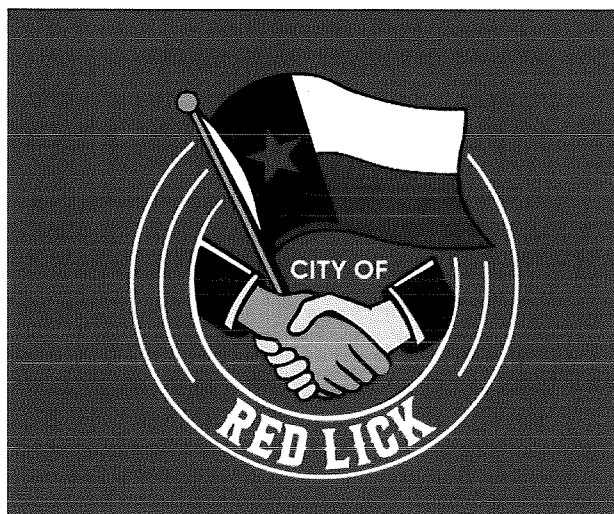


CITY OF RED LICK, TEXAS

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2025**



CITY OF RED LICK
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2025

CONTENTS

| | <u>Page</u> |
|--|-------------|
| City Directory | 1 |
| Independent Auditors' Report | 2-3 |
| Management's Discussion and Analysis | 4-8 |
| BASIC FINANCIAL STATEMENTS | |
| Government Wide Statements: | |
| Statement of Net Position | 9 |
| Statement of Activities | 10 |
| Governmental Fund Financial Statements: | |
| Balance Sheet | 11 |
| Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position | 12 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | 13 |
| Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 14 |
| Notes to the Financial Statements | 15-20 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund | 21 |

**CITY OF RED LICK
CITY DIRECTORY**

**MAYOR
Michael Peek**

**MAYOR PRO TEM
Craig McDuffie**

CITY COUNCIL

M.J. Gilley

Mark Patterson

Kip Pavey

Kyle McKeever

CITY OFFICIALS

Sandy K. Jackson, City Secretary/Treasurer



Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Red Lick, Texas

Members of the Council:

Opinions

We have audited the accompanying financial statements of the governmental activities of the City of Red Lick, Texas (the City), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City, as of September 30, 2025, and the respective changes in financial position 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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.

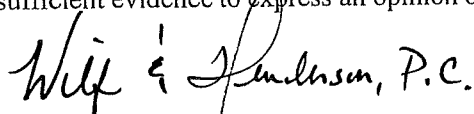
In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8, and budgetary comparison information on page 21 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


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

March 20, 2026

City of Red Lick Management's Discussion and Analysis

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

1. assist the reader in focusing on significant financial issues;
2. provide an overview of the City's financial activities;
3. identify changes in the City's overall financial position and results of operations and assist the user in determining whether financial position has improved or deteriorated as a result of the year's operations;
4. identify any significant variations from the original, amended, and final budget amounts and include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity; and
5. identify individual fund issues or concerns.

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

Overview of the Financial Statements

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

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

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

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to present the financial operations of the City as a whole in a format similar to private sector companies.

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

The Statement of Net Position presents information on the City's assets and liabilities using the accrual basis of accounting, in a manner similar to the accounting used by private business enterprises. The difference between the assets and liabilities is reported as net position. Over time, the increases or decreases in net position (and changes in the components of net position) may serve as a useful indicator of whether the financial position of the City is improving or weakening.

Although the focus of this MD&A will be on the analysis of the overall changes to net position, the reader should refer to Note 1 - Significant Accounting Policies for an explanation of the components of net position.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related and legal requirements. The City of Red Lick uses one category of fund to account for financial transactions - the governmental fund.

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

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

Notes to the Financial Statements

The Notes to the Financial Statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

City Highlights

The unrestricted net position balance at September 30, 2025 increased from \$348,157 to \$387,244. Unrestricted net position represents the net balance accumulated by the City above the amount of net position invested in capital assets.

