

**MATAGORDA COUNTY
DRAINAGE DISTRICT No. 1**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2025



**8 WEST WAY COURT
LAKE JACKSON, TEXAS**

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MATAGORDA COUNTY DRAINAGE DISTRICT No.1

Annual Financial Report

For the Year Ended December 31, 2025

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FINANCIAL SECTION

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Independent Auditor's Report

To the Board of Directors
Matagorda County Drainage District No. 1
Bay City, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and general fund of the Matagorda County Drainage District No. 1 (the "District"), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District'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 and general fund of the District, as of December 31, 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 District, 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 District'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.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other schedules required by the Texas Commission on Environmental Quality 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 auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by the Texas Commission on Environmental Quality are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KM&L, LLC

Lake Jackson, Texas
March 24, 2026

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MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Management's Discussion and Analysis For the Year Ended December 31, 2025

As directors of the Matagorda County Drainage District No. 1 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2025. We encourage readers to consider this information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 6,685,025 (net position). Of this total amount, \$ 3,788,113 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors within the District's fund designation.
- The District's total net position increased by \$ 41,426.
- As of the close of the current fiscal year, the District's governmental fund reported an ending fund balance of \$ 4,347,000 or 172.15% of the total general fund expenditures. The amount of \$ 3,847,554 (unassigned fund balance) is available for use within the District's fund designation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District'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 District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District'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 District is improving or deteriorating.

The *statement of activities* presents information showing how the District'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).

Both of the government-wide financial statements distinguish functions of the District as being principally supported by taxes (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no business-type activities and no component units for which it is financially accountable. The *governmental activities* of the District include general government and administration and drainage.

The government-wide financial statements can be found on pages 18 through 19 of this report.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

*Management's Discussion and Analysis
For the Year Ended December 31, 2025*

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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has only one major fund, which is the general fund, and is reported as a governmental fund.

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

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

The fund financial statements can be found on pages 22 through 25 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 51 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget and actual schedule for the general fund and the required pension and OPEB schedules. Required supplementary information can be found on pages 55 through 62 of this report.

In addition, this report also presents supplementary information required by the Texas Commission on Environment Quality, which can be found on pages 64 through 71 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 6,685,025 as of December 31, 2025. Net position of the District's governmental activities increased by \$ 41,426 from \$ 6,643,599 to \$ 6,685,025.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

*Management's Discussion and Analysis
For the Year Ended December 31, 2025*

The District's Net Position

| | <u>2025</u> | <u>2024</u> |
|--|---------------------|---------------------|
| Assets: | | |
| Current and other assets | \$ 6,981,581 | \$ 6,742,303 |
| Capital assets (net of accumulated depreciation) | <u>2,723,405</u> | <u>2,632,100</u> |
| Total assets | <u>9,704,986</u> | <u>9,374,403</u> |
| Total deferred outflows of resources | <u>151,049</u> | <u>175,032</u> |
| Liabilities: | | |
| Current and other liabilities | 128,142 | 16,524 |
| Long-term liabilities | <u>685,863</u> | <u>747,041</u> |
| Total liabilities | <u>814,005</u> | <u>763,565</u> |
| Total deferred inflows of resources | <u>2,357,005</u> | <u>2,142,271</u> |
| Net Position: | | |
| Net investment in capital assets | 2,672,833 | 2,558,508 |
| Restricted | 224,079 | 166,757 |
| Unrestricted | <u>3,788,113</u> | <u>3,918,334</u> |
| Total net position | <u>\$ 6,685,025</u> | <u>\$ 6,643,599</u> |

Governmental Activities. Governmental activities increased the District's net position by \$ 41,426. Total revenues for governmental activities amounted to \$ 2,284,290, of which property taxes amounted to 84.99%. The following table provides a summary of the District's operations for the years ended December 31, 2025 and 2024.

The District's Changes in Net Position

| | <u>2025</u> | <u>2024</u> |
|-----------------------------|---------------------|---------------------|
| Revenues: | | |
| Taxes | \$ 1,941,365 | \$ 1,811,025 |
| Investment income | 188,586 | 188,888 |
| Miscellaneous | <u>154,339</u> | <u>47,587</u> |
| Total revenues | <u>2,284,290</u> | <u>2,047,500</u> |
| Expenses: | | |
| Drainage: | | |
| Personnel | 632,612 | 527,275 |
| Professional fees | 139,856 | 140,173 |
| Contracted services | 715,703 | 198,350 |
| Utilities | 5,825 | 7,943 |
| Repairs and maintenance | 319,351 | 394,516 |
| Operating costs | 93,955 | 89,093 |
| Administrative costs | 330,831 | 202,721 |
| Interest and fiscal charges | <u>4,731</u> | <u>-</u> |
| Total expenses | <u>2,242,864</u> | <u>1,560,071</u> |
| Change in net position | 41,426 | 487,429 |
| Net position - beginning | <u>6,643,599</u> | <u>6,156,170</u> |
| Net position - ending | <u>\$ 6,685,025</u> | <u>\$ 6,643,599</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Management's Discussion and Analysis
For the Year Ended December 31, 2025

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District'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.

