by North Texas Municipal Water District (NTMWD) for purchased water and wastewater treatment costs.

Contacting the City's Financial Management

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Accounting Manager, at P. O. Box 850137, Mesquite, Texas 75185-0137, call (972) 216-6263 or e-mail at jsterling@cityofmesquite.com.

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

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|-------------------------|
| Assets and Deferred Outflows of Resources | | | |
| Assets | | | |
| Pooled cash and investments | \$ 73,170,902 | \$ 97,673,438 | \$ 170,844,340 |
| Receivables (net of allowance for uncollectibles) | 28,811,596 | 22,308,889 | 51,120,485 |
| Internal balances | 1,784,664 | (1,784,664) | - |
| Inventory | 1,694,160 | 874,529 | 2,568,689 |
| Prepays and other assets | 945,198 | - | 945,198 |
| Accrued interest | 449,267 | 327,135 | 776,402 |
| Restricted pooled cash and investments | 157,263,646 | 87,844,798 | 245,108,444 |
| Capital, lease and subscription assets: | | | |
| Land and construction in progress | 120,866,914 | 39,845,060 | 160,711,974 |
| Other capital, lease, and subscription assets (net of accumulated depreciation/amortization) | 452,095,382 | 391,520,832 | 843,616,214 |
| Total assets | <u>837,081,729</u> | <u>638,610,017</u> | <u>1,475,691,746</u> |
| Deferred Outflows of Resources | | | |
| Deferred loss on refunding | 525,324 | 209,924 | 735,248 |
| Deferred outflows of resources - pension | 23,805,602 | 6,853,893 | 30,659,495 |
| Deferred outflows of resources - OPEB | 114,714 | 1,065,010 | 1,179,724 |
| Total deferred outflows of resources | <u>24,445,640</u> | <u>8,128,827</u> | <u>32,574,467</u> |
| Total assets and deferred outflows of resources | <u>\$ 861,527,369</u> | <u>\$ 646,738,844</u> | <u>\$ 1,508,266,213</u> |

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

(Continued)

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|-------------------------|
| Liabilities, Deferred Inflows of Resources and Net Position | | | |
| Liabilities | | | |
| Accounts payable | \$ 20,894,519 | \$ 5,077,895 | \$ 25,972,414 |
| Accrued interest payable | 1,984,689 | 808,038 | 2,792,727 |
| Retainage payable | 3,182,087 | 1,702,160 | 4,884,247 |
| Deposits and other liabilities | 941,356 | 5,990,342 | 6,931,698 |
| Unearned revenue | 5,913,386 | 1,000 | 5,914,386 |
| Long-term liabilities: | | | |
| Due within one year: | | | |
| Bonds payable | 24,737,000 | 11,600,000 | 36,337,000 |
| Lease liability | 86,414 | 222,048 | 308,462 |
| Subscription liability | 1,306,387 | - | 1,306,387 |
| Total other postemployment benefit (OPEB) liability | 1,141,008 | 163,000 | 1,304,008 |
| Accrued compensated absences | 418,825 | 155,904 | 574,729 |
| Estimated claims payable | 2,127,013 | - | 2,127,013 |
| Due in more than one year: | | | |
| Bonds payable | 369,387,043 | 193,310,880 | 562,697,923 |
| Lease liability | 112,708 | 187,172 | 299,880 |
| Subscription liability | 3,814,184 | - | 3,814,184 |
| Total other postemployment benefit (OPEB) liability | 25,397,846 | 3,628,266 | 29,026,112 |
| Net pension liability | 117,203,628 | 16,743,375 | 133,947,003 |
| Accrued compensated absences | 16,762,389 | 902,414 | 17,664,803 |
| Estimated claims payable | 1,482,257 | - | 1,482,257 |
| Total liabilities | <u>596,892,739</u> | <u>240,492,494</u> | <u>837,385,233</u> |
| Deferred Inflows of Resources | | | |
| Deferred inflows of resources - pension | 10,028,591 | 939,357 | 10,967,948 |
| Deferred inflows of resources - OPEB | 3,867,652 | 402,720 | 4,270,372 |
| Lease related | 1,119,257 | - | 1,119,257 |
| Total deferred inflows of resources | <u>15,015,500</u> | <u>1,342,077</u> | <u>16,357,577</u> |
| Net Position | | | |
| Net investment in capital assets | 255,702,330 | 286,639,784 | 542,342,114 |
| Restricted for: | | | |
| Capital projects | 17,651,492 | - | 17,651,492 |
| Local finance projects | 37,600,218 | - | 37,600,218 |
| Housing and community services | 4,198,289 | - | 4,198,289 |
| Other grants and special revenue | 17,733,775 | - | 17,733,775 |
| Debt service | 2,624,865 | 17,806,871 | 20,431,736 |
| Unrestricted | <u>(85,891,839)</u> | <u>100,457,618</u> | <u>14,565,779</u> |
| Total net position | <u>249,619,130</u> | <u>404,904,273</u> | <u>654,523,403</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 861,527,369</u> | <u>\$ 646,738,844</u> | <u>\$ 1,508,266,213</u> |

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

| Functions/Programs | Expenses | Program Revenues | | |
|------------------------------------|-----------------------|-----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental activities: | | | | |
| General government | \$ 20,456,034 | \$ 6,299,676 | \$ 6,829,395 | \$ - |
| Fire services | 48,156,985 | 3,044,533 | 641,464 | - |
| Police services | 65,043,061 | 1,246,076 | 1,661,888 | - |
| Public works | 19,661,259 | 434,762 | 9,347,214 | 8,662,744 |
| Planning and community development | 7,100,316 | 12,257,032 | 217,580 | - |
| Housing and community development | 31,710,992 | 1,054,277 | 25,117,138 | - |
| Library services | 3,207,328 | 34,849 | 8,448 | - |
| Parks and recreation | 15,473,364 | 2,887,533 | 166,154 | - |
| Interest expense | 15,254,464 | - | - | - |
| Total governmental activities | <u>226,063,803</u> | <u>27,258,738</u> | <u>43,989,281</u> | <u>8,662,744</u> |
| Business-type activities: | | | | |
| Water and sewer | 87,036,115 | 95,941,014 | 374,921 | 13,306,994 |
| Drainage utility district | 5,086,623 | 5,570,141 | - | 6,366,847 |
| Municipal airport | 3,096,979 | 3,043,755 | 100,000 | - |
| Municipal golf | 1,985,816 | 1,832,096 | - | - |
| Solid Waste and Equipment Services | 24,128,542 | 30,839,178 | - | - |
| Total business-type activities | <u>121,334,075</u> | <u>137,226,184</u> | <u>474,921</u> | <u>19,673,841</u> |
| Total primary government | <u>\$ 347,397,878</u> | <u>\$ 164,484,922</u> | <u>\$ 44,464,202</u> | <u>\$ 28,336,585</u> |

General revenues:

Ad valorem taxes
Gross receipts taxes
Sales taxes
Grants not restricted to specific programs
Gain on sale of capital assets
Investment income
Miscellaneous
Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year

Net position, end of year

| Net (Expenses) Revenues and Changes in Net Position | | |
|--|---------------------------------|-------------------------|
| Governmental Activities | Business-type Activities | Total |
| \$ (7,326,963) | \$ - | \$ (7,326,963) |
| (44,470,988) | - | (44,470,988) |
| (62,135,097) | - | (62,135,097) |
| (1,216,539) | - | (1,216,539) |
| 5,374,296 | - | 5,374,296 |
| (5,539,577) | - | (5,539,577) |
| (3,164,031) | - | (3,164,031) |
| (12,419,677) | - | (12,419,677) |
| (15,254,464) | - | (15,254,464) |
| <u>(146,153,040)</u> | <u>-</u> | <u>(146,153,040)</u> |
| - | 22,586,814 | 22,586,814 |
| - | 6,850,365 | 6,850,365 |
| - | 46,776 | 46,776 |
| - | (153,720) | (153,720) |
| - | <u>6,710,636</u> | <u>6,710,636</u> |
| - | <u>36,040,871</u> | <u>36,040,871</u> |
| <u>\$ (146,153,040)</u> | <u>\$ 36,040,871</u> | <u>\$ (110,112,169)</u> |
| 100,843,049 | - | 100,843,049 |
| 6,677,904 | - | 6,677,904 |
| 65,945,105 | - | 65,945,105 |
| 17,860,028 | - | 17,860,028 |
| - | 50,599 | 50,599 |
| 10,197,645 | 7,480,655 | 17,678,300 |
| 2,394,691 | 252,021 | 2,646,712 |
| (3,222,505) | <u>3,222,505</u> | <u>-</u> |
| <u>200,695,917</u> | <u>11,005,780</u> | <u>211,701,697</u> |
| 54,542,877 | 47,046,651 | 101,589,528 |
| <u>195,076,253</u> | <u>357,857,622</u> | <u>552,933,875</u> |
| <u>\$ 249,619,130</u> | <u>\$ 404,904,273</u> | <u>\$ 654,523,403</u> |

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

| | General | Local Finance | Bond Finance | Debt Service |
|---|----------------------|----------------------|----------------------|---------------------|
| Assets | | | | |
| Pooled cash and investments | \$ 36,881,664 | \$ 65,718,162 | \$ 78,825,751 | \$ 2,620,420 |
| Receivables (net of allowance): | | | | |
| Accounts receivable | 3,368,931 | 21,774 | - | - |
| Ad valorem taxes | 3,830,417 | - | - | - |
| Other taxes receivable | 9,160,360 | - | - | - |
| Leases | 975,919 | 273,076 | - | - |
| Interest receivable - leases | 62,701 | 719 | - | - |
| Note receivable | 528,560 | 771,148 | - | - |
| Intergovernmental | - | - | - | - |
| Interfund Note Receivable | - | 795,000 | - | - |
| Inventory | 1,694,160 | - | - | - |
| Prepays and other assets | 772,830 | - | - | - |
| Accrued interest | 87,308 | 77,314 | 107,266 | 11,945 |
| | <u>\$ 57,362,850</u> | <u>\$ 67,657,193</u> | <u>\$ 78,933,017</u> | <u>\$ 2,632,365</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit) | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 10,291,200 | \$ 172,774 | \$ 5,248,746 | \$ 7,500 |
| Retainage payable | - | 88,448 | 2,017,317 | - |
| Deposits | 662,925 | 278,431 | - | - |
| Unearned revenue | - | - | - | - |
| | <u>10,954,125</u> | <u>539,653</u> | <u>7,266,063</u> | <u>7,500</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue | 5,929,055 | 18,600 | - | - |
| Leases | 869,796 | 249,461 | - | - |
| | <u>6,798,851</u> | <u>268,061</u> | <u>-</u> | <u>-</u> |
| Fund Balances (Deficit) | | | | |
| Nonspendable | 2,995,550 | 771,148 | - | - |
| Restricted | - | 48,249,501 | 71,666,954 | 2,624,865 |
| Assigned | 206,439 | 17,828,830 | - | - |
| Unassigned | 36,407,885 | - | - | - |
| | <u>39,609,874</u> | <u>66,849,479</u> | <u>71,666,954</u> | <u>2,624,865</u> |
| Total liabilities, deferred inflows of resources and fund balances (deficit) | <u>\$ 57,362,850</u> | <u>\$ 67,657,193</u> | <u>\$ 78,933,017</u> | <u>\$ 2,632,365</u> |

| Other Grants | Total Nonmajor Funds | Total Governmental Funds |
|---------------------|-------------------------------------|---|
| \$ 3,448,122 | \$ 33,737,958 | \$ 221,232,077 |
| - | 395,395 | 3,786,100 |
| - | - | 3,830,417 |
| - | 2,592,455 | 11,752,815 |
| - | - | 1,248,995 |
| - | - | 63,420 |
| - | - | 1,299,708 |
| 6,411,263 | - | 6,411,263 |
| - | - | 795,000 |
| - | - | 1,694,160 |
| - | 7,001 | 779,831 |
| <u>30,765</u> | <u>57,476</u> | <u>372,074</u> |
| <u>\$ 9,890,150</u> | <u>\$ 36,790,285</u> | <u>\$ 253,265,860</u> |
| | | |
| \$ 483,035 | \$ 890,803 | \$ 17,094,058 |
| 892,179 | 184,143 | 3,182,087 |
| - | - | 941,356 |
| <u>4,864,435</u> | <u>1,048,951</u> | <u>5,913,386</u> |
| | | |
| <u>6,239,649</u> | <u>2,123,897</u> | <u>27,130,887</u> |
| | | |
| 5,959,613 | 236,458 | 12,143,726 |
| - | - | 1,119,257 |
| <u>5,959,613</u> | <u>236,458</u> | <u>13,262,983</u> |
| | | |
| - | 7,001 | 3,773,699 |
| - | 33,380,484 | 155,921,804 |
| - | 1,042,445 | 19,077,714 |
| <u>(2,309,112)</u> | <u>-</u> | <u>34,098,773</u> |
| | | |
| <u>(2,309,112)</u> | <u>34,429,930</u> | <u>212,871,990</u> |
| | | |
| <u>\$ 9,890,150</u> | <u>\$ 36,790,285</u> | <u>\$ 253,265,860</u> |

City of Mesquite, Texas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2025

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

| | |
|---|-----------------------|
| Total fund balance per balance sheet | \$ 212,871,990 |
| Capital, lease, and subscription assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds. | 572,962,296 |
| Other long-term assets less related uncollectibles are not available to pay for current period expenditures and therefore are reported as unavailable revenues in the governmental funds. | 12,143,726 |
| Internal service funds are used by management to charge the costs of health claims and general liability to individual funds. A significant portion of the internal service fund's net position is included in the governmental activities in the statement of net position. | 3,443,842 |
| Accrued interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the balance sheet of governmental funds. | (1,984,689) |
| Long-term liabilities, including bonds payable and related premiums, leases, subscriptions, net pension and total OPEB liabilities (and the related deferred inflows and deferred outflows) are not due and payable in the current period and therefore are not reported as liabilities, deferred outflows or deferred inflows in the governmental funds. Long-term liabilities consist of: | |
| General obligation bonds payable | \$(101,610,000) |
| Certificates of obligation bonds payable | (192,050,000) |
| Special Assessment Bonds | (82,183,000) |
| Deferred amount on refunding | 525,324 |
| Unamortized premiums on bonds | (18,281,043) |
| Leases | (199,122) |
| Subscriptions | (5,120,571) |
| Total other postemployment benefit (OPEB) liability | (26,538,854) |
| Net pension liability | (117,203,628) |
| Deferred outflows of resources – pension | 23,805,602 |
| Deferred outflows of resources – OPEB | 114,714 |
| Deferred inflows of resources – pension | (10,028,591) |
| Deferred inflows of resources – OPEB | (3,867,652) |
| Accrued compensated absences | (17,181,214) |
| | <u>(549,818,035)</u> |
| Net position of governmental activities | <u>\$ 249,619,130</u> |

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

| | General | Local Finance | Bond Finance | Debt Service |
|--|----------------------|----------------------|----------------------|---------------------|
| Revenues | | | | |
| Taxes: | | | | |
| Ad valorem | \$ 93,408,834 | \$ 7,737,100 | \$ - | \$ - |
| Gross receipts | 6,677,904 | - | - | - |
| Sales tax | 48,141,396 | - | - | - |
| Licenses and permits | 4,560,204 | 885,000 | - | - |
| Fines and forfeitures | 3,755,762 | - | - | - |
| Investment income | 2,538,750 | 2,310,132 | 2,916,051 | 482,036 |
| Charges for services | 6,282,539 | 8,345,863 | - | - |
| Special assessments | - | 6,701,192 | - | - |
| Intergovernmental | - | - | - | - |
| Contributions and donations | 62,803 | 105,400 | - | - |
| Other revenues | 569,281 | 1,399,632 | - | - |
| Total revenues | <u>165,997,473</u> | <u>27,484,319</u> | <u>2,916,051</u> | <u>482,036</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 16,317,867 | 3,367,817 | 400,494 | - |
| Fire services | 44,625,281 | 6,357 | 54,802 | - |
| Police services | 57,536,776 | 26,576 | 1,019,803 | - |
| Public works | 7,716,164 | - | 1,718,137 | - |
| Planning and community development | 3,685,801 | 2,618,898 | 11,652 | - |
| Library services | 3,017,279 | 6,236 | 1,490 | - |
| Parks and recreation | 5,617,312 | 122,153 | 58,148 | - |
| Housing and community services | 6,290,830 | - | 18,946 | - |
| Capital outlay | 6,665,636 | 638,258 | 31,706,103 | - |
| Debt service: | | | | |
| Principal | 1,466,331 | 1,483,000 | - | 22,965,000 |
| Interest and fiscal charges | 133,217 | 4,541,519 | - | 11,966,136 |
| Bond issuance costs | - | 441,905 | 576,338 | 27,638 |
| Total expenditures | <u>153,072,494</u> | <u>13,252,719</u> | <u>35,565,913</u> | <u>34,958,774</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>12,924,979</u> | <u>14,231,600</u> | <u>(32,649,862)</u> | <u>(34,476,738)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 11,903,497 | 2,750,000 | 69,878 | 31,255,095 |
| Transfers out | (29,793,716) | (3,125,731) | (2,297,412) | - |
| Leases issued | 12,644 | - | - | - |
| Subscriptions issued | 5,669,672 | - | - | - |
| Issuance of debt | - | 5,435,000 | 29,975,000 | - |
| Premium on bonds issued | - | - | 1,922,077 | - |
| Proceeds from sale of general capital assets | 378,109 | - | - | - |
| Total other financing sources (uses) | <u>(11,829,794)</u> | <u>5,059,269</u> | <u>29,669,543</u> | <u>31,255,095</u> |
| Net Change in Fund Balances | 1,095,185 | 19,290,869 | (2,980,319) | (3,221,643) |
| Fund Balances, Beginning of Year | <u>38,514,689</u> | <u>47,558,610</u> | <u>74,647,273</u> | <u>5,846,508</u> |
| Fund Balances (Deficit), End of Year | <u>\$ 39,609,874</u> | <u>\$ 66,849,479</u> | <u>\$ 71,666,954</u> | <u>\$ 2,624,865</u> |

| <u>Other Grants</u> | <u>Total Nonmajor Funds</u> | <u>Total Governmental Funds</u> |
|-----------------------|-------------------------------------|---|
| \$ - | \$ - | \$ 101,145,934 |
| - | - | 6,677,904 |
| - | 17,803,709 | 65,945,105 |
| - | 696,700 | 6,141,904 |
| - | 2,091,605 | 5,847,367 |
| 245,432 | 1,448,856 | 9,941,257 |
| - | 1,329,858 | 15,958,260 |
| - | 323,915 | 7,025,107 |
| 25,822,859 | 24,184,203 | 50,007,062 |
| - | - | 168,203 |
| 26,406 | 399,372 | 2,394,691 |
| <u>26,094,697</u> | <u>48,278,218</u> | <u>271,252,794</u> |
| 197,199 | 1,955,944 | 22,239,321 |
| 367,956 | 226,582 | 45,280,978 |
| 94,031 | 1,355,623 | 60,032,809 |
| 20,652 | 424,463 | 9,879,416 |
| 236,124 | 450,941 | 7,003,416 |
| 2,000 | 5,079 | 3,032,084 |
| 62,531 | 7,189,162 | 13,049,306 |
| 1,030,964 | 24,203,691 | 31,544,431 |
| 22,187,501 | 10,398,262 | 71,595,760 |
| - | 53,272 | 25,967,603 |
| - | 486 | 16,641,358 |
| - | - | 1,045,881 |
| <u>24,198,958</u> | <u>46,263,505</u> | <u>307,312,363</u> |
| <u>1,895,739</u> | <u>2,014,713</u> | <u>(36,059,569)</u> |
| - | - | 45,978,470 |
| - | (2,779,376) | (37,996,235) |
| - | - | 12,644 |
| - | - | 5,669,672 |
| - | - | 35,410,000 |
| - | - | 1,922,077 |
| - | 418,725 | 796,834 |
| <u>-</u> | <u>(2,360,651)</u> | <u>51,793,462</u> |
| 1,895,739 | (345,938) | 15,733,893 |
| <u>(4,204,851)</u> | <u>34,775,868</u> | <u>197,138,097</u> |
| <u>\$ (2,309,112)</u> | <u>\$ 34,429,930</u> | <u>\$ 212,871,990</u> |

MESQUITE

T E X A S

Real. Texas. Flavor.