- The most significant continuing revenue sources for the City consisted of property taxes of \$103,633 and franchise fees of \$19,791.
- The most significant city expenses during the year were \$81,452 for administration and \$140,341 for streets.

Government-Wide Financial Analysis

Statement of Net Position

Included below is a Statement of Net Position for the City of Red Lick. The format allows the reader to view the overall financial position of the City.

CITY OF RED LICK STATEMENT OF NET POSITION

| | Governmental Activities 2025 | Governmental Activities 2024 |
|----------------------------------|------------------------------------|------------------------------------|
| Current Assets | \$ 393,669 | \$ 354,893 |
| Capital Assets | 704,654 | 826,485 |
| Total Assets | <u>1,098,323</u> | <u>1,181,378</u> |
| Liabilities: | | |
| Accounts Payable | \$ 1,030 | \$ 2,800 |
| Payroll Taxes Payable | 5,395 | 3,936 |
| Total Liabilities | <u>6,425</u> | <u>6,736</u> |
| Net Position: | | |
| Net Investment in Capital Assets | 704,654 | 826,485 |
| Unrestricted | 387,244 | 348,157 |
| Total Net Position | <u>\$ 1,091,898</u> | <u>\$ 1,174,642</u> |

Government-Wide Review of Net Position

The composition of net position and the changes in net position over time serve as a useful indicator of a government's financial position. Of the City's net position, \$387,244 is unrestricted net position, as compared to \$348,157 at the same time last year. Unrestricted net position reflects the City's past performance in meeting budgetary goals and the accumulation of resources for future needs of the City.

Governmental Activities - Statement of Net Position

The major component of the current assets category is cash and certificates of deposit of \$288,564. The balance of this category is comprised of various receivables (amounts due) for property taxes and franchise taxes.

Statement of Activities

A Statement of Activities for the City of Red Lick is presented below listing the major categories of revenues and expenses for the year ending September 30, 2025. An explanation of the components of this statement is included immediately following the table.

CITY OF RED LICK STATEMENT OF ACTIVITIES

| | Governmental Activities 2025 | Governmental Activities 2024 |
|---|------------------------------------|------------------------------------|
| Revenues | | |
| General Revenues | | |
| Property Taxes | \$ 103,633 | \$ 99,741 |
| Franchise Taxes | 19,791 | 19,990 |
| Grant Revenue - ARPA | - | 215,793 |
| Interest and Other | 15,680 | 14,367 |
| Total Revenues | 139,104 | 349,891 |
| Program Expenses: | | |
| Administrative | 81,452 | 75,966 |
| Fire Protection | 55 | 45 |
| Streets | 140,341 | 111,718 |
| Total Expenses | 221,848 | 187,729 |
| Increase (Decrease) in Net Position | (82,744) | 162,162 |
| Beginning Net Position | 1,174,642 | 1,012,480 |
| Ending Net Position | \$ 1,091,898 | \$ 1,174,642 |

Government-Wide Review of Statement of Activities

The Statement of Net Position presents revenues, expenses, and changes in net position separately for governmental activities. The format allows for presentation of Program Revenues (Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions) followed by a listing of General Revenues to support the City's overall governmental. Expenses are presented on a functional basis, with depreciation on fixed assets directly allocated to the related expense (administrative, fire protection, and streets).

Governmental Activities - Statement of Activities

As noted above, there are two categories of revenues on the Statement of Activities - Program Revenues and General Revenues. Program Revenues derive directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's General Revenues. Program Revenues are further divided into Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions.

General Revenues include all revenues not required to be reported as Program Revenues. All taxes are to be reported by type tax. For the City of Red Lick, the major tax revenues are property tax revenues of \$103,633 and franchise tax fees of \$19,791. Program expenses are presented in the above Statement of Activities by function and total \$221,848 for the current fiscal year-end. Revenues less expenses presented in this statement total to a negative change in net position of (\$82,744).