As of the end of the current fiscal year, the District's governmental fund reported a fund balance of \$ 4,347,000. 88.51% of this total amount constitutes unassigned fund balance and 11.49% of this amount constitutes nonspendable fund balance for prepaid expenditures and inventories.

The governmental fund balance decreased by \$ 246,845 primarily due to an increase in contracted services.

General Fund Budgetary Highlights

The District did amend the budget in the year ending December 31, 2025. Actual revenues exceeded budgeted revenues by \$ 272,067, due to investment income and miscellaneous revenue. Budgeted expenditures exceeded actual expenditures by \$ 81,088, primarily due to contracted services and repairs and maintenance.

Capital Assets. The District's investment in capital assets for its governmental activities as of December 31, 2025, amounts to \$ 2,723,405 (net of accumulated depreciation). This investment in capital assets includes land, equipment, buildings and bridges.

Capital Assets Net of Accumulated Depreciation

| | <u>2025</u> | <u>2024</u> |
|-----------|---------------------|---------------------|
| Land | \$ 48,600 | \$ 48,600 |
| Equipment | 873,629 | 660,047 |
| Buildings | 413,764 | 425,258 |
| Bridges | <u>1,387,412</u> | <u>1,498,195</u> |
| Total | <u>\$ 2,723,405</u> | <u>\$ 2,632,100</u> |

Additional information on the District's capital assets can be found in Note 5 on page 39 through 40.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

*Management's Discussion and Analysis
For the Year Ended December 31, 2025*

Debt Administration. At the end of the current year, the District had total long-term debt of \$ 685,863. The District's long-term debt included note payable, compensated absences and total OPEB liability.

Debt Administration

| | <u>2025</u> | <u>2024</u> |
|----------------------|-------------------|-------------------|
| Note payable | \$ 50,572 | \$ 73,592 |
| Compensated absences | 30,536 | 28,068 |
| Total OPEB liability | <u>604,755</u> | <u>645,381</u> |
| Total | <u>\$ 685,863</u> | <u>\$ 747,041</u> |

Additional information on the District's debt administration can be found in Note 6 on page 40.

Economic Factors and Next Year's Budgets and Rates

The District's 2026 budget was adopted at \$ 2,340,122, an increase of \$ 333,899 from the 2025 original budget. The tax rate of \$ 0.034000 for each \$ 100 was set for 2026 operations.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Directors, P.O. Box 834, Bay City, Texas, 77404-0834.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Statement of Net Position

December 31, 2025

| | Total Governmental Activities |
|--------------------------------------|-------------------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 1,680,365 |
| Investments | 2,469,014 |
| Receivables, net: | |
| Taxes | 2,039,210 |
| Due from other governments | 100,524 |
| Accrued interest | 12,844 |
| Inventories | 493,338 |
| Prepaid expenses | 6,108 |
| Net pension asset | 180,178 |
| Capital Assets: | |
| Land | 48,600 |
| Equipment, net | 873,629 |
| Buildings, net | 413,764 |
| Bridges, net | <u>1,387,412</u> |
| Total assets | <u>9,704,986</u> |
| Deferred Outflows of Resources: | |
| Deferred outflows of resources | <u>151,049</u> |
| Total deferred outflows of resources | <u>151,049</u> |
| Liabilities: | |
| Accounts payable | 128,004 |
| Employee benefit payable | 138 |
| Noncurrent Liabilities: | |
| Due within one year | 55,034 |
| Due in more than one year: | |
| Note payable | 26,074 |
| Total OPEB liability | <u>604,755</u> |
| Total liabilities | <u>814,005</u> |
| Deferred Inflows of Resources: | |
| Deferred inflows of resources | <u>2,357,005</u> |
| Total deferred inflows of resources | <u>2,357,005</u> |
| Net Position: | |
| Net investment in capital assets | 2,672,833 |
| Restricted For: | |
| Pensions | 224,079 |
| Unrestricted | <u>3,788,113</u> |
| Total net position | <u>\$ 6,685,025</u> |