City of Mesquite, Texas
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2025

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

| | | |
|--|----|--------------------------|
| Net change in fund balance - total governmental funds | \$ | 15,733,893 |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlay exceeds depreciation/amortization in the current period.</p> | | |
| Capital outlay expenditures | \$ | 71,595,760 |
| Depreciation and amortization expense | | <u>(21,533,411)</u> |
| | | 50,062,349 |
| <p>The net effect of various transactions involving capital assets (i.e. sales, trade-ins, donations, and transfers to business-type activities) is to decrease net position.</p> | | |
| | | (14,009,026) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This adjustment is to recognize contributions of capital assets by developers.</p> | | |
| | | 8,662,744 |
| <p>Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the net change in deferred inflows of resources.</p> | | |
| | | 3,657,259 |
| <p>The issuance of long-term debt (e.g. bond proceeds, leases, subscriptions, etc.) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | | |
| Leases issued | \$ | (12,644) |
| Subscriptions issued | | (5,669,672) |
| Principal amount of debt issued | | (35,410,000) |
| Amortization of bond premium | | 2,827,677 |
| Principal amount of debt paid to bondholders and lessors | | 25,967,603 |
| Net change in accrued interest payable | | (159,640) |
| Premium on bonds issued | | (1,922,077) |
| Amortization of deferred offering charges | | <u>(235,262)</u> |
| | | (14,614,015) |
| <p>Some expenditures reported in the statement of revenues, expenditures, and changes in fund balances require the use of current financial resources but are not reported as expenses in the statement of activities. This adjustment is to reflect the net change in accrued compensated absences.</p> | | |
| | | 5,912,685 |
| <p>Current year OPEB expenditures are reported on the fiscal year basis in the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in total OPEB liability and related deferred outflows and inflows of resources balances.</p> | | |
| | | (453,488) |
| <p>Current year pension expenditures are reported on the fiscal year basis in the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in net pension liability and related deferred outflows and inflows of resources balances.</p> | | |
| | | 115,328 |
| <p>Internal service funds are used by management to charge the costs of health claims and general liability to individual funds. The net revenues of certain activities of internal service funds is reported within governmental activities.</p> | | |
| | | <u>(524,852)</u> |
| Change in net position of governmental activities | \$ | <u><u>54,542,877</u></u> |

City of Mesquite, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget
and Actual - General Fund
Year Ended September 30, 2025

| | Budgeted Amounts | | Actual Amounts | Adjustments - | Actual- | Variance with Final Budget |
|---|---------------------|---------------------|----------------------|---------------------|---------------------|----------------------------------|
| | Original | Final | | Budgetary Basis | Budgetary Basis | |
| Revenues | | | | | | |
| Taxes- | | | | | | |
| Ad valorem | \$ 91,300,582 | \$ 93,217,000 | \$ 93,408,834 | \$ - | \$ 93,408,834 | \$ 191,834 |
| Gross receipts | 6,463,930 | 6,653,000 | 6,677,904 | - | 6,677,904 | 24,904 |
| Sales | 46,912,090 | 47,715,000 | 48,141,396 | - | 48,141,396 | 426,396 |
| Licenses and permits | 4,461,060 | 4,553,790 | 4,560,204 | - | 4,560,204 | 6,414 |
| Fines and forfeitures | 3,088,800 | 3,392,000 | 3,755,762 | - | 3,755,762 | 363,762 |
| Investment income | 2,519,800 | 2,600,000 | 2,538,750 | - | 2,538,750 | (61,250) |
| Charges for services | 7,539,900 | 6,739,000 | 6,282,539 | - | 6,282,539 | (456,461) |
| Contributions and donations | 83,300 | 83,300 | 62,803 | - | 62,803 | (20,497) |
| Other revenues | 1,042,293 | 866,000 | 569,281 | - | 569,281 | (296,719) |
| Enterprise funds PILOT/franchise fee | 10,847,860 | 10,847,860 | - | 10,847,860 | 10,847,860 | - |
| Total Revenues | 174,259,615 | 176,666,950 | 165,997,473 | 10,847,860 | 176,845,333 | 178,383 |
| Expenditures | | | | | | |
| General government | 22,841,106 | 20,935,942 | 16,317,867 | 3,998,107 | 20,315,974 | 619,968 |
| Fire services | 43,175,203 | 43,379,033 | 44,625,281 | - | 44,625,281 | (1,246,248) |
| Police services | 53,177,202 | 53,786,252 | 57,536,776 | - | 57,536,776 | (3,750,524) |
| Public works | 12,314,923 | 11,119,500 | 7,716,164 | - | 7,716,164 | 3,403,336 |
| Planning and community development | 4,132,940 | 3,729,263 | 3,685,801 | - | 3,685,801 | 43,462 |
| Library services | 3,294,293 | 2,990,000 | 3,017,279 | - | 3,017,279 | (27,279) |
| Parks and recreation | 6,595,299 | 5,638,575 | 5,617,312 | - | 5,617,312 | 21,263 |
| Housing and community services | 6,984,280 | 6,087,364 | 6,290,830 | - | 6,290,830 | (203,466) |
| Capital outlay | - | - | 6,665,636 | - | 6,665,636 | (6,665,636) |
| Debt service | | | | | | |
| Principal | - | - | 1,466,331 | - | 1,466,331 | (1,466,331) |
| Interest and fiscal charges | - | - | 133,217 | - | 133,217 | (133,217) |
| Cost allocation reimbursements | (4,498,107) | (4,779,701) | - | (3,998,107) | (3,998,107) | (781,594) |
| Total Expenditures | 148,017,139 | 142,886,228 | 153,072,494 | - | 153,072,494 | (10,186,266) |
| Excess of Revenues Over Expenditures | 26,242,476 | 33,780,722 | 12,924,979 | 10,847,860 | 23,772,839 | (10,007,883) |
| Other Financing Sources (uses) | | | | | | |
| Transfers in | 1,609,000 | 1,339,000 | 11,903,497 | (10,847,860) | 1,055,637 | (283,363) |
| Transfers out | (27,115,720) | (32,255,000) | (29,793,716) | - | (29,793,716) | (2,461,284) |
| Leases issued | - | - | 12,644 | - | 12,644 | 12,644 |
| Subscriptions issued | - | - | 5,669,672 | - | 5,669,672 | 5,669,672 |
| Proceeds from sale of general capital assets | - | - | 378,109 | - | 378,109 | 378,109 |
| Total Other Financing Sources (Uses) | (25,506,720) | (30,916,000) | (11,829,794) | (10,847,860) | (22,677,654) | 3,315,778 |
| Net Change in Fund Balance | \$ 735,756 | \$ 2,864,722 | 1,095,185 | \$ - | \$ 1,095,185 | \$ (6,692,105) |
| Fund Balance, Beginning of Year | | | 38,514,689 | | | |
| Fund Balance, End of Year | | | \$ 39,609,874 | | | |

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

| | Business-type Activities - Enterprise Funds | | |
|---|--|--------------------------------------|---|
| | Water and Sewer | Drainage Utility District | Solid Waste and Equipment Services |
| Assets | | | |
| Current assets | | | |
| Pooled cash and investments | \$ 92,063,122 | \$ 3,133,843 | \$ 1,307,590 |
| Restricted pooled cash and investments | 62,072,127 | 12,384,869 | - |
| Receivables (net of allowance for uncollectibles) | 14,886,041 | 969,921 | 3,898,180 |
| Inventory | 829,861 | - | - |
| Prepays and other assets | - | - | - |
| Accrued interest | 291,638 | 27,364 | 6,033 |
| Total current assets | <u>170,142,789</u> | <u>16,515,997</u> | <u>5,211,803</u> |
| Noncurrent assets | | | |
| Notes receivable | - | 2,542,951 | - |
| Revenue bond reserve: | | | |
| Restricted pooled cash and investments | 12,533,273 | 854,529 | - |
| Capital and lease assets: | | | |
| Land and construction in progress | 27,833,152 | 2,975,011 | - |
| Other capital assets (net of accumulated depreciation/amortization) | <u>284,138,276</u> | <u>74,609,651</u> | <u>21,298,115</u> |
| Total noncurrent assets | <u>324,504,701</u> | <u>80,982,142</u> | <u>21,298,115</u> |
| Total assets | <u>494,647,490</u> | <u>97,498,139</u> | <u>26,509,918</u> |
| Deferred Outflows of Resources | | | |
| Deferred charges on refunding | 209,924 | - | - |
| Deferred outflows of resources - pension | 1,632,384 | 136,032 | 4,813,413 |
| Deferred outflows of resources - OPEB | <u>7,866</u> | <u>656</u> | <u>1,055,176</u> |
| Total deferred outflows of resources | <u>1,850,174</u> | <u>136,688</u> | <u>5,868,589</u> |

| Business-type Activities - Enterprise Funds | | Governmental Activities - |
|--|---------------------------------------|---------------------------------------|
| Total Nonmajor Funds | Total Enterprise Funds | Internal Service Funds |
| \$ 1,168,883 | \$ 97,673,438 | \$ 9,202,471 |
| - | 74,456,996 | - |
| 11,796 | 19,765,938 | 482,298 |
| 44,668 | 874,529 | - |
| - | - | 265,117 |
| 2,100 | 327,135 | 13,773 |
| <u>1,227,447</u> | <u>193,098,036</u> | <u>9,963,659</u> |
| - | 2,542,951 | - |
| - | 13,387,802 | - |
| 9,036,897 | 39,845,060 | - |
| <u>11,474,790</u> | <u>391,520,832</u> | <u>-</u> |
| <u>20,511,687</u> | <u>447,296,645</u> | <u>-</u> |
| <u>21,739,134</u> | <u>640,394,681</u> | <u>9,963,659</u> |
| - | 209,924 | - |
| 272,064 | 6,853,893 | - |
| 1,312 | 1,065,010 | - |
| <u>273,376</u> | <u>8,128,827</u> | <u>-</u> |

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

(Continued)

| | Business-type Activities - Enterprise Funds | | |
|---|--|--------------------------------------|---|
| | Water and Sewer | Drainage Utility District | Solid Waste and Equipment Services |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | \$ 3,002,395 | \$ 38,842 | \$ 618,724 |
| Unearned revenue | - | - | 1,000 |
| Estimated claims payable | - | - | - |
| Interfund Note Payable | - | - | - |
| Deposits and other liabilities | 5,877,096 | 1,056 | 35,312 |
| Accrued compensated absences | 76,614 | 17,403 | 28,371 |
| Lease liability | 56,899 | - | - |
| Total other postemployment benefit liability | 78,240 | 6,520 | 65,200 |
| Current liabilities payable from restricted assets: | | | |
| Accounts payable | 1,072,714 | 186,220 | - |
| Retainage payable | 1,384,982 | 275,682 | - |
| Accrued interest payable | 737,415 | 70,623 | - |
| Bonds payable | 11,055,000 | 545,000 | - |
| Interfund Note Payable | - | - | - |
| Total current liabilities | <u>23,341,355</u> | <u>1,141,346</u> | <u>748,607</u> |
| Noncurrent liabilities | | | |
| Estimated claims payable | - | - | - |
| Bonds payable | 180,103,115 | 13,207,765 | - |
| Lease liability | 58,530 | - | - |
| Accrued compensated absences | 364,916 | 43,639 | 447,018 |
| Net pension liability | 8,036,820 | 669,735 | 6,697,350 |
| Total other postemployment benefit liability | <u>1,741,567</u> | <u>145,131</u> | <u>1,451,306</u> |
| Total noncurrent liabilities | <u>190,304,948</u> | <u>14,066,270</u> | <u>8,595,674</u> |
| Total liabilities | <u>213,646,303</u> | <u>15,207,616</u> | <u>9,344,281</u> |
| Deferred Inflows of Resources | | | |
| Deferred inflows of resources - pension | 450,892 | 37,574 | 375,743 |
| Deferred inflows of resources - OPEB | <u>193,305</u> | <u>16,109</u> | <u>161,088</u> |
| Total deferred inflows of resources | <u>644,197</u> | <u>53,683</u> | <u>536,831</u> |
| Net Position | | | |
| Net investment in capital assets | 169,652,547 | 75,512,722 | 21,298,115 |
| Restricted for debt service | 16,780,823 | 1,026,048 | - |
| Unrestricted | <u>95,773,794</u> | <u>5,834,758</u> | <u>1,199,280</u> |
| Total net position | <u>\$ 282,207,164</u> | <u>\$ 82,373,528</u> | <u>\$ 22,497,395</u> |

Reconciliation to Government-Wide Statement of Net Position:

Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds

Total Net Position for Business Type Activities

| Business-type Activities - Enterprise Funds | | Governmental Activities - |
|--|---------------------------------------|---------------------------------------|
| Total Nonmajor Funds | Total Enterprise Funds | Internal Service Funds |
| \$ 159,000 | \$ 3,818,961 | \$ 3,900,211 |
| - | 1,000 | - |
| - | - | 2,127,013 |
| 100,000 | 100,000 | - |
| 76,878 | 5,990,342 | - |
| 33,516 | 155,904 | - |
| 165,149 | 222,048 | - |
| 13,040 | 163,000 | - |
| - | 1,258,934 | - |
| 41,496 | 1,702,160 | - |
| - | 808,038 | - |
| - | 11,600,000 | - |
| 695,000 | 695,000 | - |
| <u>1,284,079</u> | <u>26,515,387</u> | <u>6,027,224</u> |
| - | - | 1,482,257 |
| - | 193,310,880 | - |
| 128,642 | 187,172 | - |
| 46,841 | 902,414 | - |
| 1,339,470 | 16,743,375 | - |
| 290,262 | 3,628,266 | - |
| <u>1,805,215</u> | <u>214,772,107</u> | <u>1,482,257</u> |
| <u>3,089,294</u> | <u>241,287,494</u> | <u>7,509,481</u> |
| 75,148 | 939,357 | - |
| 32,218 | 402,720 | - |
| <u>107,366</u> | <u>1,342,077</u> | <u>-</u> |
| 20,176,400 | 286,639,784 | - |
| - | 17,806,871 | - |
| (1,360,550) | 101,447,282 | 2,454,178 |
| <u>\$ 18,815,850</u> | <u>405,893,937</u> | <u>\$ 2,454,178</u> |
| | (989,664) | |
| | <u>\$ 404,904,273</u> | |

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

| | Business-type Activities - Enterprise Funds | | |
|---|--|--------------------------------------|---|
| | Water and Sewer | Drainage Utility District | Solid Waste and Equipment Services |
| Operating Revenues | | | |
| Customer charges | \$ 96,315,935 | \$ 5,570,141 | \$ 30,839,178 |
| Medical insurance | - | - | - |
| Life and dental insurance | - | - | - |
| General liability | - | - | - |
| Workers' compensation | - | - | - |
| Employees - medical insurance | - | - | - |
| Stop loss and other contributions | - | - | - |
| Other revenues | - | - | 252,021 |
| Total operating revenues | <u>96,315,935</u> | <u>5,570,141</u> | <u>31,091,199</u> |
| Operating Expenses | | | |
| Personnel services | 12,510,861 | 1,228,149 | 12,405,516 |
| Supplies | 806,004 | 10,982 | 453,123 |
| Contractual services | 55,658,606 | 564,631 | 9,026,082 |
| Depreciation and amortization | 8,948,909 | 2,053,776 | 2,026,744 |
| Claims incurred | - | - | - |
| Insurance premiums | - | - | - |
| Administrative fees | - | - | - |
| Other expenses | - | - | - |
| Total operating expenses | <u>77,924,380</u> | <u>3,857,538</u> | <u>23,911,465</u> |
| Operating Income (Loss) | <u>18,391,555</u> | <u>1,712,603</u> | <u>7,179,734</u> |
| Nonoperating Revenues (Expenses) | | | |
| Investment income | 6,674,443 | 620,629 | 83,825 |
| Bond issuance costs | (427,632) | (127,213) | - |
| Gain or loss on sale of capital assets | (2,407,342) | (734,221) | 50,562 |
| Other nonoperating income | - | - | - |
| Interest expense and fiscal charges | (6,002,759) | (367,651) | - |
| Total nonoperating revenues (expenses) | <u>(2,163,290)</u> | <u>(608,456)</u> | <u>134,387</u> |
| Income (Loss) Before Contributions and Transfers | 16,228,265 | 1,104,147 | 7,314,121 |
| Capital contributions | 13,306,994 | 6,366,847 | 13,160,691 |
| Transfers in | 1,380,000 | 559,330 | 1,897,927 |
| Transfers out | (6,235,654) | (700,468) | (6,977,698) |
| Change in Net Position | 24,679,605 | 7,329,856 | 15,395,041 |
| Net Position, Beginning of Year | <u>257,527,559</u> | <u>75,043,672</u> | <u>7,102,354</u> |
| Net Position, End of Year | <u>\$ 282,207,164</u> | <u>\$ 82,373,528</u> | <u>\$ 22,497,395</u> |