Governmental Funds

At year-end, the City's governmental fund, consisting of the General Fund reported a fund balance of \$383,652. Under the modified-accrual basis for fund financial statements, the emphasis is on accounting for current financial resources of the City. Assets include primarily \$379,981 in cash and certificates of deposit, \$8,878 in franchise tax receivables, \$3,592 in property tax receivables, net of allowance for uncollectible, and \$1,218 in accrued interest and other receivables.

The fund reporting format presents in the Statement of Revenues, Expenditures, and Changes in Fund Balance, all revenue types followed by the expenses of the City, also presented on a functional basis. However, for the fund financial statements, the City reports only current year capital expenditures and does not report depreciation on capital assets.

The major revenue sources are similar to the government-wide presentation above.

Budget and Actual Revenues and Expenditures

The variance between budgeted and actual revenues is (\$3,085). The variance between budgeted and actual expenditures is \$41,113.

Capital Assets

At September 30, 2025, the City had \$704,654 (net of accumulated depreciation) invested in a broad range of capital assets, including equipment, streets and land. Depreciation expense of (\$121,831) accounted for a net decrease from the prior year. More detailed information about the City's capital asset activity is presented in Note 4 to the financial statements.

Long-Term Debt

As of September 30, 2025, the City of Red Lick, Texas has no debt.

Economic Factors and Next Year's Budget and Rates

The City of Red Lick is a Type A-General Law municipality. The City currently has 1.9 square miles and a population of 974 residents.

The Goals of the 2025-2026 Budget Year is to maintain roads and replacing culverts that have collapsed. The City did no major road repairs this Budget Year but maintained areas of concern. The culvert on Quail Hollow by the lake was replaced and decorative rock added to prevent further wash away to road for \$3110. Potholes on Meadow Lake and Teakwood repaired for \$2,802. Potholes filled with throw and go on Cemetery Rd and White Rd \$2,150. Repairs done to Akin Rd due to large gravel trucks asphalt repairs \$3,019. Driveway repairs on Lauren Rd for \$2,981. Stop signs purchase with stakes and street signs \$496.

The City Council has a conservative approach to management and the City's expenditure has consistently been well withing the budget parameters. The City's tax rate is \$.096487 per \$100.

Requests for Information

This financial report is designed to provide a general overview of the city of Red Lick's finances and to demonstrate the City's accountability. If you have questions regarding this report or need additional information, contact the City at 3193 Old Red Lick Road, Texarkana, Texas 75503. The phone number for the City is (903) 831-3691.

***CITY OF RED LICK, TEXAS
BASIC FINANCIAL STATEMENTS***

CITY OF RED LICK
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Cash | \$ 91,417 |
| Certificates of deposit | 288,564 |
| Accounts receivable - franchise fees | 8,878 |
| Accounts receivable - property tax, net | 3,592 |
| Accrued interest receivable | 1,218 |
| Capital assets, net | 704,654 |
| Total Assets | \$ 1,098,323 |
| LIABILITIES | |
| Accounts payable | 1,030 |
| Payroll taxes payable | 5,395 |
| Total Liabilities | 6,425 |
| NET POSITION | |
| Net investment in capital assets | 704,654 |
| Unrestricted | 387,244 |
| Total Net Position | \$ 1,091,898 |

The accompanying notes are an integral part of this statement.

CITY OF RED LICK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|-------------------------------|-------------------------|--|--|---|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| Administrative | \$ 81,452 | \$ - | \$ - | \$ (81,452) |
| Fire Protection | 55 | - | - | (55) |
| Street | 140,341 | - | - | (140,341) |
| Total governmental activities | 221,848 | - | - | (221,848) |
| Total primary government | \$ 221,848 | \$ - | \$ - | \$ (221,848) |
| General revenues: | | | | |
| Property taxes | | | | 103,633 |
| Franchise fees | | | | 19,791 |
| Interest and other income | | | | 15,680 |
| Total general revenues | | | | 139,104 |
| Change in net position | | | | (82,744) |
| Beginning net position | | | | 1,174,642 |
| Ending net position | | | | \$ 1,091,898 |