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

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Statement of Activities

For the Year Ended December 31, 2025

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Net (Expense) Revenue and Changes in Net Position Total Governmental Activities</u> |
|-------------------------------|---------------------|--|
| Governmental Activities: | | |
| Drainage: | | |
| Personnel | \$ 632,612 | \$ (632,612) |
| Professional fees | 139,856 | (139,856) |
| Contracted services | 715,703 | (715,703) |
| Utilities | 5,825 | (5,825) |
| Repairs and maintenance | 319,351 | (319,351) |
| Operating costs | 93,955 | (93,955) |
| Administrative costs | 330,831 | (330,831) |
| Interest and fiscal charges | <u>4,731</u> | <u>(4,731)</u> |
| Total governmental activities | <u>\$ 2,242,864</u> | <u>(2,242,864)</u> |
| General Revenues: | | |
| Taxes | | 1,941,365 |
| Investment income | | 188,586 |
| Miscellaneous | | <u>154,339</u> |
| Total general revenues | | <u>2,284,290</u> |
| Change in net position | | 41,426 |
| Net position - beginning | | <u>6,643,599</u> |
| Net position - ending | | <u>\$ 6,685,025</u> |

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

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FUND FINANCIAL STATEMENTS

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Balance Sheet - General Fund

December 31, 2025

| | <u>General Fund</u> |
|--|-------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 1,680,365 |
| Investments | 2,469,014 |
| Receivables, net | |
| Taxes | 2,039,210 |
| Due from other governments | 100,524 |
| Accrued interest | 12,844 |
| Inventories | 493,338 |
| Prepaid expenditures | <u>6,108</u> |
| Total assets | <u>\$ 6,801,403</u> |
| Liabilities, Deferred Inflows of Resources, and Fund Balance: | |
| Liabilities: | |
| Accounts payable | \$ 128,004 |
| Employee benefit payable | <u>138</u> |
| Total liabilities | <u>128,142</u> |
| Deferred Inflows of Resources: | |
| Deferred inflows of resources | <u>2,326,261</u> |
| Total deferred inflows of resources | <u>2,326,261</u> |
| Fund Balance: | |
| Nonspendable | 499,446 |
| Unassigned | <u>3,847,554</u> |
| Total fund balance | <u>4,347,000</u> |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$ 6,801,403</u> |

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

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Reconciliation of the General Fund Balance Sheet to the Governmental Activities Statement of Net Position
December 31, 2025

Total fund balance - general fund balance sheet \$ 4,347,000

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the general fund. Those assets consist of:

| | | |
|--------------------------|----------------------|-----------|
| Capital assets | \$ 5,640,107 | |
| Accumulated depreciation | <u>(2,916,702)</u> | 2,723,405 |

Some receivables are not available soon enough to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds. 88,485

The government-wide statement includes the District's proportionate share of TCDRS net pension liabilities, as well as pension related transactions accounted for as deferred inflows and outflows of resources. Liabilities at year-end related to such items consist of:

| | | |
|--|-------------------|---------|
| Net pension asset | \$ 180,178 | |
| Deferred outflows of resources - pension | 89,046 | |
| Deferred inflows of resources - pension | <u>(45,145)</u> | 224,079 |

The government-wide statement includes the District's proportionate share of TCDRS net OPEB liabilities, as well as pension related transactions accounted for as deferred inflows and outflows of resources. Liabilities at year-end related to such items consist of:

| | | |
|---------------------------------------|-------------------|-------------|
| Net OPEB liability | \$ (604,755) | |
| Deferred outflows of resources - OPEB | 62,003 | |
| Deferred inflows of resources - OPEB | <u>(74,084)</u> | (616,836) |

Some liabilities, including notes payable and accrued compensated absences are not due and payable in the current period and, therefore, are not reported as a liability in the funds. Liabilities at year-end related to such items consist of:

| | | |
|------------------------------|-------------------|-------------------|
| Accrued compensated absences | \$ (30,536) | |
| Note payable | <u>(50,572)</u> | <u>(81,108)</u> |