Reconciliation to Government-Wide Statement of Activities:
Adjustment to reflect the consolidation of internal service funds
activities related to enterprise funds

Change in Net Position of Business-type Activities

| Business-type Activities - Enterprise Funds | | Governmental Activities - |
|--|------------------------------|------------------------------|
| Total Nonmajor Funds | Total Enterprise Funds | Internal Service Funds |
| \$ 4,875,851 | \$ 137,601,105 | \$ - |
| - | - | 15,217,275 |
| - | - | 1,585,713 |
| - | - | 2,705,492 |
| - | - | 2,915,236 |
| - | - | 3,934,174 |
| - | - | 778,463 |
| - | 252,021 | 1,508 |
| <u>4,875,851</u> | <u>137,853,126</u> | <u>27,137,861</u> |
| 1,733,393 | 27,877,919 | - |
| 1,523,018 | 2,793,127 | - |
| 835,939 | 66,085,258 | - |
| 981,152 | 14,010,581 | - |
| - | - | 24,947,541 |
| - | - | 3,081,647 |
| - | - | 1,691,199 |
| - | - | 1,105,504 |
| <u>5,073,502</u> | <u>110,766,885</u> | <u>30,825,891</u> |
| <u>(197,651)</u> | <u>27,086,241</u> | <u>(3,688,030)</u> |
| 43,964 | 7,422,861 | 314,182 |
| - | (554,845) | - |
| 37 | (3,090,964) | - |
| 100,000 | 100,000 | 415,711 |
| (9,293) | (6,379,703) | - |
| <u>134,708</u> | <u>(2,502,651)</u> | <u>729,893</u> |
| (62,943) | 24,583,590 | (2,958,137) |
| 44,049 | 32,878,581 | - |
| 415,036 | 4,252,293 | 2,000,000 |
| (320,708) | (14,234,528) | - |
| 75,434 | 47,479,936 | (958,137) |
| <u>18,740,416</u> | | <u>3,412,315</u> |
| <u>\$ 18,815,850</u> | | <u>\$ 2,454,178</u> |
| | (433,285) | |
| | <u>\$ 47,046,651</u> | |

City of Mesquite, Texas
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2025

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities | |
|--|---|---------------|---------------|--------------|-------------------------|--------------|
| | Water and | Drainage | Solid Waste | Total | Total | Internal |
| | Sewer | Utility | and Equipment | Nonmajor | Enterprise | Service |
| | District | Services | Funds | Funds | Funds | |
| Cash Flows from Operating Activities: | | | | | | |
| Receipts from customers and users | \$ 100,457,511 | \$ 5,475,962 | \$ 30,011,946 | \$ 4,945,962 | \$ 140,891,381 | \$ - |
| Receipts from interfund charges for services | - | - | - | - | - | 22,423,716 |
| Receipts from employees and retirees | - | - | - | - | - | 3,900,167 |
| Other operating receipts | - | - | 252,021 | - | 252,021 | 838,769 |
| Payments to suppliers and service providers | (55,527,472) | (596,311) | (9,566,670) | (2,569,245) | (68,259,698) | (27,043,018) |
| Payments to employees for salaries and benefits | (10,947,454) | (1,082,969) | (9,268,388) | (1,841,668) | (23,140,479) | - |
| Payments to other funds for services provided | (1,746,550) | (157,530) | (1,944,027) | - | (3,848,107) | - |
| | | | | | | |
| Net Cash Provided by Operating Activities | 32,236,035 | 3,639,152 | 9,484,882 | 535,049 | 45,895,118 | 119,634 |
| Cash Flows from Noncapital Financing Activities: | | | | | | |
| Transfers to other funds | (6,235,654) | (700,468) | (6,977,698) | (320,708) | (14,234,528) | - |
| Transfers from other funds | 1,380,000 | 476,950 | - | - | 1,856,950 | 2,000,000 |
| Payments from nonoperating grants | - | - | - | 100,000 | 100,000 | - |
| | | | | | | |
| Net Cash (Used for) Noncapital Financing Activities | (4,855,654) | (223,518) | (6,977,698) | (220,708) | (12,277,578) | 2,000,000 |
| Cash Flows from Capital and Related Financing Activities: | | | | | | |
| Acquisition and construction of capital assets | (22,247,792) | (3,822,455) | (1,330,160) | (187,286) | (27,587,693) | - |
| Proceeds from capital debt, including premium | 17,366,901 | 3,720,163 | - | - | 21,087,064 | - |
| Principal payments on capital debt and leases | (10,610,315) | (455,000) | - | (161,235) | (11,226,550) | - |
| Interest payments on capital debt and leases | (7,579,820) | (515,363) | - | (9,886) | (8,105,069) | - |
| Proceeds from sale of capital assets | 18,457 | 7,550 | 50,562 | 37 | 76,606 | - |
| Insurance proceeds | - | - | - | - | - | 415,711 |
| | | | | | | |
| Net Cash (Used for) Capital and Related Financing Activities | (23,052,569) | (1,065,105) | (1,279,598) | (358,370) | (25,755,642) | 415,711 |
| Cash Flows from Investing Activities: | | | | | | |
| Investment gain on cash and cash equivalents | 6,519,832 | 606,840 | 80,004 | 43,365 | 7,250,041 | 309,083 |
| | | | | | | |
| Net Cash Provided by Investing Activities | 6,519,832 | 606,840 | 80,004 | 43,365 | 7,250,041 | 309,083 |
| Net Increase (Decrease) in Pooled Cash and Cash Equivalents | | | | | | |
| | 10,847,644 | 2,957,369 | 1,307,590 | (664) | 15,111,939 | 2,844,428 |
| Pooled Cash and Cash Equivalents at Beginning of Year | | | | | | |
| | 155,820,878 | 13,415,872 | - | 1,169,547 | 170,406,297 | 6,358,043 |
| Pooled Cash and Cash Equivalents at End of Year | | | | | | |
| | \$ 166,668,522 | \$ 16,373,241 | \$ 1,307,590 | \$ 1,168,883 | \$ 185,518,236 | \$ 9,202,471 |
| Classified as: | | | | | | |
| Current assets - non restricted | \$ 92,063,122 | \$ 3,133,843 | \$ 1,307,590 | \$ 1,168,883 | \$ 97,673,438 | \$ 9,202,471 |
| Current assets - restricted | 62,072,127 | 12,384,869 | - | - | 74,456,996 | - |
| Noncurrent assets - restricted | 12,533,273 | 854,529 | - | - | 13,387,802 | - |
| | | | | | | |
| Total Cash and Cash Equivalents | \$ 166,668,522 | \$ 16,373,241 | \$ 1,307,590 | \$ 1,168,883 | \$ 185,518,236 | \$ 9,202,471 |

City of Mesquite, Texas
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2025

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities | |
|---|---|---------------------------|------------------------------------|----------------------|-------------------------|------------------------|
| | Water and Sewer | Drainage Utility District | Solid Waste and Equipment Services | Total Nonmajor Funds | Total Enterprise Funds | Internal Service Funds |
| Reconciliation of Operating Income | | | | | | |
| To Net Cash Provided by Operating Activities: | | | | | | |
| Operating income (loss) | \$ 18,391,555 | \$ 1,712,603 | \$ 7,179,734 | \$ (197,651) | \$ 27,086,241 | \$ (3,688,030) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization | 8,948,909 | 2,053,776 | 2,026,744 | 981,152 | 14,010,581 | - |
| Changes in operating assets and liabilities: | | | | | | |
| Receivables, net | 3,934,026 | (94,179) | (863,544) | 59,991 | 3,036,294 | 26,299 |
| Inventories (supplies) | 25,551 | - | - | 14,583 | 40,134 | - |
| Prepaid expenses and other assets | 40,098 | - | - | - | 40,098 | 77,633 |
| Deferred outflows of resources - pension | 1,080,757 | 90,063 | 1,751,091 | 180,126 | 3,102,037 | - |
| Deferred outflows of resources - OPEB | (1,799) | (150) | 338,962 | (300) | 336,713 | - |
| Accounts payable and accrued liabilities | 935,749 | (6,914) | (39,422) | (215,267) | 674,146 | 3,491,521 |
| Customer deposits | 207,550 | - | 35,312 | 10,120 | 252,982 | - |
| Estimated unpaid claims | - | - | - | - | - | 212,211 |
| Unearned revenue | - | - | 1,000 | - | 1,000 | - |
| Deferred inflows of resources - pension | (71,481) | (5,956) | 211,105 | (11,912) | 121,756 | - |
| Deferred inflows of resources - OPEB | 133,084 | 11,090 | 110,903 | 22,180 | 277,257 | - |
| Compensated absences | (370,816) | (36,419) | (419,380) | (138,449) | (965,064) | - |
| Net pension liability | (940,305) | (78,359) | (783,588) | (156,718) | (1,958,970) | - |
| Total OPEB liability | (76,843) | (6,403) | (64,035) | (12,806) | (160,087) | - |
| Total Adjustments | 13,844,480 | 1,926,549 | 2,305,148 | 732,700 | 18,808,877 | 3,807,664 |
| Net Cash Provided by Operating Activities | \$ 32,236,035 | \$ 3,639,152 | \$ 9,484,882 | \$ 535,049 | \$ 45,895,118 | \$ 119,634 |
| Noncash Capital and Related Financing Activities: | | | | | | |
| Contributions of capital assets | \$ 13,306,994 | \$ 6,366,847 | \$ - | \$ - | \$ 19,673,841 | \$ - |
| Contribution of capital assets from governmental activities | - | 82,380 | 15,058,618 | 459,085 | 15,600,083 | - |
| Purchase of machinery, equipment, and vehicles on account | 2,457,696 | 461,902 | - | 41,496 | 2,961,094 | - |

City of Mesquite, Texas
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2025

| | Private-Purpose Trust Fund | Custodial Funds |
|--|---------------------------------------|----------------------------|
| Assets | | |
| Pooled cash and investments | \$ 984,148 | \$ 903,434 |
| Interest receivable | 1,616 | - |
| Taxes receivable levied for other governments (net of allowance for uncollectibles) | - | 24,662 |
| | <u>985,764</u> | <u>928,096</u> |
| Total assets | | |
| Liabilities | | |
| Accounts payable | \$ - | \$ 24,662 |
| | <u>-</u> | <u>24,662</u> |
| Total liabilities | | |
| Net Position | | |
| Restricted for individuals, organizations, and other governments | <u>985,764</u> | <u>903,434</u> |
| Total net position | <u>\$ 985,764</u> | <u>\$ 903,434</u> |

City of Mesquite, Texas
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended September 30, 2025

| | Private-Purpose Trust Fund | Custodial Funds |
|--|---------------------------------------|----------------------------|
| Additions | | |
| Investment income | \$ 38,958 | \$ - |
| Seizures | - | 700,634 |
| Miscellaneous revenues | 1,187 | - |
| Total additions | <u>40,145</u> | <u>700,634</u> |
| Deductions | | |
| Seizures forfeited or returned to defendants | - | 559,276 |
| Miscellaneous expenditures | 2,390 | - |
| Total deductions | <u>2,390</u> | <u>559,276</u> |
| Net Increase in Net Position | 37,755 | 141,358 |
| Net Position Restricted for Individuals, Organization, and Other Governments, Beginning of Year | <u>948,009</u> | <u>762,076</u> |
| Net Position Restricted for Individuals, Organization, and Other Governments, End of Year | <u>\$ 985,764</u> | <u>\$ 903,434</u> |

MESQUITE

T E X A S

Real. Texas. Flavor.

Note 1. Summary of Significant Accounting Policies

The City of Mesquite, Texas (City) was incorporated on December 3, 1887. It has been a home rule charter city since August 1953, pursuant to Article XI, Section 5 of the State Constitution. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public services, culture, recreation, and community development.

The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below:

Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member Council. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. In accordance with GASB Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61, GASB Statement No. 80, and GASB Statement No. 84, the blended component units discussed below have been included in the City's reporting entity because of the significance of their operational or financial relationship with the City. The City has no discretely presented component units.

Mesquite Quality of Life Corporation

The Quality of Life Corporation (Corporation) 4B Sales Tax Special Revenue Fund is presented as a "blended" fund in the financial statements. The Corporation is administered by a seven-member City Council appointed board of directors which are removable by the City Council at any time without cause. No more than four of the seven directors may be City Council members or City of Mesquite employees. Presently, all members of the Board are residents who are neither City Council members nor City employees. The purpose of the Corporation is to study and fund permissible projects for public safety, transportation or parks and recreation purposes from a one-half of 1.00% general sales tax. The Corporation's activities are subject to Council approval and are for the exclusive benefit of the City. In this respect, the Corporation acts as a financing authority to obtain resources for the projects. When the project is completed, the capital assets are owned by the City not the Corporation. Unaudited financial statements for the Quality of Life Corporation are available upon request from the City.

Tax Increment Reinvestment Zones (TIRZ)

The City has eleven Tax Increment Reinvestment Zones which provide for public improvements within each zone. The City's Tax Increment Reinvestment program identifies under-performing real estate in the City, creates redevelopment plans, works with private developers to implement these plans, and reinvests a portion of property tax revenues generated from new real estate developments in the area to encourage the implementation of the development plan.

Separate financial statements for the individual zones are not prepared.

Rodeo City TIRZ No. 1 – created in 1997 to update essential public infrastructure and to advance economic development to attract businesses and jobs. The Board is comprised of six City Council members and one member of City staff. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

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

Towne Centre TIRZ No. 2 – created in 1998 to maintain the long-term viability of the Town East Mall retail area and to accelerate the pace of new retail development along the IH-635 corridor. The Zone was expanded in December 2017 to include Downtown Mesquite and the Market East area to encourage further retail, office, and industrial development. In December 2019, the Mesquite Independent School District (MISD) participation in the zone ended. Prior to December 2019, the Board was comprised of four City Council members and three Mesquite Independent School District (MISD) Board members. Beginning January 2021, the Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Skyline TIRZ No. 7 – created in 2015 to provide public infrastructure for a proposed medical district development in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Gus Thomasson TIRZ No. 8 – created in 2015 to transform the Zone into an engaging place for new businesses and new households and to promote reinvestment to existing properties. The Zone was expanded in December 2017 to include the IH-30 corridor to eliminate obstacles that impair sound growth of the City in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Town East/Skyline TIRZ No. 9 – created in 2016 to support industrial and economic development for industry job creation, cleanliness, and appeal to the industrial character of the Big Town Gateway of the City. The Zone was expanded in December 2017 to include the Big Town area in order to help build on the successful base of the Skyline Industrial park and allow for infrastructure financing to further develop the City's industrial base. The Board is comprised of three members of City Council, one member of City Staff and three members representative of the businesses within the Zone. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Polo Ridge TIRZ No. 10 – created in 2017 to provide public infrastructure for a proposed residential development in the Zone. The Board is comprised of six City Council members and one member of City staff. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Heartland Town Center TIRZ No. 11 – created in 2017 to provide public infrastructure for a proposed residential development in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

IH-20 Business Park TIRZ No. 12 – created in 2018 to provide public infrastructure for a proposed business park in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Spradley Farms TIRZ No. 13 – created in 2020 to provide public infrastructure for a proposed residential development in the Zone. Prior to December 2020, the Board was comprised of seven City Council members. Beginning in December 2020, the Board is composed of seven City Council members and two Kaufman County representatives. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Alcott Logistics TIRZ No. 14 – created in 2021 to provide public infrastructure for a proposed industrial development in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Solterra TIRZ No. 15 – created in 2021 to provide public infrastructure for a proposed residential development in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

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

Public Improvement Districts (PIDs)

The City has four Public Improvement Districts. Mesquite's PID program allows for groups of property owners to request special property assessments for the provisions of services above typical City levels. Working with City staff, each PID may select its own budget and categories based on its goals and needs, subject to Chapter 372 of the Texas Local Government Code. This may consist of eligible supplemental activities such as marketing the area, providing additional security, landscaping and lighting, street cleaning, and cultural or recreational improvements. Each PID is operated by a designated management organization.

Separate financial statements for the individual PIDs are not prepared.

Heartland Town Center PID – created in December 2017 to support a residential and retail development along the IH-20 corridor in Mesquite. The PID sold bonds in September 2018 to fund certain infrastructure projects in the District. Payments from bond proceeds must be reviewed and approved by City staff prior to distribution. The PID is a blended component unit in the Local Finance Capital Project Fund.

Polo Ridge PID – created in April 2018 to support a residential development along the IH-20 corridor in Mesquite. The PID sold bonds in July 2019 to fund certain infrastructure projects in the District. Payments from bond proceeds must be reviewed and approved by City staff prior to distribution. The PID is a blended component unit in the Local Finance Capital Project Fund.

Iron Horse PID – created in February 2019 to support residential development along Rodeo Drive in Mesquite. The PID sold bonds in June 2019 to fund certain infrastructure projects in the District. Payments from bond proceeds must be reviewed and approved by City staff prior to distribution. The PID is a blended component unit in the Local Finance Capital Project Fund.

Solterra PID – created in April 2021 to support residential development along Faithon P. Lucas, Sr. Boulevard in Mesquite. The PID is a blended component unit in the Local Finance Capital Project Fund.

Historic Mesquite, Inc.

Historic Mesquite, Inc. provides funding to maintain historical sites within the City. The City does not have a majority position on this board; however, the City does have the ability to influence the financial decisions in that City Council reviews and approves the annual budget of this entity. Management of the City has operational responsibility for the component unit. Historic Mesquite, Inc.'s activities are for the exclusive benefit of the City as Historic Mesquite's primary services relate to managing and maintaining two City owned historical properties. Providing services entirely, or almost entirely, to the primary government is one of the criteria for being presented as a blended component unit. Historic Mesquite, Inc. is reported as part of the Other Special Revenue fund and does not issue separate financial statements.

Mesquite Arts Council

Mesquite Arts Council provides funding for arts and culture to the Mesquite Art Center. The City does not have a majority position on this board; however, the City does have the ability to influence the financial decisions in that City Council reviews and approves the annual budget of this entity. Management of the City has operational responsibility for the component unit. Mesquite Arts Council's activities are for the exclusive benefit of the City as Mesquite Arts Council's primary services relate to managing one City owned facility, the City's Arts Center, as well as operating the City's Art Program. Providing services entirely, or almost entirely, to the primary government is one of the criteria for being presented as a blended component unit. Mesquite Arts Council is reported as part of the Other Special Revenue fund and does not issue separate financial statements.

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

Keep Mesquite Beautiful, Inc.