The accompanying notes are an integral part of this statement

**CITY OF RED LICK
GOVERNMENTAL FUND
BALANCE SHEET
AS OF SEPTEMBER 30, 2025**

| | General | Total Governmental Fund |
|--------------------------------------|------------|-------------------------------|
| ASSETS | | |
| Cash | 91,417 | \$ 91,417 |
| Certificates of deposit | 288,564 | 288,564 |
| Accounts receivable - franchise fees | 8,878 | 8,878 |
| Accounts receivable - property tax | 10,271 | 10,271 |
| Allowance for uncollectible | (6,679) | (6,679) |
| Accrued interest & other receivables | 1,218 | 1,218 |
| Total Assets | \$ 393,669 | \$ 393,669 |
| LIABILITIES | | |
| Accounts payable | 1,030 | 1,030 |
| Payroll tax payable | 5,395 | 5,395 |
| Total Liabilities | 6,425 | 6,425 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable Revenue - property tax | 3,592 | 3,592 |
| Total Deferred Inflows of Resources | 3,592 | 3,592 |
| FUND BALANCES | | |
| Unassigned | 383,652 | 383,652 |
| Total Fund Balance | 383,652 | 383,652 |
| Total Liabilities and Fund Balance | \$ 393,669 | \$ 393,669 |

IT support and website

The accompanying notes are an integral part of this statement.

**CITY OF RED LICK
GOVERNMENTAL FUND
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2025**

| | |
|---|--------------|
| Total fund balances - Governmental Funds | \$ 383,652 |
| Amounts reported for governmental activities in the statements of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,415,256 and the accumulated depreciation was (\$588,771). The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities it to increase net position. | 826,485 |
| The 2025 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position. | (121,831) |
| Increase in net position for current year taxes receivable assumed to be collectible. | 3,592 |
| Net Position of Governmental Activities | \$ 1,091,898 |

The accompanying notes are an integral part of this statement.

CITY OF RED LICK
GOVERNMENTAL FUND TYPE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2025

| | General | Total Governmental Fund |
|---|------------|-------------------------------|
| Revenues | | |
| Franchise fees | 19,791 | \$ 19,791 |
| Property taxes | 102,394 | 102,394 |
| Interest and other income | 15,680 | 15,680 |
| Total Revenue | 137,865 | 137,865 |
| Expenditures | | |
| Current | | |
| Accounting | 6,975 | 6,975 |
| Bond insurance | 199 | 199 |
| Dues and subscriptions | 5,451 | 5,451 |
| Elections | 590 | 590 |
| Salaries | 26,524 | 26,524 |
| Payroll taxes | 864 | 864 |
| Insurance | 5,643 | 5,643 |
| IT support and website | 8,413 | 8,413 |
| Misc. expense | 4,371 | 4,371 |
| Office supplies | 2,834 | 2,834 |
| Postage | 262 | 262 |
| Publication expense | 546 | 546 |
| Rent | 4,800 | 4,800 |
| Repairs & maintenance | 1,585 | 1,585 |
| Utilities | 11,784 | 11,784 |
| Fire protection | 55 | 55 |
| Street repairs | 19,121 | 19,121 |
| Total Expenditures | 100,017 | 100,017 |
| Excess (deficiency) of revenues over expenditures | 37,848 | 37,848 |
| Fund balance at beginning of year | 345,804 | 345,804 |
| Fund balance at end of year | \$ 383,652 | \$ 383,652 |

The accompanying notes are an integral part of this statement.

CITY OF RED LICK
GOVERNMENTAL FUND
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

| | |
|---|-------------|
| Net changes in fund balances - Governmental Funds | \$ 37,848 |
| The 2025 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position. | (121,831) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy. The net effect of these reclassifications and recognitions is to increase net position. | 1,239 |
| Change in Net Position in Governmental Activities | \$ (82,744) |

The accompanying notes are an integral part of this statement.