Net position of governmental activities - statement of net position \$ 6,685,025

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

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

*Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund
For the Year Ended December 31, 2025*

| | <u>General Fund</u> |
|-----------------------------|-------------------------|
| Revenues: | |
| Taxes | \$ 1,935,365 |
| Investment income | 188,586 |
| Miscellaneous | <u>154,339</u> |
| Total revenues | <u>2,278,290</u> |
| Expenditures: | |
| Current: | |
| Personnel | 800,558 |
| Professional fees | 139,856 |
| Contracted services | 715,703 |
| Utilities | 5,825 |
| Repairs and maintenance | 319,351 |
| Operating costs | 93,955 |
| Administrative costs | 60,649 |
| Capital Outlay | 361,487 |
| Debt Service: | |
| Principal | 23,020 |
| Interest and fiscal charges | <u>4,731</u> |
| Total expenditures | <u>2,525,135</u> |
| Change in fund balance | (246,845) |
| Fund balance - beginning | <u>4,593,845</u> |
| Fund balance - ending | <u>\$ 4,347,000</u> |

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

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

*Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of General Fund to Governmental Activities Statement of Activities
For the Year Ended December 31, 2025*

Net change in fund balance - total general fund \$ (246,845)

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

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 expense.

| | | |
|------------------------------------|------------------|--------|
| Capital outlay | \$ 361,487 | |
| Loss on disposal of capital assets | (173,845) | |
| Depreciation expense | <u>(96,337)</u> | 91,305 |

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the general fund, but the repayment reduces long-term liabilities in the statement of net position.

| | | |
|------------------------------------|-----------------|--------|
| Principal payments on note payable | 23,020 | |
| Change in compensated absences | <u>(2,468)</u> | 20,552 |

Because some property tax receivables will not be collected for several months after the District's fiscal year ends, they are not considered available revenues and are deferred inflows in the governmental funds. 6,000

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This is the amount of change related to the total OPEB liability. 113,092

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This is the amount of change related to the net pension asset. 57,322

Change in net position of governmental activities \$ 41,426

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

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MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

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MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Matagorda County Drainage District No.1 (the “District”) was created by election in open court in October 1907 by two-third majority of commissioners Court as authorized by Section 52 of Article III, as broadened by Section 59 of Article XVI of the Texas Constitution. The District operates under Chapter 49 of the Texas Water Code.

The accounting and reporting policies of the District relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

Reporting Entity

The Board of the District is elected by the public; has the authority to make decisions, appoint administrators and managers; significantly influence operations; and has the primary accountability for fiscal matters. Therefore, the District is not included in any other governmental “reporting entity” as defined by GASB in its Statement No. 61, “*The Financial Reporting Entity.*” There are no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* are supported by tax revenue. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program. The District had no program revenues during the tax year ended December 31, 2025. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. The District does not have any fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase.

The District reports the following major governmental fund:

The *General Fund* is the District's only fund. It accounts for all financial resources of the District. The major revenue source includes local property taxes and interest earnings. Expenditures include all costs associated with the daily operations of the District.

Budgetary data

The original annual appropriated budget is adopted by the Board of Directors in August of the preceding year. Expenses are budgeted substantially on the modified accrual basis of accounting. Tax collections are budgeted based upon 100% of the tax levied in October of the year preceding the budget year (i.e. 2025 budgeted tax revenue is based upon the October, 2024 tax levy). Accordingly, there is no material difference between the financial reporting and budget basis of accounting.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level without approval of a majority of the Board. Line items may exceed appropriated amounts at the discretion of management as long as total expenditures for the fund do not exceed appropriated amounts. Appropriations not exercised in the current year lapse at the end of the year.

Encumbrance Accounting

The District does not employ a complete purchase order system for all expenditures and therefore does not utilize encumbrance accounting. Appropriations generally lapse at the end of the year.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Investments

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Matagorda County Appraisal District (MCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. MCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the MCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on October 1, 2025, upon which the levy for the 2026 year was based, was \$ 6,580,537,891. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and interest charges plus 20 % delinquent collection fees for attorney costs

The tax rates assessed for the year ended December 31, 2025, to finance general fund operations was \$ 0.03400 per \$ 100 valuation.

As of December 31, 2025, the District had collected \$ 287,051 of the 2025 levy (levied October 1, 2025), which is deferred and set aside for 2026 operations. Additionally, property taxes receivable of \$ 1,950,725 and \$ 140,007 from the 2025 levy and prior year levies, respectively, are recorded as deferred inflows of resources, net of allowance for uncollectible taxes of \$ 51,522. Allowances for uncollectible taxes are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories and Prepaid Items

The District utilizes the consumption method to account for inventory. Under this method, inventory is considered an expenditure when used rather than when purchased. Significant inventories are reported on the balance sheet at cost, using the first-in, first-out method, with an offsetting reservation of fund balance in the governmental fund financial statements since they do not constitute "available spendable resources" even though they are a component of current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the government-wide financial statements and prepaid expenditures in the fund financial statements.