Keep Mesquite Beautiful, Inc. provides funding for local beautification projects within the City. The City does not have a majority position on this board; however, the City does have the ability to influence the financial decisions in that City Council reviews and approves the annual budget of this entity. Management of the City has operational responsibility for the component unit. Keep Mesquite Beautiful, Inc.'s activities are for the exclusive benefit of the City as Keep Mesquite Beautiful, Inc.'s primary services relate to facilitating City declared initiatives to help promote littering awareness, recycling and organizing volunteer events to help maintain cleanliness of City owned parks and infrastructure. Providing services entirely, or almost entirely, to the primary government is one of the criteria for being presented as a blended component unit. Keep Mesquite Beautiful, Inc. is reported as part of the Other Special Revenue fund and does not issue separate financial statements.

Mesquite Housing Finance Corporation, the Mesquite Health Facilities Development Corporation, and the Mesquite Industrial Development Corporation

Also included in the financial statements are the operating activities of the Mesquite Housing Finance Corporation, the Mesquite Health Facilities Development Corporation, and the Mesquite Industrial Development Corporation which provide services almost entirely to the primary government. These corporations have substantively the same governing body as the City. The issuance of conduit debt for the corporations is discussed in *Note 15*. The financial activity of the Mesquite Housing Finance Corporation is reported as part of the Other Special Revenue fund and does not issue separate financial statements. The Mesquite Health Facilities Development Corporation and Mesquite Industrial Development Corporation did not have any financial activity to report during the fiscal year.

Government-Wide Financial Statements

The government-wide financial statements (*i.e.*, the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the reporting entity. All fiduciary activities are reported only in the fund financial statements. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The effect of inter-fund activity has been removed from these statements. The inter-fund services provided and used are not eliminated in this process of consolidation. Governmental activities, which are partially 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 net position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as "net position." Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Mesquite is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the fiscal year. This statement also demonstrates the degree to which the direct expenses of a given activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All nonmajor funds are aggregated and presented in a single column. 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 of Mesquite, like other local governments, uses fund accounting to aid financial management and demonstrate legal compliance.

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

The City maintains ten governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Local Finance Capital Project, Bond Finance Capital Project funds, Debt Service, and Other Grants, all of which are major funds. Data from the other five funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. Budgetary comparison schedules follow these combining statements for those nonmajor funds that adopt annual budgets.

Proprietary funds are maintained for enterprise and internal service operations of the City. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Water and Sewer, Drainage Utility District, and Solid Waste and Equipment Services funds are considered to be major enterprise funds and the Municipal Airport and Golf Course funds are presented in a separate column as the nonmajor enterprise funds.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health claims and general liability operations. The activity in these funds is allocated between governmental type activities and business type activities based on proportionate use for presentation in the government wide statements. Both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The resources of these funds are not reflected in the government-wide financial statements because they are not available to support the City's own programs. The City reports three fiduciary funds, including the Tax Collection, Seized Assets, and Cemetery Trust Funds. The fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. With the economic resources measurement focus, all assets, deferred outflow of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are reported on the statement of net position.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "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. For this purpose, the City considers revenues to be available if they are collected within 60 days of the fiscal year end except investment income, which is recorded as earned. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and other long-term liabilities, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt, including leases and subscription liabilities, are reported as other financing sources.

The revenues susceptible to accrual are ad valorem taxes, gross receipts taxes, licenses, charges for services, fines and fees, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or with the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government, as they are deemed immaterial.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, drainage utility and other proprietary operations are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation/amortization on capital and lease assets. All revenues and expenses that do not meet this definition are reported as non-operating revenues and expenses.

The City of Mesquite reports the following major governmental funds:

- The General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The Local Finance capital project fund is used to account for financial resources generated from local revenue sources to be expended for various capital projects. This fund includes the resources of the eleven Tax Increment Reinvestment Zones, four Public Improvement Districts as well as the Housing Finance, Health Facilities, and Industrial Development Corporations. The individual projects within the Local Finance fund are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.
- The Bond Finance capital project fund is used to account for financial resources generated primarily from bond proceeds to be expended for various capital projects. The individual projects are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.
- The Debt Service fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City.
- The Other Grants fund is a special revenue fund used to account for funds awarded to the City by all federal and state awarding agencies other than those funds accounted for in the Housing Grants fund. The City has designated this fund as major.

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

The City of Mesquite reports the following major proprietary funds:

- The Water and Sewer enterprise fund is used to account for the rendering of water and sewer services to the residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operation, maintenance, debt service, and billing and collecting.
- The Drainage Utility District enterprise fund is used to account for those expenditures incurred as a result of the federally mandated National Pollutant Discharge Elimination System (NPDES) permit program. This federal program requires the City to educate the general public about pollutants and their presence in storm water runoff; adopt a comprehensive storm water ordinance; operate a street sweeping program; design, establish and review storm water drainage improvements; and monitor storm water quality. Funding for the District is from monthly drainage charges to commercial and residential customers, revenue bond proceeds and interest earnings.
- The Solid Waste and Equipment Services fund is used to account for funds received from user fees for residential and commercial solid waste services.

Additionally, the City of Mesquite reports the following fund types:

- Internal service funds account for risk management services (including group medical insurance and general liability) provided to other departments or agencies of the City on a cost-reimbursement basis.
- The private purpose trust fund accounts for contributions made to maintain a small cemetery within the City.
- The custodial funds account for monies held for ad valorem taxes collected on behalf of the Mesquite Independent School District through the end of January 2024 and for funds seized from court cases that are held in escrow until judgment. Any remaining balances included in the Tax Collection fund relates to amounts to be remitted during the next fiscal year, which is when the fund is anticipated to be fully closed out.

Budgetary Data

Budgets are a plan of financial operation providing an estimate of proposed expenditures for a given period and the proposed means of financing them. The budgetary process begins with City department heads (or, in the case of the Quality of Life Corporation, its Board of Directors) developing expenditure budget requests and revenue estimates in April for the fiscal year beginning the following October 1. These requests and estimates are then submitted to the City Manager for review and input. As required by City Charter, the City Manager is to have prepared an annual operating budget by August 15 for the General, Debt Service and certain budgeted Special Revenue funds. The proposed budget is then presented to the City Council for its consideration and adoption through passage of an ordinance.

Between the time the budget is made available to the public and the time it is legally adopted, the City Council provides for several public hearings to gather input from the public. During the public hearings, citizens are encouraged to offer their suggestions and ideas of what programs they would like to be included (or not included) in the budget. During the preparation of the 2024-2025 budget, the City Council conducted three public hearings and held numerous work sessions in an effort to obtain as much citizen input as possible. The adopted budget is reassessed by departments midway through the fiscal year, and revenue and expenditure projections are revised. The City Manager then presents these revisions to the City Council for adoption, resulting in what is termed an amended budget. While infrequent, the City Council may amend the budget prior to or after this mid-year review. All amendments to the budget, however, must be adopted by ordinance. Unexpended appropriations lapse at fiscal year-end.

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

During 2024-2025 the City Council amended the budget in September 2025. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that would increase total fund appropriations must be approved by the City Council. Expenditures may not legally exceed budgeted appropriations at the fund level.

Budgets for the General and the following special revenue funds: Housing Grants, Quality of Life Corporation, Hotel/Motel, and Confiscated Drug are legally adopted on a basis consistent with GAAP on the modified accrual basis of accounting. Accordingly, the budgetary comparison statements and schedules present actual expenditures on a basis consistent with the legally adopted budgets as amended. Capital Project funds are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements. The Other Grants and other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards) and sometimes span a period of more than one fiscal year.

Encumbrances

An encumbrance system is maintained in governmental funds to account for unperformed commitments (*i.e.*, purchase orders, contracts, or other forms of legal commitment). All appropriations and encumbrances lapse at fiscal year-end, and any valid encumbrances outstanding at fiscal year-end are re-appropriated as part of the subsequent year's budget pursuant to state regulations.

Pooled Cash and Investments

Cash balances of all City funds, excluding the accounts payable account and payroll clearing account are pooled into one bank account in order to maximize investment opportunities. Negative balances, if applicable, incurred in pooled cash at year end are treated as inter-fund receivables of the General Fund and inter-fund payables of the deficit fund.

Investments purchased with pooled cash are classified as pooled cash and investments in the accompanying government-wide and fund financial statements. Earnings from these investments are allocated monthly to each fund based on each fund's relative month-end cash and investment balance, except for the debt service fund, which is allocated to the General Fund. Investments are recorded at amortized cost and net asset value, and at fiscal year-end investments with original maturity greater than one year are reflected at fair value on the accompanying government-wide and fund financial statements.

The relationship of an individual fund to the pooled cash and investments account is essentially that of a demand deposit account. Individual funds can withdraw cash from the account as needed, and therefore all equity that the fund has in the pooled cash and investments account is highly liquid. For the purpose of the accompanying statement of cash flows, the City has chosen to reconcile to "pooled cash and investments," as all investments of the funds are regarded as cash equivalents. Deposit and investment risk disclosures are in accordance with GASB Statement No. 40 *Deposit and Investment Risk Disclosures*.

Interfund Receivables and Payables and Interfund Transactions

Arms-length transactions between funds for goods and services are reported as revenues in the selling fund and as expenses/expenditures in the acquiring fund. Any unpaid amounts are appropriately recorded as interfund receivables/payables when liquidation is expected within one year. If anticipated repayment is longer than one year, amounts are classified as advances to/from other funds. Flows of assets from one fund to another with no requirement for repayment or without an equivalent flow of assets in return are accounted for as transfers. Legally authorized transfers are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds. On the government-wide statement of net position, payables and receivables within governmental and business-type activities are eliminated and balances between these activities are reported on a single line entitled "internal balances."

Indirect and Centralized Expenses

The City allocates to the housing grants fund, water and sewer fund, and drainage utility district fund an indirect cost percentage for “centralized” expenses, which include an administrative overhead initially paid by the General Fund. These costs are determined on an annual basis through a cost allocation plan. During fiscal year ended September 30, 2025, the City’s General Fund was reimbursed \$3,998,107 for these services. Interfund reimbursements are reported as an expenditure/expense in the fund ultimately responsible and as a reduction of expenditure/expense in the fund being reimbursed.

Inventory

Inventory is valued at cost using the first-in/first-out (FIFO) method. Inventories are maintained on a perpetual inventory system and adjustments are made at fiscal year-end based upon a physical count. Inventory consists of expendable supplies held for consumption and are recorded as an expenditure upon consumption in governmental funds.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2025, are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are accounted for on the consumption basis in governmental funds.

Restricted Assets

Certain resources of the City are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants or set aside for bond repayment or as stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Customer deposits received by water and wastewater services are, by law, considered to be restricted assets. 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.

Capital, Lease, and Subscription Assets

Capital, lease, and subscription assets, which includes land, buildings, infrastructure, improvements, equipment, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Construction in progress is not depreciated until the assets are placed into service.

The City’s capitalization policy requires that assets capitalized have an original cost of \$10,000 or more and a useful life of at least five years, with the exception of leases and subscriptions which are capitalized if there is a useful life of more than one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

| | |
|-----------------------------|---------------|
| Buildings | 25 - 50 years |
| Infrastructure/improvements | 15 - 50 years |
| Equipment | 5 - 20 years |

Lease Receivable

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

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

Lease Liability

The City is a lessee for noncancellable leases. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the financial statements. The City recognizes lease liability with an initial individual value of \$10,000 or more. At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life or lease term, whichever is shorter.

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

Subscription Liability

The City recognizes a subscription liability and an intangible right-to-use IT asset (subscription asset) in the financial statements. The City recognizes subscription liability with an initial, individual value of \$10,000 or more. Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor and certain payments made before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

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

Unearned Revenue

Governmental funds report a liability, unearned revenue, in connection with resources that have been received, but not yet earned, which consists primarily of grant dollars received in advance of incurring eligible expenditures. Total unearned grant revenue as of September 30, 2025 is \$5,913,386, of which \$1,500,790 relates to ARPA monies received but not yet spent.

Estimated Claims Payable

Property, general liability, and workers' compensation insurance coverage is accounted for in the General Liability Fund, an internal service fund. At year end, the estimated settlement value of claims reported and of claims incurred but not reported in excess of liability insurance limits is classified as estimated claims payable. Group health insurance is accounted for in the Health Claims Fund, an internal service fund. At year end, an estimate of unpaid claims that were incurred prior to September 30, 2025 is accrued based on past claims experience.

Accrued Compensated Absences

Vacation and sick leave are accrued as liabilities as the employees earn the benefits to the extent that they meet all of the following criteria: 1) the City's obligation is attributable to employees' services already rendered; 2) the leave accumulates; and 3) it is more likely than not that the City will compensate the employee for the benefits through leave time or other means, such as cash payments. City employees earn vacation and sick leave in varying amounts. Vacation leave accrues for employees with less than five years of service at the annual rate of 10 working days. Upon attaining five years of service, employees are awarded 15 working days annually until 15 years of service when vacation leave is earned at an annual rate of 20 days. Employees with over 25 service years accrue 25 days annually. Any employee leaving the City in good standing following one year of continuous service is paid for accumulated vacation leave not to exceed 20 working days at their current pay rate. Sick leave accrues at an annual rate of 15 working days. Upon termination, unused accumulated sick leave is paid to employees with three to five years of service at one-third, employees with five to six years of service at two-thirds, and six years and over is paid all accumulated sick leave up to a maximum of 90 days. Police and firefighters are reimbursed upon termination for all unused accumulated sick leave up to the maximum of 90 days no matter how long they were employed by the City as required by State Civil Service law.

The measurement of the liability for compensated absences was determined by applying the last-in-first-out (LIFO) method for vacation and sick time accumulated and includes additional salary related payments for Social Security and Medicare, in accordance with GASB Statement No. 101, *Compensated Absences*. No liability is recorded in the fund statements of governmental funds unless they have matured, as payment of this liability will not be made with expendable available financial resources unless an employee has terminated employment as of the end of a fiscal year. In the government-wide financial statements and proprietary fund statements, the estimated payout for accrued balances within the next fiscal year is recorded as a current liability as the last in first out method is utilized for accruing the total liability.

Pensions

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' 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the City's OPEB Plan, information has been determined on the same basis as they are reported by the OPEB plan. For this purpose, the City recognizes benefit payments when due and payable with the benefit terms.

Long-term Debt

In the government-wide financial statements and the fund level proprietary financial statements, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized using the effective interest method over the life of the bonds. In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources (uses) during the current period. The face amount of debt issued is recorded as other financing sources. Issuance costs are reported as expenditures in the funds receiving the bond proceeds.

Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital, lease, and subscription assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, other debt, and lease/subscription liability that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

Fund Balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called "fund balance." The City's governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes.

- Nonspendable fund balance represents amounts that are either not in a spendable form or are legally or contractually required to remain intact.
- Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers.

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

- Committed fund balance represents amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council adopts another ordinance to remove or revise the limitation. At September 30, 2025, the City had no committed fund balance amounts.
- Assigned fund balance represents amounts that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The Council has authorized City management to assign fund balance. The Council may also assign fund balance, as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.
- Unassigned fund balance represents the residual amount for the general fund that is not contained in the other classifications. The general fund is the only fund that reports a positive unassigned fund balance. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

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

Deferred Outflows/Inflows of Resources

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

- Deferred loss on refunding - A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred pension contributions – These contributions are deferred and recognized in the following fiscal year.
- Difference in expected and actual pension experience – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which the difference occurred.
- Difference in assumption changes - OPEB - This difference is deferred and amortized over the average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the period in which they incurred.
- Change in proportion - Pension - This change in proportion is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they incurred.

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

- Change in proportion - OPEB - This change in proportion is deferred and amortized over the average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the period in which they incurred.

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

- Difference in projected and actual earnings on pension assets - This difference is deferred and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.
- Difference in expected and actual OPEB experience – This difference is deferred and amortized over the average remaining service life of all participants in the OPEB plan and recorded as a component of pension expense beginning with the period in which the difference occurred.
- Difference in assumption changes - Pension - This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they incurred.
- Difference in assumption changes – OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the OPEB plan and recorded as a component of pension expense beginning with the period in which they incurred.
- Change in proportion - Pension - This change in proportion is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they incurred.
- Change in proportion - OPEB - This change in proportion is deferred and amortized over the average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the period in which they incurred.
- Leases – This is reported under both the full accrual and modified accrual basis of accounting. This is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. The City will recognize an inflow of resources from the deferred inflows of resources in a systematic and rational manner over the term of the lease.
- Unavailable revenue – This item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from the following sources: ambulance, ad valorem taxes, court fines and fees, grass and weed mowing, HUD vouchers, and other intergovernmental receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 101, *Compensated Absences*, supersedes Statement 16, *Accounting for Compensated Absences*, issued in 1992. This standard updates the recognition and measurement guidance for compensated absences by aligning the guidance under a unified model. This will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation and can be applied consistently to any type of leave. The City has implemented this Statement in fiscal year 2025, which had no impact on beginning of year net position.

GASB Statement No. 102, *Certain Risk Disclosures*, supersedes the Statement by the National Council of Governmental Accounting (NCGA) Interpretation 6, *Notes to the Financial Statement Disclosure*, paragraph 5. This Standard establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints. For concentrations and constraints meeting the definitions in the Standard, governments will disclose the concentrations or constraints, related events that could have a substantial impact, and action taken to mitigate the risk. The City has implemented this Statement in fiscal year 2025, which had no impact on beginning of year net position.

Future Accounting Pronouncements

GASB Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential to decision making and assessing a government's accountability. The statement focuses on improvements to Management's Discussion and Analysis, proprietary fund statement of revenues, expenses and changes in net position, major component units, and other areas. The requirements of this Statement will take effect for the City's fiscal year 2027. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to improve disclosures related to certain types of capital assets. The purpose is to provide users of governmental financial statements with essential information about certain types of capital assets. The requirements of this Statement will take effect for the City's fiscal year 2026. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in the application and better meeting the information needs of financial statement users. The requirements of this Statement will take effect for the City's fiscal year 2027. Management has not yet determined the impact of this Statement on its financial statements.

Note 2. Deposits and Investments

The City maintains a cash and investment pool that combines cash of the various funds in order to maximize investment opportunities. The amounts reflected below include the revenue bond reserve cash and investments reflected on the government-wide and proprietary fund financial statements of net position.

Deposits

At September 30, 2025, the carrying amount of the City and its blended component units' demand deposits totaled \$32,218,118 and the bank balance was \$37,142,727. Cash on hand for the City was \$17,220. The carrying amount of cash for the Fiduciary funds was \$1,871,280. The carrying amount of cash for the Public Improvement Districts was \$11,436,302. The City had approximately \$300,000 of uninsured deposit balances as of September 30, 2025.