CITY OF RED LICK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Red Lick conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

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

Reporting Entity

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Red Lick. The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined based on budget adoption, taxing authority, funding and appointment of the respective governing board.

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on the primary government. Governmental activities are supported by property taxes and franchise taxes.

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

The fund level statements focus on the governmental funds. The accounts of the City are organized on the basis of funds. Each fund was established for the purposes of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major funds are determined by criteria specified by GASB. Major governmental funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental fund groupings.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the flow of 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.

CITY OF RED LICK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available. Revenues, other than grants, are considered available when they are collectible, within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes and franchise taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

General Fund - 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.

Capital Assets

Capital assets, which consist of equipment, streets, and land, are reported in the applicable governmental columns for the government-wide statement of net position, and related depreciation is allocated to programs in the statement of activities. Assets purchased or constructed are capitalized at historical cost. Capital outlay is recorded as an expenditure in the General Fund and as an asset in the government-wide financial statements. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of capital assets are capitalized.

In the government-wide financial statements, capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | |
|-----------|----------|
| Equipment | 5 years |
| Streets | 10 years |

Depreciation of assets is classified by functional components. Depreciation is allocated based on the prorated cost of each department.

In the government-wide statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

Deposits and Investments

The City's cash and cash equivalents include amounts in demand and time deposit accounts with maturity dates of three months or less. The City classifies all certificates of deposit as investments. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Records.

Investments for the City are reported at fair value. Certificates of deposit are reported at cost, which approximates fair value.

Receivables

Accounts receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivables are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes and franchise fees.

CITY OF RED LICK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Time Deposits

Time deposits are recorded at cost.

Budget and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year in the governmental fund. The governmental fund budget is basically consistent with generally accepted accounting principles.

Encumbrances

Formal encumbrance accounting is not used by the City. Appropriations lapse at year-end and must be budgeted in the subsequent year.

Use of Estimates

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

Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A).

Fund Equity

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

- *Nonspendable fund balance* – represents amounts that cannot be spent because they are either not in spendable form (such as inventory, prepaids, or long-term receivables) or legally required to remain intact (such as notes receivable or principal of a permanent fund).
- *Restricted fund balance* – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.
- *Committed fund balance* – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the Council. Committed resources cannot be used for any other purposes unless the Council removes or changes the specific use by taking the same formal action that imposed the constraint originally.
- *Assigned fund balance* – represents amount the City intends to use for specific purposes as expressed by the Council or an official delegated with the authority.

CITY OF RED LICK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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

Deferred Outflows/Inflows of Resources

The City implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities for the year ended September 30, 2014. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item that qualifies for reporting in this category, property taxes. These amounts will be recognized as an inflow of resources in the subsequent years as collected.

Note 2 – Deposits and Investments

City Policies and Legal and Contractual Provisions Governing Deposits:

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agents.

At September 30, 2025, the carrying amount of the City's deposits (cash and certificates of deposit) at four banks was \$379,981 and the bank balances were \$383,690. The City's cash deposits at September 30, 2025 were entirely covered by FDIC insurance at each bank.

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

During the year ended September 30, 2025, the City had no type of investments other than certificates of deposit.

CITY OF RED LICK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

| Investment Type | Amortized Cost |
|-------------------------|----------------|
| Certificates of Deposit | 288,564 |
| Total | \$ 288,564 |

Note 3 - Property Tax

Property taxes are attached as an enforceable lien on property as of January 31. Property taxes are levied by October 1, and are payable in two installments due November 30 and June 30. The Bowie County Appraisal District bills and collects property taxes for the city of Red Lick. The State of Texas Constitution limits the City's ad valorem tax rate for all purposes to \$1.50 per one hundred dollars of assessed valuation. Ad valorem tax revenue during the year ended September 30, 2025, was levied using a rate of \$0.095421 per one hundred dollars of assessed valuation. The amount assessed for the 2024-2025 tax roll was \$103,457 based on an assessed valuation of \$108,424,626.