Capital Assets

Capital assets, which include land, equipment, buildings and bridges, are reported in the governmental activities columns in the government-wide financial statement. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are being depreciated using the straight-line method over the following useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|--------------------|-------------------------------|
| Equipment | 10-30 |
| Buildings | 25 |
| Bridges | 15-50 |

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation, sick pay and compensated time benefits. There is no liability for accumulated sign leave since the District does not have a policy to pay these amounts when employees separate from service. All vacation and compensated time off pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of an employee resignation or retirement.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Pension Plans

The fiduciary net position of the Texas County and District Retirement System (TCDRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TCDRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits

The fiduciary net position of the Matagorda County Drainage District No. 1 Plan (the "Plan") has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from the Plan's total OPEB liability. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no assets as this is a pay-as-you-go plan.

Fund Balance

The Board of Directors meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The District's Unassigned General Fund Balance is maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board. Fund Balance of the District may be committed for a specific source by formal action of the Board of Directors. Amendments or modifications of the committed fund balance must also be approved by formal action by the Board. When it is appropriate for fund balance to be assigned, the Board has delegated authority to the Directors. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Balance - Continued

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal resolution by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by a director if authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all government funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

As of December 31, 2025, nonspendable fund balance related to inventories and prepaid expenditures includes \$ 493,338 and \$ 6,108, respectively, unassigned fund balance includes \$ 3,847,554 in the general fund.

Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consist of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Restricted net position, as presented in the government-wide statement of net position, is reported when constraints placed on the use of net position are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation. The District has restricted net position for the year ended December 31, 2025 of \$ 224,079 related to pensions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 2. NEW PRONOUNCEMENTS

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB Statement No. 102 “Certain Risk Disclosures” was issued in December 2023. The statement was implemented and did not have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after June 15, 2024.

GASB Statement No. 103 “Financial Reporting Model Improvements” was issued in April 2024. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after June 15, 2025.

GASB Statement No. 104 “Disclosure of Certain Capital Assets” was issued in September 2024. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after June 15, 2025.

GASB Statement No. 105 “Subsequent Events” was issued in December 2025. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after June 15, 2026.

NOTE 3. DEPOSITS AND INVESTMENTS

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 3. DEPOSITS AND INVESTMENTS - Continued

Cash and cash equivalents, current investments, and non-current investments as reported on the statement of net position at December 31, 2025 are as follows:

| | <u>Total</u> |
|---|---------------------|
| Cash and Cash Equivalents: | |
| Financial Institution Deposits: | |
| Demand deposits | \$ 1,425,162 |
| Local Government Investment Pool: | |
| Texas CLASS Government | <u>255,203</u> |
| Total cash and cash equivalents | <u>1,680,365</u> |
| Investments: | |
| Certificates of deposit | 985,584 |
| Agency securities | <u>1,483,430</u> |
| Total investments | <u>2,469,014</u> |
| Total cash and cash equivalents and investments | <u>\$ 4,149,379</u> |

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to them. The District requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the District's depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

At December 31, 2025, the carrying amount of the District's cash, savings, and time deposits was \$ 2,410,746. The financial institutions balances were \$ 2,423,795 at December 31, 2025. Bank balances of \$ 1,235,584 were covered by federal depository insurance and \$ 1,188,211 were covered by securities pledges in the District's name.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds in areas that primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The District's investment compliance requirements and types of investments are governed by the Public Funds Investment Act (PFIA) and the Texas Commission on Environmental Quality (TCEQ). The District believes it has complied with the requirements of the PFIA and the TCEQ.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 3. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

The District invests in Texas CLASS Government to provide its liquidity needs. Texas CLASS Government is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texas CLASS Government is a 2(a)7 like fund, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texas CLASS Government is rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

At December 31, 2025 Texas CLASS Government had a weighted average maturity of 45 days. Although Texas CLASS Government portfolios had a weighted average maturity of 45 days, the District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

As of December 31, 2025, the District had the following investments:

| <u>Investment Type</u> | <u>Interest Rate</u> | <u>Fair Value</u> | <u>Weighted Avg. Maturity (Days)</u> |
|-------------------------|----------------------|---------------------|--------------------------------------|
| Texas CLASS Government | Varies | \$ 255,203 | 45 |
| Certificates of deposit | Varies | 985,584 | 860 |
| Agency securities | Varies | <u>1,483,430</u> | 272 |
| | | <u>\$ 2,724,217</u> | 463 |

Credit Risk - As of December 31, 2025, the local government investment pool (which represents 9.37% of the investment portfolio) is rated AAAm by Standard and Poor's or AAA by Fitch. The agency securities (which represent 54.45% of the investment portfolio) are rated Aaa, are fully insured, registered, or the District's agent holds securities in the District's name; therefore, the District is not exposed to credit risk. The certificates of deposit (which represent 36.18% of the investment portfolio) are fully covered by the FDIC.