Custodial Credit Risk

In the case of deposits, this is the risk that, in the event of a bank's failure, the City's deposits may not be returned to it. Pursuant to provisions of both the Texas Public Funds Investment Act and the Public Funds Investment Policy of the City, deposits of the City that exceed the federal depository insurance coverage levels are materially collateralized with securities held by a third-party custodian in the City's name. Investments, other than investments that are obligations of the U.S. government, its agencies, and instrumentalities, are insured or registered in the City's name and held by a third-party custodian. In order to anticipate market changes and to provide a level of security for all funds, the collateralization level will be 102% (on a market value basis) of principal and accrued interest on the deposits.

Investments

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

1. Obligations of the United States of America its agencies and instrumentalities, including the Federal Home Loan Bank that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, in an amount up to 100% of portfolio.
2. Obligations of the state of Texas, its agencies, counties, cities, and other political subdivisions rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent, in an amount up to 20% of portfolio.
3. Certificates of Deposit, in an amount up to 20% of portfolio, purchased with the following conditions:
 - a. Shall be issued by a depository institution that has its main office or branch office in the state of Texas.
 - b. Shall be guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured by obligations in a manner and amount provided by law for deposits of the investing entity as described in Section 2256.010 (b) (3) of the PFIA.
 - c. Shall be purchased through a broker that has a main office or a branch office in this state and is selected from a list adopted by the investing entity.
 - d. The broker or depository institution selected shall arrange for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the City's account.

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

- e. The City shall appoint the depository institution selected or a clearing broker-dealer registered with the Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c.3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the City.
4. Fully collateralized direct repurchase agreements with a defined termination date secured by cash and obligations of the United States or its agencies and instrumentalities. These securities or cash shall be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third-party selected and approved by the City. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 102% at the time funds are disbursed. Repurchase agreement security types will be limited to 20% of the portfolio.
5. Money Market Mutual funds that are: 1) registered and regulated by the SEC, 2) have a dollar weighted average stated maturity of 90 days or less, 3) maintain a net asset value of \$1 for each share, 4) investments are exclusive in obligations approved by the PFIA, 5) continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and 6) provide a prospectus and other information as described in Section 2256.014 (a) (2) of the PFIA. Total investment in all money market mutual funds shall not exceed 50% of the portfolio.
6. Government investment pools which: 1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) investments are exclusive in obligations approved by the PFIA and 4) are authorized by resolution or ordinance by City Council. Investment in any one local government investment pool shall not exceed 40% of the City's portfolio. Total investment in all pools shall not exceed 80% of the City's portfolio.

Investment Pools

Investments of the City, other than for amortized cost pools, are valued based upon quotes obtained from Interactive Data Pricing and Reference Data (IDC). Investments in these pools are valued based upon the value of pool shares. No investments are reported at amortized cost, except for the City's investments in the Texas Local Government Investment Pool. The City invests in three pools; TexStar, Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS), and the Texas Local Government Investment Pool (TexPool), which were created under the Interlocal Cooperation Act, Texas Government Code Ann. Ch. 791, and the Texas Government Code Ann. Ch. 2256. TexStar and Texas CLASS are rated AAAM and seeks to maintain a constant net asset value of \$1.00. Investments in the pools are considered to be cash equivalents when preparing these financial statements. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is the sole officer, director, and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act, Texas Government Code Ann. chapter 2256. TexStar is governed by a five-member Board of Directors comprising three government officials or employees and two other persons with expertise in public finance. Additionally, TexStar has a five-member Advisory Board. Texas CLASS is supervised by a Board of Trustees (the Board) who are elected by the Participants and shall be an odd number of three or more. Additionally, Texas CLASS has a five-member Advisory Board. Fair value of the City's position in the pools is, in all material respects, the same as the value of the pool shares. Investment income earned on pooled cash and investments is allocated to each fund based upon each fund's weighted average daily cash and investment balances.

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from increasing interest rates, the City's investment policy establishes the portfolio's maximum average dollar-weighted maturity to no more than one year. By policy, the City will not directly invest in securities maturing more than three years from the date of purchase.

The City's investments at September 30, 2025, are:

| Investment Type | Fair Value | Weighted Average Maturity (Years) |
|------------------------------|-----------------------|--|
| Managed Pools: | | |
| TexPool | \$ 13,857,306 | 0.121 |
| TexPool Prime | 80,927,837 | 0.140 |
| TexSTAR | 13,157,514 | 0.099 |
| Texas Class | 138,204,287 | 0.230 |
| Money Market: | | |
| Wells Fargo (Morgan Stanley) | 12,164,477 | 0.110 |
| US Agency Securities | 113,969,723 | 1.820 |
| Total | <u>\$ 372,281,144</u> | <u>0.685</u> |

Credit Risk

The City's investment policy helps minimize credit risk by requiring the City to limit investments to the safest types of securities, pre-qualify the financial institutions and broker/dealers with which the City will do business, and diversify the investment portfolio so that potential losses on individual securities will be minimized. The City's investments in U.S. Agency securities (FHLB, FFCB, and FHLMC) are rated at least AA by Standard and Poor's and Aaa by Moody's Investor's Service at the date of purchase. The investment in Texas Local Government Pools (TexPool, TexPool Prime, TexStar, and Texas Class) carried a credit rating of AAAm by Standard and Poor's as of September 30, 2025. TexPool and TexPool Prime are overseen by the Texas State Comptroller of Public Accounts, and the fair value is the same as the value of the pool shares. TexStar is overseen by a Governing Board consisting of individuals from participating Government Entities in the pool, and the fair value is the same as the value of the pool shares. Texas Class is overseen by a Board of Trustees consisting of individuals from active participating Government Entities in the pool that are elected by the participants, and the fair value is the same as the value of the pool shares. The City's investments in Morgan Stanley's Money Market fund through Wells Fargo carried a credit rating of AAAm by Standard and Poor's and Aaa-mf by Moody's Investor's Service as of September 30, 2025.

Concentration of Credit Risk

With the exception of U.S. Treasury securities, the City's investment policy limits the amount that may be invested in any single security type. Investment Policy limits investment portfolio to no more than 80% investment pools, 20% certificates of deposit, 50% money market funds, 20% obligations of the state of Texas, its agencies, counties, cities, and other political subdivisions, and 20% repurchase agreements of the total investment portfolio. As of September 30, 2025, the City's total investments are in the following: US agency issues (30.61%) consisting of U.S. Treasury Notes (28.73%), FHLB (0.54%), and Farm Credit (1.34%); investment pools (66.12%); and money market funds (3.27%).

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

Note 3. Fair Value of Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2025:

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|-----------------------|---|---|--|
| Investments by Fair Value Level | | | | |
| U.S. agency securities | \$ 113,969,723 | \$ 113,969,723 | \$ - | \$ - |
| Total Investments by Fair Value Level | 113,969,723 | <u>\$ 113,969,723</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments Measured at Net Asset Value | | | | |
| Texas Class | 138,204,287 | | | |
| TexStar | 13,157,514 | | | |
| Money Market Fund | <u>12,164,477</u> | | | |
| | 163,526,278 | | | |
| Investments Measured at Amortized Cost | | | | |
| TexPool | 13,857,306 | | | |
| TexPool Prime | <u>80,927,837</u> | | | |
| | <u>94,785,143</u> | | | |
| Total Investments | <u>\$ 372,281,144</u> | | | |

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

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for the applicable external investment pool balances. Additionally, the City has investments in governmental pools as listed above, which are recorded at amortized cost, and excluded from the fair value hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At September 30, 2025, no investments here held by the City meeting the Level 3 hierarchy classification.

Investment in State Investment Pools

During the year, the City invested in multiple public fund investment pools, including TexStar, TexPool, TexPool Prime, and Texas CLASS. The fair value of the position of Texas CLASS and TexStar are measured at net asset value and is designed to approximate the share value. Each pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds.

Note 4. Ad Valorem Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraised value less applicable exemptions authorized by the City Council. Appraised values are established by the Dallas Central Appraisal District and the Kaufman Central Appraisal District at 100% of estimated market value. The total assessed value for the tax roll of January 1, 2024, upon which the 2025 fiscal year levy was based, was \$15,315,595,549. Taxes are due October 1, immediately following the January 1 lien date and are delinquent after the following January 31st. A delinquent tax incurs a penalty of 6% beginning February 1, plus 1% for each additional month the tax remains unpaid to a maximum of 12% on July 1. A delinquent tax accrues interest at a rate of 1% for each month or portion of a month until the taxes are paid. Current tax collections for the year ended September 30, 2025, were \$100,033,560 or 99.6% of the current tax levy.

In Texas, countywide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 3.5%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 3.5% above the tax rate of the previous year.

The City Charter does not provide for a debt limit; therefore, no computation of legal debt margin can be made. However, at September 30, 2025, the City had a tax rate of \$0.69000 for every \$100 of valuation based upon a maximum ad valorem tax rate of \$2.50 for every \$100 of valuation imposed by Texas Constitutional law.

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

Note 5. Receivables

Receivables at September 30, 2025 for the government's individual major funds, which have receivables and nonmajor in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General | Local Finance | Bond Finance | Other Grants | Nonmajor Governmental Funds | Total Governmental Funds |
|------------------------------------|----------------------|----------------------|---------------------|---------------------|------------------------------------|---------------------------------|
| Receivables: | | | | | | |
| Accounts | \$ 16,698,126 | \$ 21,774 | \$ - | \$ - | \$ 395,395 | \$ 17,115,295 |
| Ad valorem taxes | 3,830,417 | - | - | - | - | 3,830,417 |
| Other taxes | 9,160,360 | - | - | - | 2,592,455 | 11,752,815 |
| Leases | 1,038,620 | 273,795 | - | - | - | 1,312,415 |
| Note receivable | 528,560 | 771,148 | - | - | - | 1,299,708 |
| Intergovernmental | - | - | - | 6,411,263 | - | 6,411,263 |
| Gross Receivables | 31,256,083 | 1,066,717 | - | 6,411,263 | 2,987,850 | 41,721,913 |
| Less: Allowance for Uncollectibles | (13,329,195) | - | - | - | - | (13,329,195) |
| Net Total Receivables | <u>\$ 17,926,888</u> | <u>\$ 1,066,717</u> | <u>\$ -</u> | <u>\$ 6,411,263</u> | <u>\$ 2,987,850</u> | <u>\$ 28,392,718</u> |

| | Water and Sewer | Drainage Utility District | Solid Waste and Equipment Services | Nonmajor Enterprise Funds | Total Enterprise Funds | Governmental Activities Internal Service Funds |
|------------------------------------|------------------------|----------------------------------|---|----------------------------------|-------------------------------|---|
| Receivables: | | | | | | |
| Accounts | \$ 16,121,735 | \$ 1,090,000 | \$ 4,182,505 | \$ 26,374 | \$ 21,420,614 | \$ 551,169 |
| Note receivable* | - | 2,542,951 | - | - | 2,542,951 | - |
| Gross Receivables | 16,121,735 | 3,632,951 | 4,182,505 | 26,374 | 23,963,565 | 551,169 |
| Less: Allowance for Uncollectibles | (1,235,694) | (120,079) | (284,325) | (14,578) | (1,654,676) | (68,871) |
| Net Total Receivables | <u>\$ 14,886,041</u> | <u>\$ 3,512,872</u> | <u>\$ 3,898,180</u> | <u>\$ 11,796</u> | <u>\$ 22,308,889</u> | <u>\$ 482,298</u> |

* The note receivable relates to funds loaned to an economic developer for the construction of drainage and easement improvements to be repaid by 2027.

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

The governmental funds report unavailable revenues from the following sources:

| Source of Revenue | Total |
|---|---------------------------------|
| General fund - ambulance accounts receivable | \$ 920,933 |
| General fund - ad valorem taxes receivable | 2,112,833 |
| General fund - court fines receivable | 1,378,174 |
| General fund - accounts receivable, grass and weed mowing | 679,846 |
| General fund - miscellaneous accounts receivable | 837,269 |
| Local Finance capital projects fund - other receivable | 18,600 |
| Other Grants - intergovernmental receivable | 5,959,613 |
| Nonmajor funds - intergovernmental receivable | <u>236,458</u> |
| Total Unavailable Revenues for Governmental Funds | <u><u>\$ 12,143,726</u></u> |

Note 6. Capital, Lease, and Subscription Assets

The following is a summary of the changes in capital, lease, and subscription assets for the fiscal year ended September 30, 2025:

| | Beginning Balance | Additions | Sales / Disposals | Transfers | Ending Balance |
|--|---------------------------|--------------------------|-------------------------|----------------------------|---------------------------|
| Governmental Activities: | | | | | |
| Capital Assets, not Being Depreciated: | | | | | |
| Land | \$ 26,100,440 | \$ 85,300 | (53,179) | \$ - | \$ 26,132,561 |
| Construction in progress | 120,672,339 | 41,626,538 | (542,872) | (67,021,652) | 94,734,353 |
| Total Capital Assets, not Being Depreciated | 146,772,779 | 41,711,838 | (596,051) | (67,021,652) | 120,866,914 |
| Capital, Lease, and Subscription Assets, Being Depreciated/Amortized: | | | | | |
| Buildings | 110,013,844 | 1,290,474 | (15,389) | 708,568 | 111,997,497 |
| Infrastructure | 462,659,807 | 20,024,307 | - | 49,703,035 | 532,387,149 |
| Improvements | 36,764,345 | 2,196,694 | (47,734) | 2,720,710 | 41,634,015 |
| Equipment | 97,103,175 | 9,352,875 | (2,576,052) | 684,599 | 104,564,597 |
| Lease assets | 557,855 | 12,644 | (102,333) | - | 468,166 |
| Subscription assets | 1,589,200 | 5,669,672 | (275,758) | - | 6,983,114 |
| Total Capital, Lease, and Subscription Assets, Being Depreciated/Amortized: | 708,688,226 | 38,546,666 | (3,017,266) | 53,816,912 | 798,034,538 |
| Less Accumulated Depreciation/Amortization for: | | | | | |
| Buildings | (50,111,166) | (2,721,257) | - | - | (52,832,423) |
| Infrastructure | (188,993,323) | (8,194,275) | - | - | (197,187,598) |
| Improvements | (19,605,287) | (1,535,023) | 47,734 | - | (21,092,576) |
| Equipment | (67,546,274) | (7,524,335) | 2,383,206 | - | (72,687,403) |
| Lease assets | (273,572) | (100,916) | 102,333 | - | (272,155) |
| Subscription assets | (685,154) | (1,457,605) | 275,758 | - | (1,867,001) |
| Total Accumulated Depreciation/Amortization | (327,214,776) | (21,533,411) | 2,809,031 | - | (345,939,156) |
| Total Capital, Lease, and Subscription Assets, Being Depreciated/Amortized, Net | 381,473,450 | 17,013,255 | (208,235) | 53,816,912 | 452,095,382 |
| Governmental Activities Capital, Lease, and Subscription Assets, Net | <u>\$ 528,246,229</u> | <u>\$ 58,725,093</u> | <u>\$ (804,286)</u> | <u>\$ (13,204,740)</u> | <u>\$ 572,962,296</u> |

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

| | Beginning Balance | Additions | Sales / Disposals | Transfers | Ending Balance |
|--|------------------------------|----------------------|------------------------------|----------------------|---------------------------|
| Business-type Activities: | | | | | |
| Capital Assets, not Being Depreciated: | | | | | |
| Land | \$ 13,338,876 | \$ 252,277 | \$ - | \$ - | \$ 13,591,153 |
| Construction in progress | 29,494,131 | 17,477,406 | (3,167,570) | (17,550,060) | 26,253,907 |
| Total Capital Assets, Not Being Depreciated | <u>42,833,007</u> | <u>17,729,683</u> | <u>(3,167,570)</u> | <u>(17,550,060)</u> | <u>39,845,060</u> |
| Capital and Lease Assets, Being Depreciated/Amortized: | | | | | |
| Buildings | 14,736,925 | 230,511 | - | 13,160,691 | 28,128,127 |
| Infrastructure | 474,728,843 | 24,263,515 | - | 13,925,838 | 512,918,196 |
| Improvements | 7,974,991 | 1,884,272 | - | 3,654,981 | 13,514,244 |
| Equipment | 30,483,941 | 4,139,529 | (1,171,752) | 13,290 | 33,465,008 |
| Lease assets | 915,125 | - | - | - | 915,125 |
| Total Capital and Lease Assets, Being Depreciated/Amortized | <u>528,839,825</u> | <u>30,517,827</u> | <u>(1,171,752)</u> | <u>30,754,800</u> | <u>588,940,700</u> |
| Less Accumulated Depreciation/Amortization for: | | | | | |
| Buildings | (4,644,508) | (579,057) | - | - | (5,223,565) |
| Infrastructure | (157,002,692) | (9,757,651) | - | - | (166,760,343) |
| Improvements | (3,064,089) | (695,399) | - | - | (3,759,488) |
| Equipment | (19,562,644) | (2,759,594) | 1,171,752 | - | (21,150,486) |
| Lease assets | (307,106) | (218,880) | - | - | (525,986) |
| Total Accumulated Depreciation/Amortization | <u>(184,581,039)</u> | <u>(14,010,581)</u> | <u>1,171,752</u> | <u>-</u> | <u>(197,419,868)</u> |
| Total Capital and Lease Assets, Being Depreciated/Amortized, Net | <u>344,258,786</u> | <u>16,507,246</u> | <u>-</u> | <u>30,754,800</u> | <u>391,520,832</u> |
| Business-type Activities Capital and Lease Assets, Net | <u>\$ 387,091,793</u> | <u>\$ 34,236,929</u> | <u>\$ (3,167,570)</u> | <u>\$ 13,204,740</u> | <u>\$ 431,365,892</u> |

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

Governmental Activities:

| | |
|-------------------------------|----------------------|
| General government | \$ 3,166,285 |
| Fire services | 2,197,609 |
| Police services | 4,118,037 |
| Public services | 9,627,795 |
| Library services | 117,802 |
| Parks and recreation | 2,305,883 |
| Total Governmental Activities | <u>\$ 21,533,411</u> |

Business-type Activities:

| | |
|------------------------------------|----------------------|
| Water and sewer | \$ 8,948,909 |
| Drainage utility | 2,053,776 |
| Municipal airport | 590,766 |
| Municipal golf course | 390,386 |
| Solid waste and equipment services | 2,026,744 |
| Total Business-type Activities | <u>\$ 14,010,581</u> |