Note 4 – Capital Assets

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

| | Balance September 2024 | Additions | Reclassifications / Deductions | Balance September 2025 |
|--------------------------------|------------------------------|--------------|-----------------------------------|------------------------------|
| Equipment | \$ 37,660 | \$ - | \$ - | \$ 37,660 |
| Streets | 1,316,275 | - | - | 1,316,275 |
| Land, non-depreciable | 61,321 | - | - | 61,321 |
| Less: Accumulated depreciation | (588,771) | (121,831) | - | (710,602) |
| Total Capital Assets | \$ 826,485 | \$ (121,831) | \$ - | \$ 704,654 |

Depreciation expense of \$121,831 was charged to the governmental function administration and streets.

| | |
|----------------|------------|
| Administrative | 611 |
| Streets | 121,220 |
| Total | \$ 121,831 |

Note 5 - Risk Financing and Related Insurance Issues

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

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

CITY OF RED LICK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Note 6 - Donated Services

The City generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the City. No amounts have been reflected in the financial statements for donated services.

Note 7 – Related Party Transactions

The City has no related party transactions.

Note 8 – Deferred Inflow of Resources

Unavailable revenue at September 30, 2025, consisted of the following:

| | |
|-----------------------------|------------------------|
| | General Fund |
| Net uncollected tax revenue | <u>\$ 3,592</u> |
| Total unavailable revenue | <u><u>\$ 3,592</u></u> |

Note 9 – Subsequent Events

City Administration has evaluated subsequent events through March 20, 2026, the date which the financial statements were available to be issued.

***CITY OF RED LICK, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION***

CITY OF RED LICK
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE-BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Favorable (Unfavorable) |
|---|------------------|------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Franchise tax | \$ 24,500 | 24,500 | 19,791 | \$ (4,709) |
| Property taxes | 104,000 | 104,000 | 102,394 | (1,606) |
| Interest and other income | 12,450 | 12,450 | 15,680 | 3,230 |
| Total revenue | 140,950 | 140,950 | 137,865 | (3,085) |
| Expenditures | | | | |
| Accounting | 6,000 | 6,000 | 6,975 | (975) |
| Bond insurance | 200 | 200 | 199 | 1 |
| Dues and subscriptions | 4,300 | 4,300 | 5,451 | (1,151) |
| Elections | - | - | 590 | (590) |
| Engineering | 500 | 500 | - | 500 |
| Equipment | 100 | 100 | - | 100 |
| Salaries | 28,000 | 28,000 | 26,524 | 1,476 |
| Payroll taxes | 250 | 250 | 864 | (614) |
| Insurance | 6,500 | 6,500 | 5,643 | 857 |
| IT support and website | - | - | 8,413 | (8,413) |
| Miscellaneous | 2,300 | 2,350 | 4,371 | (2,021) |
| Office supplies | 2,400 | 2,400 | 2,834 | (434) |
| Postage | - | - | 262 | (262) |
| Publication expense | 1,000 | 1,000 | 546 | 454 |
| Rent | 4,800 | 4,800 | 4,800 | - |
| Repairs and maintenance | - | - | 1,585 | (1,585) |
| Utilities | 11,950 | 12,080 | 11,784 | 296 |
| Fire protection | - | - | 55 | (55) |
| Street repairs | 72,650 | 72,650 | 19,121 | 53,529 |
| Total expenditures | 140,950 | 141,130 | 100,017 | 41,113 |
| Excess (deficiency) of revenues over expenditures | - | (180) | 37,848 | 38,028 |
| Fund balance at beginning of year | 345,804 | 345,804 | 345,804 | - |
| Fund balance at end of year | \$ 345,804 | \$ 345,624 | \$ 383,652 | \$ 38,028 |