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

Construction Commitments

The City has active construction projects as of September 30, 2025. Projects include parks and recreation improvements, building improvements, fire improvement, as well as improvements in water storage and distribution facilities. Construction in progress has been categorized by the primary revenue source being used to fund the construction as follows:

| | <u>Remaining Construction Commitments</u> |
|---|---|
| Governmental Activities: | |
| Projects funded by general obligation bonds: | |
| Streets | \$ 9,189 |
| Public safety | 926,311 |
| Facility maintenance | 14,617 |
| Transportation | 9,189 |
| Neighborhood services | 45,169 |
| Administration | 42,738 |
| Information technology | 18,899 |
| Public works | 260,679 |
| Projects funded by local finance sources: | |
| Municipal building | 12,013 |
| Projects funded by general sales tax (4-B portion): | |
| Transportation | 9,189 |
| Public safety | 73,523 |
| Parks and recreation | 21,194 |
| Projects funded by grant funds: | |
| Animal shelter | 70,818 |
| Projects funded by special revenue funds: | |
| Public safety | 5,758 |
| Library | 904 |
| | <hr/> |
| Total Governmental Activities | <u>\$ 1,520,190</u> |
| Business-type Activities | |
| Projects funded by revenue bonds: | |
| Water and sewer | \$ 293,551 |
| Projects funded by general obligation bonds: | |
| Golf course | <hr/> 15,825 |
| | <hr/> |
| Total Business-type Activities | <u>\$ 309,376</u> |

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

Note 7. Interfund Receivables, Payables, and Transfers

Due to/from other funds

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The amounts between the local finance fund and municipal airport fund related to funding to cover capital projects related to the purchase of two hangars. The Municipal Airport fund is budgeted to begin repayment on the loan to the Local Finance fund in \$100,000 installments beginning in fiscal year 2026. The composition of interfund balances as of September 30, 2025 is as follows:

| Receivable Fund | Payable Fund | Current | Long-Term | Total |
|------------------------|------------------------|-------------------|-------------------|-------------------|
| Local Finance Fund | Municipal Airport Fund | \$ 100,000 | \$ 695,000 | \$ 795,000 |
| | | <u>\$ 100,000</u> | <u>\$ 695,000</u> | <u>\$ 795,000</u> |

Transfers

Transfers were as follows for the fiscal year ended September 30, 2025:

| Fund | Transfers In | Transfers Out |
|------------------------------------|----------------------|----------------------|
| General | \$ 11,903,497 | \$ 29,793,716 |
| Local Finance | 2,750,000 | 3,125,731 |
| Bond Finance | 69,878 | 2,297,412 |
| Debt Service | 31,255,095 | - |
| Nonmajor Governmental Funds | - | 2,779,376 |
| Water and Sewer | 1,380,000 | 6,235,654 |
| Drainage Utility District | 559,330 | 700,468 |
| Solid Waste and Equipment Services | 1,897,927 | 6,977,698 |
| Nonmajor Enterprise Funds | 415,036 | 320,708 |
| Internal Service Funds | 2,000,000 | - |
| | <u>\$ 52,230,763</u> | <u>\$ 52,230,763</u> |

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

The transfers were for the following purposes:

| Transfer from Fund / Purpose | Transfer to Fund | Amount |
|---|------------------------------------|-----------------------------|
| General Fund: | | |
| Property tax debt service levy | Debt Service | \$ 25,043,716 |
| Capital projects | Local Finance | 2,750,000 |
| Health Claims | Group Medical Insurance | <u>2,000,000</u> |
| | | 29,793,716 |
| Local Finance Fund: | | |
| Impact Fees (Water) | Water and Sewer | 1,000,000 |
| Impact Fees (Sewer) | Water and Sewer | 380,000 |
| TIRZ No. 9 Innovative Way & Executive Blvd. | Debt Service | 924,850 |
| TIRZ No. 2 Capital Projects | Debt Service | 246,000 |
| TIRZ No.2 S. Mesquite Create Drainage | Drainage | 476,950 |
| Airport Improvements | Municipal Airport | <u>97,931</u> |
| | | 3,125,731 |
| Bond Finance Fund: | | |
| Drainage improvements | Drainage | 82,380 |
| Commercial solid waste equipment | Solid Waste and Equipment Services | 1,897,927 |
| Golf capital improvements | Golf | <u>317,105</u> |
| | | 2,297,412 |
| Nonmajor Governmental Funds: | | |
| Hotel/Motel tax : | | |
| General obligation debt service | Debt Service | <u>400,945</u> |
| | | 400,945 |
| Mesquite Quality of Life Corporation (4B Sales Tax) Fund: | | |
| General obligation debt service | Debt Service | <u>1,333,431</u> |
| | | 1,333,431 |
| Other Special Revenue: | | |
| 9-1-1 operations subsidy | General | 855,000 |
| Traffic enforcement | General | 15,000 |
| Child safety fees | General | <u>175,000</u> |
| | | 1,045,000 |
| Water and Sewer Enterprise Fund: | | |
| Convention center equipment | General | 10,637 |
| W&S Debt Service/Transfer | Debt Service | 537,007 |
| Payment in lieu of taxes (PILOT) | General | <u>5,688,010</u> |
| | | 6,235,654 |
| Drainage Utility District Fund: | | |
| Service center equipment | Bond Finance | 69,878 |
| Payment in lieu of taxes (PILOT) | General | <u>630,590</u> |
| | | 700,468 |
| Solid Waste and Equipment Services | | |
| SW/ES Debt Service/Transfer | Debt Service | 2,448,438 |
| Payment in lieu of taxes (PILOT) | General | <u>4,529,260</u> |
| | | 6,977,698 |
| Nonmajor Enterprise Fund: | | |
| Municipal airport | Debt Service | <u>320,708</u> |
| | | 320,708 |
| | Total | <u><u>\$ 52,230,763</u></u> |

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

Note 8. Leases

Leases Liability

The City's confiscated drug fund has an agreement for a police vehicle, the terms of which expire in 2026 and the general fund has agreements for equipment, the terms of which expire in various years through 2030. During the fiscal year ended September 30, 2025, the City did not recognize any rental expense for variable payments not previously included in the measurement of the lease liability.

The City's proprietary funds have agreements for vehicles and equipment, the terms of which expire in various years through 2027. During the fiscal year ended September 30, 2025, the City did not recognize any rental expense for variable payments not previously included in the measurement of the lease liability.

The following is a schedule by year of payments under the leases as of September 30, 2025:

| Fiscal Year Ending September 30, | Governmental Activities | | |
|---|--------------------------------|-----------------|-------------------|
| | Principal | Interest | Total |
| 2026 | \$ 86,414 | \$ 3,855 | \$ 90,269 |
| 2027 | 43,325 | 2,490 | 45,815 |
| 2028 | 44,595 | 1,215 | 45,810 |
| 2029 | 24,115 | 154 | 24,269 |
| 2030 | 673 | 3 | 676 |
| Total | <u>\$ 199,122</u> | <u>\$ 7,717</u> | <u>\$ 206,839</u> |

| Fiscal Year Ending September 30, | Business-Type Activities | | |
|---|---------------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2026 | 222,048 | 8,088 | 230,136 |
| 2027 | 187,172 | 2,542 | 189,714 |
| Total | <u>\$ 409,220</u> | <u>\$ 10,630</u> | <u>\$ 419,850</u> |

Leases Receivable

The City's local finance fund leases building space to third parties, the terms of which expire through 2038, and the general fund leases land space and equipment to third parties, the terms of which expire between 2029 and 2047. The City recognized approximately \$25,000 of lease revenue and \$73,000 interest revenue during the current fiscal year related to the leases. As of September 30, 2025, the City's local finance fund and general fund receivable for lease payments was \$273,076 and \$975,919, respectively, and the balance of the deferred inflow of resources was \$249,461 and \$869,796, respectively. The City recognized \$421,773 in rental revenue for variable payments during the year.

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

The following is a schedule by year of receipts under the leases as of September 30, 2025:

| <u>Fiscal Year Ending September 30,</u> | <u>Governmental Activities</u> | | |
|---|--------------------------------|-------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2026 | \$ 59,943 | \$ 71,109 | \$ 131,052 |
| 2027 | 68,657 | 68,670 | 137,327 |
| 2028 | 77,891 | 65,834 | 143,725 |
| 2029 | 87,675 | 62,711 | 150,386 |
| 2030 | 33,184 | 61,220 | 94,404 |
| 2031-2035 | 223,873 | 277,355 | 501,228 |
| 2036-2040 | 273,379 | 204,715 | 478,094 |
| 2041-2045 | 304,643 | 99,664 | 404,307 |
| 2046-2047 | 119,750 | 6,495 | 126,245 |
| Total | <u>\$ 1,248,995</u> | <u>\$ 917,773</u> | <u>\$ 2,166,768</u> |

Regulated Leases

Business-Type Activities

In accordance with GASB 87, the City does not recognize a lease receivable and a deferred inflow of resources for regulated leases in which the City is the lessor. Regulated leases are certain leases that are subject to external laws, regulation, or legal rulings, e.g., the U.S. Department of Transportation and the Federal Aviation Administration, between airports and air carriers and other aeronautical users. The City has regulated leases related to the City's regional airport. These leases are for use of the land and structures owned by the City. The tenant constructs or improves, owns, and maintains all the improvements on the land. The leases allow access to the land for aeronautical use for private purposes and does not qualify as public use. At the end of the ground lease, the improvements revert to City ownership. The City had 16 leases during the year that had terms exceeding one year. The revenue recognized by the business-type activities for the regulated leases during the fiscal year ended September 30, 2025 was approximately \$1,116,000, and approximately \$947,000 was related to variable lease payments received.

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

The future lease receipts for the City's regulated leases as of September 30, 2025 were as follows:

| <u>Fiscal Year Ending September 30,</u> | <u>Future Regulated Lease Receipts</u> |
|---|--|
| 2026 | \$ 118,806 |
| 2027 | 91,353 |
| 2028 | 87,803 |
| 2029 | 87,803 |
| 2030 | 87,803 |
| 2031-2035 | 364,710 |
| 2036-2040 | 105,800 |
| 2041-2045 | 58,304 |
| 2046-2050 | 12,250 |
| 2051-2054 | 6,550 |
| | <hr/> |
| Total | <u>\$ 1,021,182</u> |

Note 9. Subscription Liability

The City's general fund has various subscription-based information technology arrangements (SBITAs), the terms of which expire in various years through 2029. During the fiscal year ended September 30, 2025, the City did not recognize any subscription expense for variable payments not previously included in the measurement of the subscription liability.

The following is a schedule by year of payments under the subscriptions as of September 30, 2025:

| <u>Fiscal Year Ending September 30,</u> | <u>Governmental Activities</u> | | |
|---|--------------------------------|-------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2026 | 1,306,387 | 101,191 | 1,407,578 |
| 2027 | 1,341,920 | 67,705 | 1,409,625 |
| 2028 | 1,350,389 | 33,708 | 1,384,097 |
| 2029 | 1,121,875 | 2,512 | 1,124,387 |
| | <hr/> | <hr/> | <hr/> |
| Total | <u>\$ 5,120,571</u> | <u>\$ 205,116</u> | <u>\$ 5,325,687</u> |

Note 10. Long-term Liabilities

Various types of long-term debt have been issued by the City for the acquisition and construction of major capital facilities and equipment as follows:

- General obligation bonds have been issued in prior years pursuant to voter authorization for infrastructure and facility projects accounted for in a governmental capital project fund. There were no general obligation bonds issued in the current year.
- Certificate of obligation debt is similar to general obligation bonds in their usage and retirement but do not require voter authorization and are not used for refunding debt. The City issued \$29,975,000 of tax-exempt Certificates, with a premium of \$1,922,077, in August 2025 for: (i) acquisition and installation of City information technology infrastructure and equipment; (ii) designing, engineering, developing, constructing, improving and repairing, extending and expanding streets, thoroughfares and bridges, including streetscaping, related storm drainage improvements, signalization and other traffic controls, sidewalks, street lights and the acquisition of any right of way therefor; (iii) designing, developing, constructing, improving and renovating existing City buildings and facilities, including City Hall facilities, recreation facilities, service center facilities, police facilities, public safety training facilities, solid waste service facilities, arts facilities, field service facilities, and fire stations; (iv) acquisition of equipment and vehicles for various City services and departments, including police, animal services, parks and recreation, enforcement services, neighborhood services, public works, fire, and facilities maintenance services, (v) professional services incurred in connection with items (i) through (iv); and (vi) to pay the costs incurred in connection with the issuance of the Certificates.
- Special Assessment bonds are issued to provide funds for improvements within the City's Public Improvement Districts (PIDs). The City issued \$5,435,000 of special assessment revenue bonds, with a discount of \$19,207, in October 2024 for the Solterra PID.
- Water and sewer revenue bonds are issued to provide funds for certain improvements to the water distribution and wastewater collection systems as well as to refund prior water and sewer debt issues. These bonds are reported in the Water and Sewer fund as the debt will be repaid from revenues of this enterprise fund operation. The City issued \$16,475,000 of Waterworks and Sewer System Revenue Bonds, with a premium of \$891,902, in May 2025 for: (i) acquiring, constructing, installing and equipping additions, improvements and extensions to the City's waterworks and sewer system, (ii) funding the Reserve Fund requirement for the Series 2025 Bonds, and (iii) paying the costs incurred in connection with the issuance of the Series 2025 Bonds. Bonds still outstanding may be called in whole or in part at the City's option on or after ten years from the date of issuance.
- Municipal drainage utility system revenue bonds are issued to provide funds for drainage improvements, including the acquisition and construction of structures, equipment, and facilities for the Drainage Utility District. The City issued \$3,550,000 of Municipal Drainage Utility System Revenue Bonds with a premium of \$170,163, in May 2025 for: (i) providing funds for improvements, additions, and extensions to the drainage system, (ii) to fund the additional amount required to be accumulated in the Reserve Fund as a result of the issuance of the Bonds, and (iii) to pay the costs of the Bonds.

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

Governmental activities long-term bonded debt at September 30, 2025, includes the following individual issues:

| Governmental Activities | Issued Amount | Interest Rate (%) | Maturity Date | Amount Outstanding | Due Within One Year |
|---|----------------------|--------------------------|----------------------|---------------------------|----------------------------|
| General Obligation Bonds- | | | | | |
| Series 2014 refunding | 9,080,000 | 3.00-4.00 | 2/15/2026 | 815,000 | 815,000 |
| Series 2016 refunding & improvement | 40,565,000 | 1.75-5.00 | 2/15/2036 | 21,380,000 | 2,390,000 |
| Series 2017 refunding | 7,600,000 | 2.50-5.00 | 2/15/2029 | 4,170,000 | 970,000 |
| Series 2018 refunding & improvement | 31,475,000 | 4.00-5.00 | 2/15/2038 | 20,675,000 | 1,275,000 |
| Series 2019 refunding | 27,685,000 | 2.00-3.00 | 2/15/2031 | 13,145,000 | 3,050,000 |
| Series 2020 | 14,585,000 | 4.00-5.00 | 2/15/2040 | 12,225,000 | 575,000 |
| Series 2022 | 15,700,000 | 4.50-5.00 | 2/15/2042 | 14,285,000 | 550,000 |
| Series 2024 | 15,445,000 | 4.00-5.00 | 2/15/2044 | 14,915,000 | 485,000 |
| | | | | <u>101,610,000</u> | <u>10,110,000</u> |
| Certificate of Obligation Bonds- | | | | | |
| Series 2012 | 7,235,000 | 2.00-3.375 | 2/15/2032 | 2,520,000 | 330,000 |
| Series 2013 | 5,450,000 | 2.00-3.00 | 2/15/2033 | 1,180,000 | 130,000 |
| Series 2014 | 9,715,000 | 3.00-4.00 | 2/15/2034 | 5,825,000 | 230,000 |
| Series 2015 | 14,835,000 | 2.00-5.00 | 2/15/2035 | 6,500,000 | 290,000 |
| Series 2016 | 11,815,000 | 2.00-5.00 | 2/15/2036 | 3,270,000 | 830,000 |
| Series 2017 | 8,285,000 | 1.00-3.67 | 2/15/2037 | 2,905,000 | 455,000 |
| Series 2018 | 16,050,000 | 4.00-5.00 | 2/15/2038 | 10,570,000 | 795,000 |
| Series 2019 | 10,065,000 | 3.00-4.00 | 2/15/2039 | 5,365,000 | 285,000 |
| Series 2020 | 10,360,000 | 4.00-5.00 | 2/15/2040 | 8,685,000 | 410,000 |
| Series 2021 | 14,120,000 | 2.00-5.00 | 2/15/2041 | 8,080,000 | 990,000 |
| Series 2021-T | 1,885,000 | 0.35-2.72 | 2/15/2041 | 1,560,000 | 85,000 |
| Series 2022A | 24,185,000 | 4.00-5.00 | 2/15/2042 | 21,265,000 | 1,130,000 |
| Series 2022B | 5,105,000 | 4.00-5.00 | 2/15/2042 | 4,610,000 | 185,000 |
| Series 2023 | 56,485,000 | 4.00-5.00 | 2/15/2043 | 49,140,000 | 2,685,000 |
| Series 2024 | 34,090,000 | 4.00-5.00 | 2/15/2044 | 30,600,000 | 1,085,000 |
| Series 2025 | 29,975,000 | 5.00-5.25 | 2/15/2045 | 29,975,000 | 3,210,000 |
| | | | | <u>192,050,000</u> | <u>13,125,000</u> |
| Special Assessment Bonds- | | | | | |
| Series 2018 - Heartland Phase 1 | 5,410,000 | 4.375-5.375 | 9/1/2048 | 4,905,000 | 115,000 |
| Series 2018 - Heartland Phase 2 | 1,835,000 | 5.125-5.625 | 9/1/2048 | 1,645,000 | 45,000 |
| Series 2019 - Iron Horse | 10,050,000 | 6.5 | 9/15/2049 | 9,380,000 | 190,000 |
| Series 2019 - Polo Ridge Phase 1 | 7,040,000 | 4.25-5.125 | 9/15/2048 | 6,365,000 | 150,000 |
| Series 2019 - Polo Ridge Phases 2-6 | 7,500,000 | 5.125-6.125 | 9/15/2048 | 6,870,000 | 145,000 |
| Series 2023 - Solterra A-1 | 33,425,000 | 4.750-5.750 | 9/1/2053 | 4,800,000 | 71,000 |
| Series 2023 - Solterra C-1 | 7,000,000 | 4.625-5.625 | 9/1/2053 | 32,636,000 | 520,000 |
| Series 2023 - Solterra C-2 | 3,525,000 | 4.625-5.670 | 9/1/2053 | 6,813,000 | 114,000 |
| Series 2023 - Heartland Phase 2 | 4,939,000 | 4.625-5.670 | 9/1/2053 | 3,466,000 | 62,000 |
| Series 2024 - Solterra C-3 | 5,435,000 | 4.25-5.25 | 9/1/2053 | 5,303,000 | 90,000 |
| | | | | <u>82,183,000</u> | <u>1,502,000</u> |
| Total governmental activities long-term bonded debt | | | | 375,843,000 | 24,737,000 |
| Add: Net premium/discounts on bonds | | | | 18,281,043 | - |
| Net governmental activities long-term bonded debt | | | | <u>\$ 394,124,043</u> | <u>\$ 24,737,000</u> |

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

Business-type activities long-term bonded debt at September 30, 2025, includes the following individual issues:

| Business-type Activities | Issued Amount | Interest Rate (%) | Interest Date | Amount Outstanding | Due Within One Year |
|---|----------------------|--------------------------|----------------------|---------------------------|----------------------------|
| Water and Sewer Revenue Bonds- | | | | | |
| Series 2012 refunding and improvements | \$ 7,945,000 | 2.00-3.375 | 3/1/2032 | \$ 1,970,000 | \$ 255,000 |
| Series 2013 refunding and improvements | 7,090,000 | 2.00-3.25 | 3/1/2033 | 2,405,000 | 270,000 |
| Series 2014 refunding and improvements | 11,655,000 | 3.00-4.00 | 3/1/2034 | 3,575,000 | 935,000 |
| Series 2015 refunding and improvements | 10,325,000 | 2.00-5.00 | 3/1/2035 | 3,610,000 | 295,000 |
| Series 2016 refunding and improvements | 15,785,000 | 2.00-5.00 | 3/1/2036 | 6,470,000 | 1,145,000 |
| Series 2017 refunding and improvements | 12,555,000 | 2.00-5.00 | 3/1/2037 | 7,700,000 | 840,000 |
| Series 2018 refunding and improvements | 8,920,000 | 4.00-5.00 | 3/1/2038 | 6,100,000 | 485,000 |
| Series 2019 improvements | 15,260,000 | 3.00-5.00 | 3/1/2039 | 11,920,000 | 655,000 |
| Series 2019A refunding | 9,035,000 | 2.00-3.00 | 3/1/2031 | 4,690,000 | 810,000 |
| Series 2020 improvements | 19,430,000 | 4.00-5.00 | 3/1/2040 | 16,320,000 | 770,000 |
| Series 2021 improvements | 26,520,000 | 2.00-4.00 | 3/1/2041 | 22,015,000 | 1,280,000 |
| Series 2022 improvements | 33,785,000 | 5.00-5.00 | 3/1/2042 | 30,365,000 | 1,380,000 |
| Series 2023 | 31,045,000 | 4.00-5.00 | 3/1/2043 | 29,135,000 | 1,035,000 |
| Series 2024 | 17,810,000 | 4.00-5.00 | 3/1/2044 | 17,235,000 | 565,000 |
| Series 2025 | 16,475,000 | 5.00-5.00 | 3/1/2045 | 16,475,000 | 335,000 |
| | | | | <u>179,985,000</u> | <u>11,055,000</u> |
| Drainage Utility System Revenue Bonds- | | | | | |
| Series 2019 improvements | 7,910,000 | 2.00-4.00 | 3/1/2039 | 6,145,000 | 345,000 |
| Series 2022 improvements | 3,715,000 | 5.00-5.00 | 3/1/2042 | 3,395,000 | 130,000 |
| Series 2025 improvements | 3,550,000 | 5.00-5.00 | 3/1/2045 | 3,550,000 | 70,000 |
| | | | | <u>13,090,000</u> | <u>545,000</u> |
| Total business-type activities long-term debt | | | | 193,075,000 | 11,600,000 |
| Add: Net premium/discounts on bonds | | | | <u>11,835,880</u> | <u>-</u> |
| Net business-type activities long-term debt | | | | <u>\$ 204,910,880</u> | <u>\$ 11,600,000</u> |

Annual debt service requirements to maturity for long-term bonded debt are as follows:

| Fiscal Year Ending September 30, | Governmental Activities | | Business-type Activities | |
|---|--------------------------------|-----------------------|---------------------------------|----------------------|
| | Principal | Interest | Principal | Interest |
| 2026 | \$ 24,737,000 | \$ 17,116,552 | \$ 11,600,000 | \$ 8,268,163 |
| 2027 | 21,298,000 | 16,169,137 | 11,640,000 | 7,540,281 |
| 2028 | 21,846,000 | 15,242,878 | 11,640,000 | 7,015,659 |
| 2029 | 20,967,000 | 14,319,883 | 11,615,000 | 6,493,725 |
| 2030 | 20,532,000 | 13,386,978 | 11,530,000 | 5,985,819 |
| 2031-2035 | 99,114,000 | 52,909,972 | 58,900,000 | 22,480,313 |
| 2036-2040 | 82,095,000 | 31,844,059 | 52,230,000 | 10,468,050 |
| 2041-2045 | 54,326,000 | 15,213,044 | 23,920,000 | 2,023,856 |
| 2046-2050 | 20,693,000 | 6,206,556 | - | - |
| 2051-2053 | 10,235,000 | 1,150,825 | - | - |
| Total | <u>\$ 375,843,000</u> | <u>\$ 183,559,884</u> | <u>\$ 193,075,000</u> | <u>\$ 70,275,866</u> |

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

Pledged Revenues

The following is a summary of pledged revenues of the City for the year ended September 30, 2025:

| Debt | Revenue Pledged | Total Pledged Revenue | Current Year Debt Service Requirements | Percentage Portion of Pledged Revenue Stream | Remaining Principal and Interest | Period Revenue Will Not Be Available For Other Purposes |
|---------------------------------------|---|------------------------------|---|---|---|--|
| Water and Sewer Revenue Bonds | Net revenues of the City's waterworks and sewer system | \$ 25,371,911 | \$ 17,695,216 | 69.7% | \$ 245,033,748 | Until 2044 |
| Drainage Utility System Revenue Bonds | Net revenues of the City's drainage utility system | 2,952,319 | 841,575 | 28.5% | 18,317,118 | Until 2042 |
| Special Assessment Bonds | Assessments levied against assessable properties in the Districts | 6,701,192 | 6,024,519 | 89.9% | 159,054,190 | Until 2053 |

Compensated Absences

Compensated absences represent the estimated liability for employees' accrued vacation and sick leave for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund, Housing Grants Fund, Other Grants Fund, and Enterprise Funds based on the assignment of an employee at termination.

Changes in Long-term Liabilities

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---------------------------------|--------------------------|----------------------|----------------------|-----------------------|----------------------------|
| Governmental Activities: | | | | | |
| Bonds Payable: | | | | | |
| General obligation bonds | \$ 112,185,000 | \$ - | \$ 10,575,000 | \$ 101,610,000 | \$ 10,110,000 |
| Certificates of obligation | 174,465,000 | 29,975,000 | 12,390,000 | 192,050,000 | 13,125,000 |
| Special assessment bonds | 78,231,000 | 5,435,000 | 1,483,000 | 82,183,000 | 1,502,000 |
| Total bonds payable | 364,881,000 | 35,410,000 | 24,448,000 | 375,843,000 | 24,737,000 |
| Add: net premium or discount | 19,186,643 | 1,922,077 | 2,827,677 | 18,281,043 | - |
| Net bonds payable | 384,067,643 | 37,332,077 | 27,275,677 | 394,124,043 | 24,737,000 |
| Lease liability | 285,886 | 12,644 | 99,408 | 199,122 | 86,414 |
| Subscription liability | 871,094 | 5,669,672 | 1,420,195 | 5,120,571 | 1,306,387 |
| Accrued compensated absences* | 23,093,899 | - | 5,912,685 | 17,181,214 | 418,825 |
| Estimated claims payable | 3,413,427 | 24,946,033 | 24,750,190 | 3,609,270 | 2,127,013 |
| | \$ 411,731,949 | \$ 67,960,426 | \$ 59,458,155 | \$ 420,234,220 | \$ 28,675,639 |

*The change in accrued compensated absences is presented as a net amount, in accordance with GASB 101.

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------------------|------------------------------|----------------------|----------------------|---------------------------|--------------------------------|
| Business-type Activities: | | | | | |
| Bonds Payable: | | | | | |
| Revenue bonds - water/sewer | \$ 174,065,000 | \$ 16,475,000 | \$ 10,555,000 | \$ 179,985,000 | \$ 11,055,000 |
| Revenue bonds - drainage | 9,995,000 | 3,550,000 | 455,000 | 13,090,000 | 545,000 |
| Total revenue bonds payable | 184,060,000 | 20,025,000 | 11,010,000 | 193,075,000 | 11,600,000 |
| Add: net premium or discount | 12,246,142 | 1,062,065 | 1,472,327 | 11,835,880 | - |
| Net revenue bonds payable | 196,306,142 | 21,087,065 | 12,482,327 | 204,910,880 | 11,600,000 |
| Lease liability | 625,770 | - | 216,550 | 409,220 | 222,048 |
| Accrued compensated absences* | 2,023,382 | - | 965,064 | 1,058,318 | 155,904 |
| | <u>\$ 198,955,294</u> | <u>\$ 21,087,065</u> | <u>\$ 13,663,941</u> | <u>\$ 206,378,418</u> | <u>\$ 11,977,952</u> |

*The change in accrued compensated absences is presented as a net amount, in accordance with GASB 101.

Note 11. Retirement Plans

Texas Municipal Retirement System (TMRS)

Plan Description

The City participates as one of over 900 plans in the defined benefit cash balance pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

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

Plan provisions for the City were as follows:

| | |
|------------------------------------|----------------|
| Deposit Rate: | 7% |
| Matching Ratio (City to Employee): | 2 to 1 |
| A member is vested after: | 5 years |
| Updated Service Credit: | 100% Transfers |
| Annuity Increases to Retirees: | 50% CPI |

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 | 1,018 |
| Inactive employees entitled to but not yet receiving benefits | 718 |
| Active employees | <u>1,246</u> |
| | <u><u>2,982</u></u> |

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, 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 actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 19.01% and 20.19% in calendar years 2023 and 2024, respectively. The City's contributions to TMRS for the year ended September 30, 2025, were \$23,535,294, and were equal to the actuarially required contributions.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total pension liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

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

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of December 31, 2022. They 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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return (Arithmetic) |
|-----------------------|--------------------------|--|
| Global Equity | 35.00% | 7.10% |
| Core Fixed Income | 6.00% | 0.50% |
| Non-Core Fixed Income | 6.00% | 0.68% |
| Hedge Funds | 5.00% | 0.64% |
| Private Equity | 13.00% | 0.85% |
| Private Debt | 13.00% | 0.82% |
| Real Estate | 12.00% | 0.67% |
| Infrastructure | 6.00% | 0.60% |
| Other Private Markets | 4.00% | 0.73% |
| | 100.00% | |

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

Discount Rate

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

Changes in the Net Pension Liability

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|---|------------------------------------|--|----------------------------------|
| Balance at September 30, 2024 | <u>\$ 692,368,322</u> | <u>\$ 542,749,570</u> | <u>\$ 149,618,752</u> |
| Changes for the year: | | | |
| Service cost | 18,163,198 | - | 18,163,198 |
| Interest (on the total pension liability) | 46,034,071 | - | 46,034,071 |
| Difference between expected and actual experience | 4,956,224 | - | 4,956,224 |
| Benefit payments, including refunds of employee contributions | (38,927,369) | (38,927,369) | |
| Administrative expense | - | (361,677) | 361,677 |
| Contributions - member | - | 7,236,334 | (7,236,334) |
| Contributions - employer | - | 21,709,004 | (21,709,004) |
| Net investment income | - | 56,250,041 | (56,250,041) |
| Other | - | (8,460) | 8,460 |
| | <u>30,226,124</u> | <u>45,897,873</u> | <u>(15,671,749)</u> |
| Net Changes | | | |
| | <u>\$ 722,594,446</u> | <u>\$ 588,647,443</u> | <u>\$ 133,947,003</u> |
| Balance at September 30, 2025 | | | |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the sensitivity of the net pension liability to changes in the discount rate when calculating it at 1-percentage-point-lower (5.75%) and 1-percentage-point-higher (7.75%).

| | 1% Decrease 5.75% | Current Rate Assumption 6.75% | 1% Increase 7.75% |
|---------------|------------------------------|--|------------------------------|
| Discount rate | \$ 227,731,572 | \$ 133,947,003 | \$ 56,250,432 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued TMRS financial report which may be obtained at www.tmr.com.

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

For the year ended September 30, 2025, the City recognized pension expense of \$24,684,788.

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Difference in expected and actual experience | \$ 8,734,787 | \$ - |
| Difference between projected and actual investment earnings on pension plan investments | - | 5,413,460 |
| Changes in assumptions | - | 2,101,395 |
| Changes in proportion | 3,453,093 | 3,453,093 |
| Employer contributions subsequent to the measurement date | <u>18,471,615</u> | <u>-</u> |
| | <u>\$ 30,659,495</u> | <u>\$ 10,967,948</u> |

\$18,471,615 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended September 30,</u> | |
|---------------------------------|---------------------|
| 2026 | \$ 4,246,504 |
| 2027 | 8,383,607 |
| 2028 | (7,548,474) |
| 2029 | <u>(3,861,705)</u> |
| | <u>\$ 1,219,932</u> |

Allocation of Pension Items

The City allocates pension items between governmental activities and business-type activities on the basis of employee payroll funding. For the governmental activities, the net pension liability is liquidated by the general fund. For the business type activities, the net pension liability is liquidated by the water and sewer fund, drainage utility district fund, solid waste and equipment services fund, municipal airport fund, and municipal golf course fund.

Deferred Compensation Plan

The City offers its employees a defined contribution, deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan is administered by Lincoln National Life Insurance Company. Benefit provisions are contained in the plan document and were established and can be amended by the action of City Council. All assets and income are held in trust by Wilmington Trust Company for the exclusive benefit of participants and their beneficiaries; therefore, it is not reported in the financial statements of the City.

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

Note 12. Regional Systems for Water Supply and Wastewater Treatment

The City secures substantially all of its water supply and sewer services from the North Texas Municipal Water District (District). The District has police, taxation, and eminent domain powers and is authorized to issue revenue bonds with State approval and functions as a political subdivision independent of the City. The District is governed by a 25-member board (Board), the City being authorized by statute to appoint two of those members. The Board has full power and discretion to establish its budget and to set the rates for services it provides by contracts with its member cities and customers. The Board is empowered by statute and contract, or otherwise permitted by law, to discontinue a facility or to enforce payment of an unpaid charge, fee, or rental due to the District. A portion of the outstanding bonds of the District are contract revenue bonds based on contracts with certain member cities of the District. The City provides for the payment of its contractual obligations with the District from revenue generated by its waterworks and sewer systems. Such contractual payments provide for the payment of the principal and interest requirements on specified indebtedness and associated operation and maintenance expenses of the District. Because of the factors mentioned above the District is not included in the City's basic financial statements.

Water Supply

On August 1, 1988, the City entered into a contract with the District whereby the District agreed to provide water supply for the benefit of the City. The provisions of this contract are similar in concept, essence, and intent to the provisions of the contract originally entered into on December 12, 1953. In return for this service, the City agreed to pay the District at a rate per 1,000-gallon basis, subject to minimum annual payments which approximated \$29.79 million for the fiscal year ended September 30, 2025.

Wastewater Treatment

On October 1, 1975, the City entered into a contract with the District whereby the District agreed to provide a wastewater treatment and disposal system for the benefit of the City and other cities located in Dallas, Collin, Kaufman and Rockwall Counties, Texas. Each member city annually pays its proportionate share of operating expenses and debt service of the District. The City's annual payment for the year ended September 30, 2025, was approximately \$15.45 million.

Note 13. Self-Insurance

Group Health Insurance

The City established the Group Medical Insurance internal service fund in 1984 to account for the provision of group life and health insurance coverage for employees and their dependents. The City's health insurance program is a "self-insured" plan funded by both the City and participating employees. The City makes a predetermined contribution to the plan each biweekly payroll for group life and health insurance coverage for qualifying City employees and a subsidy toward employee dependent coverage. Employees contribute through payroll deductions for the balance of dependent health insurance coverage. The City's health insurance program includes stop loss coverage with a \$300,000 deductible per individual with an unlimited liability limit per claim. According to the Health Care Reform Act lifetime maximums are no longer allowed. The coverage is consistent with prior years and settled claims did exceed this self-insured coverage in fiscal year 2024 by \$53,065 and in fiscal year 2025 by \$778,463.

All claims are reviewed and processed by an independent insurance company. The insurance company pays claims based on the health plan, and the City reimburses the insurance company for the amount of each claim paid. The insurance company charges the City a fee for each claim processed.

The estimated claims payable of \$1,385,885 reported in the Group Medical Insurance internal service fund is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB No. 10), which requires that a liability be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2024 and 2025 were:

| Fiscal Year | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | End of Fiscal Year Liability |
|-------------|------------------------------------|--|----------------|------------------------------|
| 2024 | \$ 730,223 | \$ 20,184,309 | \$ 19,766,355 | \$ 1,148,177 |
| 2025 | \$ 1,148,177 | \$ 22,662,900 | \$ 22,425,192 | \$ 1,385,885 |

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by the City.

General Liability Insurance

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1985, the City established the General Liability internal service fund to account for the provision of property, general liability, and workers' compensation insurance. The City's insurance coverage is through scheduled specific policies with large deductibles with the primary carrier being the Texas Municipal League Risk Pool. Under this program, the General Liability Fund provides coverage for up to a maximum of:

- \$10,000 retention for each real and personal property claim and a scheduled limit on coverage
- \$10,000 retention for each mobile equipment claim and a scheduled limit on coverage
- \$10,000 retention for each auto physical damage claim and a \$1,000,000 limit on coverage

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

- \$100,000 retention for each auto catastrophe claim and a \$10,000,000 limit on coverage
- \$50,000 retention for each law enforcement claim and a \$5,000,000 limit on coverage with a \$10,000,000 annual aggregate
- \$50,000 retention for each general liability claim and a \$1,000,000 limit on coverage with a \$2,000,000 annual aggregate
- \$2,500 retention for each airport hangar-keeper claim and a \$1,000,000 limit on coverage
- \$50,000 retention for each auto liability claim and a \$1,000,000 limit on coverage
- \$5,000 retention for each error and omission claim with an aggregate \$250,000 limit per claim, and a \$5,000,000 limit on coverage with a \$10,000,000 annual aggregate
- \$300,000 retention for each worker’s compensation claim
- \$25,000 retention for each crime coverage claim with a \$500,000 limit on coverage
- \$10,000 retention for each storage tank pollution claim with a \$1,000,000 limit on coverage with a \$2,000,000 annual aggregate

The General Liability Fund is funded through revenues from participating governmental and proprietary funds of the City. The above coverage is consistent with prior years and settled claims have not exceeded the self-insured coverage in any of the past three fiscal years.

The estimated claims payable of \$2,223,385 reported in the General Liability internal service fund is based on the requirements of GASB No. 10. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund’s claims liability amount in fiscal years 2024 and 2025 were:

| Fiscal Year | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | End of Fiscal Year Liability |
|-------------|------------------------------------|--|----------------|------------------------------|
| 2024 | \$ 2,248,882 | \$ 1,792,469 | \$ 1,776,101 | \$ 2,265,250 |
| 2025 | \$ 2,265,250 | \$ 2,283,133 | \$ 2,324,998 | \$ 2,223,385 |

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provisions for reported claims and for claims incurred but not yet reported are determined by an independent consultant.

Note 14. Other Postemployment Benefits (OPEB)

Plan Description

In addition to the pension benefits described in *Note 11*, the City provides postretirement healthcare benefits to retirees and their dependents through a single-employer defined benefit healthcare. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No.75. The plan does not issue a separate financial report.

Benefits Provided

Healthcare benefits provided to retired employees and their dependents are under the same plan options as active employees in accordance with City ordinances. To be eligible for City-subsidized coverage, retired employees who were hired before October 1, 2004 must have 20 years of full-time service with the City or 10 years of service and be at least 60. Former employees aged 60 and over with at least 5 years of service may participate in the plan after retirement. However, the City makes no contribution towards those benefits unless the employee had at least 10 years of service with the City.

Employees hired on and after October 1, 2004 may retire with City-subsidized coverage after the later of 15 years of service and attainment of age 55.

Prior to Medicare eligibility, retirees can remain in a high-deductible health plan (HDHP) with a \$5,000 deductible. Effective January 1, 2018, the City no longer makes contributions to the HSA account for retirees.

Retirees over the age of 65 are offered coverage in one of two fully-insured Medicare Supplement plans (“High Option” and “Low Option”) issued by United American.

Participating retirees must make monthly contributions. The contribution rates are set by the City, and generally change on each January 1. The retiree’s contribution rate for the HDHP depends on the dependents covered. The retiree’s contribution rate may also vary based on the number of years of service at retirement, depending on the date of retirement. The Medicare Supplement policies are funded by both City and retiree contributions.

Employees Covered by Benefit Terms

At the September 30, 2024 actuarial valuation date, the following employees were covered by the benefit terms:

| | |
|--|---------------------|
| Inactive employees or beneficiaries currently receiving benefits | 337 |
| Inactive employees entitled to but not yet receiving benefits | - |
| Active employees | <u>1,208</u> |
| | <u><u>1,545</u></u> |

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

Total OPEB Liability

The City's total OPEB liability of \$30,330,120 was measured as of September 30, 2025 and was determined by an actuarial valuation as of September 30, 2024.

Actuarial Assumptions and Other Inputs

The total OPEB liability measured as of September 30, 2025 determined by an actuarial valuation as of September 30, 2024, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--|---|
| Inflation | 2.40% |
| Salary increases | 3.00%, including inflation |
| Discount rate | 4.50% |
| Prior year discount rate | 4.06% |
| Healthcare cost trend rates - pre-65 | 6.5% for 2025, decreasing annually, to an ultimate rate of 4.04% for 2078 and later years |
| Healthcare cost trend rates - post-65 | No increases are assumed. All premium increases are assumed to be paid by retirees. |
| Retirees' share of benefit-related costs | Future contributions for pre-65 retirees are assumed to increase at the same rate as medical trend. |

The discount rate of 4.50% was based on the September 30, 2025, S&P Municipal Bond 20 Year High Grade Index yield. The prior year discount rate was 4.06%, based on the S&P Municipal Bond 20 Year High Grade Index yield.

Mortality rates for active employees were based on the PubG.H-2010 tables for general employees and PubS.H-2010 tables for public safety, Generational with Projection Scale MP-2021 for males or females, as appropriate.

Mortality rates for retirees were based on the PubG.H-2010 tables for general employees and PubS.H-2010 tables for public safety, Generational with Projection Scale MP-2021 for males or females, as appropriate.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|--|---------------------------------|
| Balance as of October 1, 2024 | \$ 31,610,826 |
| Changes for the year | |
| Service cost | 1,448,564 |
| Interest | 1,312,995 |
| Differences between expected and actual experience | (2,703,061) |
| Changes in assumptions/inputs | 45,795 |
| Benefit payments | <u>(1,384,999)</u> |
| Net changes | <u>(1,280,706)</u> |
| Balance at September 30, 2025 | <u><u>\$ 30,330,120</u></u> |

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

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

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.50%) or 1-percentage-point higher (5.50%) than the current discount rate:

| 1% Decrease (3.50%) | Discount Rate (4.50%) | 1% Increase (5.50%) |
|--------------------------------|----------------------------------|--------------------------------|
| \$ 33,248,844 | \$ 30,330,120 | \$ 27,712,661 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| 1% Decrease | Healthcare Cost Trend | 1% Increase |
|--------------------|----------------------------------|--------------------|
| \$ 27,279,603 | \$ 30,330,120 | \$ 33,996,232 |

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

For the year ended September 30, 2025, the City recognized OPEB expense of \$2,292,369. At September 30, 2025, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Difference in expected and actual experience | \$ - | \$ 2,732,170 |
| Changes in assumptions | 131,103 | 489,581 |
| Changes in proportion | 1,048,621 | 1,048,621 |
| | <u>\$ 1,179,724</u> | <u>\$ 4,270,372</u> |

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

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

| | <u>Year Ended September 30,</u> | |
|------------|---------------------------------|-----------------------|
| 2026 | | \$ (469,192) |
| 2027 | | (469,192) |
| 2028 | | (469,192) |
| 2029 | | (283,469) |
| 2030 | | (283,469) |
| Thereafter | | <u>(1,116,134)</u> |
| Total | | <u>\$ (3,090,648)</u> |

Allocation of OPEB Items

The City allocates OPEB items between governmental activities and business-type activities on the basis of employee payroll funding. For the governmental activities, the total OPEB liability is liquidated by the General Fund. For the business type activities, the total OPEB liability is liquidated by the water and sewer fund, drainage utility district fund, municipal airport fund, municipal golf course fund, and solid waste and equipment services fund.

Note 15. Commitments and Contingent Liabilities

Encumbrances

As discussed in *Note 1, Summary of Significant Accounting Policies - Encumbrances*, encumbrances are commitments related to underperformed contracts for goods or services (*i.e.*, purchase orders). At year end, the encumbrances expected to be honored upon performance by the vendor in the next year are as follows:

| Fund/Program | Encumbrance |
|------------------------------------|---------------|
| General | \$ 206,439 |
| 4B | 2,320,639 |
| Confiscated - State | 50,229 |
| Confiscated - Federal | 128,181 |
| Grants | 116,773 |
| Grants - Disasters | 4,865,448 |
| Reserve Fee | 5,758 |
| Contribution | 904 |
| Citizen Contribution 50/50 Program | 45,112 |
| TIRZ 2 Town Centre | 15,978 |
| TIRZ Skyline | 287,932 |
| Local Finance | 559,623 |
| Bond Finance | 27,530,863 |
| Water/Sewer | 24,156,927 |
| Solid Waste and Equipment Services | 17,537 |
| Drainage Utility District | 4,728,582 |
| Group Medical Insurance | 3,000 |
| General Liability | 159,611 |
| | \$ 65,199,536 |

Pending Litigation

Various lawsuits pending against the City involve claims relating to general liability, automobile liability, workers' compensation, civil rights action, and various contractual matters. In the opinion of the City's management, the outcome of the pending litigation will not have a material adverse effect on the City's financial position or operations.

Arbitrage Rebate Requirements

The *Tax Reform Act of 1986* imposes a rebate requirement with respect to some bonds issued by the City. Under this requirement, an amount equal to the sum of: (a) the excess of the aggregate amount earned on all investments over the amount that would have been earned if all investments were invested at a rate equal to the yield on the bonds and (b) any income earned on the excess described in (a) is required to be rebated to the United States Treasury, in order for the interest on the bonds to be excluded from federal taxation. Regulations implementing the rebate requirement were released by the Internal Revenue Service on May 12, 1989. Rebutable arbitrage is computed as of each installment computation date. No rebate liability was due to the federal government as of the last computation date.

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

Federal and State Grants

The City receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal and state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, will not be significant to the City's financial statements.

Conduit Debt Obligations

From time to time, various legally separate component units of the City have issued bonded debt obligations to provide financial assistance to private-sector entities. The bonds were issued to acquire and construct medical and health facilities (Mesquite Health Facilities Corporation) and multihousing developments (Mesquite Housing Finance Corporation). The bonds are secured by the property financed and are payable solely from payments received on the underlying debt obligations. Even though some of the bonds are outstanding, there is no liability to the City or the component unit (no commitment debt), as all liability transfers to the trustee of the bond issue. A summary of outstanding conduit debt by component unit at September 30, 2025, is as follows.

| Series | Mesquite Housing Finance Corporation | Mesquite Health Facilities Corporation |
|--------|--|--|
| 2014 | \$ - | \$ 27,815,000 |
| 2016 | - | 21,315,000 |
| 2024 | 37,000,000 | - |
| 2024A | 41,700,000 | - |
| Total | <u>\$ 78,700,000</u> | <u>\$ 49,130,000</u> |

Contingent Liability for Service Agreement

The City entered into separate agreements with the North Texas Municipal Water District (District) and Kingsborough Municipal Utility District Nos. 1, 2, 3, 4, and 5 (MUDs) to provide sewer service within the City's extraterritorial jurisdiction. As a member city of the District, the City's involvement was required to develop capacity for a wastewater service requirement of 13.1 million gallons per day to service the area. The District has agreed to construct and operate a project known as the Lower East Fork Sewer Interceptor System and obtained financing on August 24, 2006 in the amount of \$19,190,000. The City's share of the debt service payments on the project is \$105,584 per month over 20 years and is being passed through to the MUDs. The City is not liable for this debt. As additional security for the payments due the City, the MUDs agreed to establish, levy, and collect an ad valorem tax on all taxable property within the MUDs.

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

Note 16. Fund Balances

Minimum Fund Balance Policy

The City Council has adopted a financial policy to maintain a minimum level of unassigned fund balance in the General Fund. The target level is set at 60 days of General Fund budgeted annual revenues (working capital.) This amount is intended to provide fiscal stability when economic downturns and other unexpected events occur. Per the policy, the City acknowledges that initially, the General Fund may not meet the requirements for the working capital days but will be considered compliant as long as the financial position shows continuous improvement each fiscal year.

Details of the Governmental Funds fund balances (deficit) as of year-end are as follows:

| Description | General Fund | Local Finance | Bond Finance | Debt Service | Other Grants | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|----------------------|----------------------|---------------------|-----------------------|-----------------------------|--------------------------|
| Nonspendable: | | | | | | | |
| Prepays | \$ 772,830 | \$ - | \$ - | \$ - | \$ - | \$ 7,001 | \$ 779,831 |
| Inventory | 1,694,160 | - | - | - | - | - | 1,694,160 |
| Long-term note receivable | 528,560 | 771,148 | - | - | - | - | 1,299,708 |
| Total Nonspendable | <u>2,995,550</u> | <u>771,148</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,001</u> | <u>3,773,699</u> |
| Restricted: | | | | | | | |
| Debt service | - | - | - | 2,624,865 | - | - | 2,624,865 |
| Housing and community services | - | - | - | - | - | 3,961,831 | 3,961,831 |
| 4B sales tax projects | - | - | - | - | - | 17,651,492 | 17,651,492 |
| Promotion of tourism | - | - | - | - | - | 2,708,910 | 2,708,910 |
| Historic preservation activities | - | - | - | - | - | 937,324 | 937,324 |
| Preservation activities | - | - | - | - | - | 109,199 | 109,199 |
| Law enforcement | - | - | - | - | - | 3,363,834 | 3,363,834 |
| Capital projects | - | - | 71,666,954 | - | - | - | 71,666,954 |
| Community access projects | - | - | - | - | - | 715,172 | 715,172 |
| Road surface repairs | - | 21,801,449 | - | - | - | - | 21,801,449 |
| Tax Increment Financing Districts | - | 9,362,864 | - | - | - | - | 9,362,864 |
| Public Improvement Districts | - | 11,439,031 | - | - | - | - | 11,439,031 |
| Hike and Bike Trail | - | 47,531 | - | - | - | - | 47,531 |
| Developer's deposits | - | 1,955,361 | - | - | - | - | 1,955,361 |
| Capital replacement | - | 1,422,449 | - | - | - | - | 1,422,449 |
| Citizen 50/50 plan and parks improvement | - | - | - | - | - | 1,982,790 | 1,982,790 |
| Local finance capital projects | - | 2,220,816 | - | - | - | - | 2,220,816 |
| Public safety, notification, & technology improvement | - | - | - | - | - | 1,949,932 | 1,949,932 |
| Total Restricted | <u>-</u> | <u>48,249,501</u> | <u>71,666,954</u> | <u>2,624,865</u> | <u>-</u> | <u>33,380,484</u> | <u>155,921,804</u> |
| Assigned: | | | | | | | |
| Other general government | 206,439 | - | - | - | - | - | 206,439 |
| Other local finance capital projects | - | 17,828,830 | - | - | - | - | 17,828,830 |
| Other special revenue | - | - | - | - | - | 1,042,445 | 1,042,445 |
| Total Assigned | <u>206,439</u> | <u>17,828,830</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,042,445</u> | <u>19,077,714</u> |
| Unassigned | <u>36,407,885</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,309,112)</u> | <u>-</u> | <u>34,098,773</u> |
| Total Fund Balances (Deficit) | <u>\$ 39,609,874</u> | <u>\$ 66,849,479</u> | <u>\$ 71,666,954</u> | <u>\$ 2,624,865</u> | <u>\$ (2,309,112)</u> | <u>\$ 34,429,930</u> | <u>\$ 212,871,990</u> |

Note 17. Tax Abatement Disclosures

The City of Mesquite enters into sales tax and property tax abatement agreements with desired businesses under the authority of Chapter 380 of the Texas Local Government Code. These businesses may be manufacturing, office, retail, commercial, or mixed-use projects. The agreements allow the City to refund a portion of property taxes and sales taxes paid, issue incentive payments, and/or reduce fees. The offer of an incentive is tied to an analysis of the impact on community services and to the goals of the community as established by the Mesquite City Council. The City Council has final authority on the implementation of City business incentives.

The City will consider an application for an economic development incentive for any project that would attract new business or industry to the City and/or for any project involving the expansion, modernization, and/or retention of an existing business. However, the City will not grant an incentive unless it will benefit the City and will accomplish the public purpose of promoting local economic development and stimulating business and commercial activity in the City. In the event of default on an agreement, the City does include a clawback provision in the contract.

For the fiscal year ended September 30, 2025, the City of Mesquite had twenty-six economic development agreements that included sales and/or property tax abatement provisions. In total, \$367,044 in sales tax and \$1,490,287 in property tax was abated.

In addition to tax abatements, the City occasionally makes additional commitments in its economic development incentive agreements. The following additional commitments have been made:

- The City has agreed to reimburse 50% of the ad valorem taxes paid and 100% of the Net City sales taxes paid for development of a 80,000 square foot industrial building with a 3,500 square foot restaurant/tap room/pavilion.
- The City has agreed to reimburse 100% of the net City sales taxes paid for capital investment of \$2.4M to operate a family-oriented restaurant with 30 employees.
- The City has agreed to reimburse 50% of the business personal property taxes for facility improvements of \$10M and installation of \$128M of business personal property at a 332,000 square foot industrial building.

Note 18: Subsequent Events

In November 2025, the City issued \$31,098,000 Special Assessment Revenue Bonds, Series 2025 for Solterra Public Improvement District Area A-2-A-4. The purpose of the Special Assessment Revenue Bonds, Series 2025 are for the funding a portion of improvement project costs, funding the Bond Reserve Account for the Reserve Fund, and paying the costs of issuance of the Bonds.

In November 2025, the City issued \$13,581,000 Special Assessment Revenue Bonds, Series 2025 for Solterra Public Improvement District Area C-4. The purpose of the Special Assessment Revenue Bonds, Series 2025 are for the funding a portion of improvement project costs, funding the Bond Reserve Account for the Reserve Fund, and paying the costs of issuance of the Bonds.

Subsequent events have been evaluated through February 20, 2026, which is the date the financial statements were issued.

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APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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BRACEWELL

[Form of Bond Counsel Opinion]

[Date]

\$ _____
CITY OF MESQUITE, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING AND IMPROVEMENT BONDS
SERIES 2026

WE HAVE represented the City of Mesquite, Texas (the “Issuer”) as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

CITY OF MESQUITE, TEXAS, WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2025, dated May 15, 2026, in the principal amount of \$_____.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the “Bond Ordinance”) and a pricing certificate executed pursuant to the authority delegated in the Bond Ordinance (the “Pricing Certificate,” and, together with the Bond Ordinance, the “Ordinance”).

WE HAVE represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; a deposit agreement (the “Deposit Agreement”) between the Issuer and the Bank of New York Mellon Trust Company, National Association, as paying agent/registrar for the bonds being refunded (the “Refunded Bonds”); customary certificates of officers, agents and representatives of the Issuer and

other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. T-1 of this issue.

In providing the opinions set forth herein, we have relied on representations of the Issuer and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the Issuer and such other parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Bonds.

BASED ON SUCH EXAMINATION AND IN RELIANCE ON SUCH REPRESENTATIONS, CERTIFICATIONS, AND ASSUMPTIONS, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding special obligations of the Issuer;

(2) The Bonds are payable from and secured by a lien on and pledge of the Net Revenues of the Issuer's waterworks and sewer system, as defined and described in the Ordinance;

(3) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the deposit of funds with the paying agent/registrar for the Refunded Bonds pursuant to the Deposit Agreement, and the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Deposit Agreement; and

(4) Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on certain corporations.

We express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the Issuer or other parties upon which we have relied are determined to be inaccurate or incomplete or the Issuer fails to comply with the

covenants of the Ordinance, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

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