Interest Rate Risk - The District limits its exposure to interest rate risk by diversifying its investments by security type and institution. District policy will be that the maximum allowable stated maturity of an individual investment for operating funds shall not exceed five years, unless a temporary extension of maturities is approved by the Board of Directors.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 3. DEPOSITS AND INVESTMENTS - Continued

Fair Value Measures

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurements and Application*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the District’s assets at fair value as of December 31, 2025:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------|---------------------|----------------|----------------|---------------------|
| Agency securities | \$ <u>1,483,430</u> | \$ _____ - | \$ _____ - | \$ <u>1,483,430</u> |
| Total assets at fair value | \$ <u>1,483,430</u> | \$ _____ - | \$ _____ - | \$ <u>1,483,430</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES, AND UNEARNED REVENUES

Receivables and Allowances

Receivables as of December 31, 2025, for the District's general fund, including the applicable allowances for uncollectible accounts, are as follows:

| | <u>General Fund</u> |
|-----------------------------------|-------------------------|
| Receivables: | |
| Taxes | \$ 2,090,732 |
| Due from other governments | 12,844 |
| Accrued interest | <u>100,524</u> |
| Gross receivables | 2,204,100 |
| Less: Allowance for uncollectible | <u>(51,522)</u> |
| Net total receivables | <u>\$ 2,152,578</u> |

Deferred Inflows/Outflows of Resources and Unearned Revenues

Governmental funds defer the recognition of revenue in connection with receivables for revenues that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of December 31, 2025, the deferred inflows of resources reported in the governmental funds were as follows:

| | <u>Deferred Inflows of Resources</u> |
|--|--|
| Current property taxes collected (October 1, 2025 Levy) | \$ 287,051 |
| Current property taxes receivable (October 1, 2025 Levy) | 1,950,725 |
| Delinquent property taxes receivable (October 1, 2024 and prior) | <u>88,485</u> |
| Total deferred inflows of resources from governmental funds | <u>\$ 2,326,261</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES, AND UNEARNED REVENUES - Continued

Deferred Inflows/Outflows of Resources and Unearned Revenues - Continued

Governmental activities defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. As of December 31, 2025, deferred inflows/outflows of resources reported on the governmental activities were as follows:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Current property taxes collected (October 1, 2025 Levy) | \$ - | \$ 287,051 |
| Current property taxes receivable (October 1, 2025 Levy) | - | 1,950,725 |
| Differences between expected and actual experience - pension | 22,637 | 27,780 |
| Changes in assumptions - pension | 1,610 | - |
| Net difference between projected and actual earnings - pension | - | 17,365 |
| Contributions made subsequent to measurement - pension | 64,799 | - |
| Differences between expected and actual experience - OPEB | 60,474 | 40,449 |
| Changes in assumptions - OPEB | <u>1,529</u> | <u>33,635</u> |
| Total deferred outflows/inflows of resources from governmental activities | \$ <u>151,049</u> | \$ <u>2,357,005</u> |

As of December 31, 2025, there were no unearned revenues reported.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2025, was as follows:

| | <u>Balance January 1, 2025</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance December 31, 2025</u> |
|---|--|--------------------|-----------------------|--|
| Governmental Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ <u>48,600</u> | \$ - | \$ - | \$ <u>48,600</u> |
| Total capital assets not being depreciated | <u>48,600</u> | - | - | <u>48,600</u> |
| Capital Assets Being Depreciated: | | | | |
| Equipment | 1,729,659 | 361,487 | (126,737) | 1,964,409 |
| Buildings | 574,676 | - | - | 574,676 |
| Bridges | <u>3,052,422</u> | - | - | <u>3,052,422</u> |
| Total capital assets being depreciated | <u>5,356,757</u> | <u>361,487</u> | <u>(126,737)</u> | <u>5,591,507</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 5. CAPITAL ASSETS - Continued

| | Balance January 1, 2025 | Additions | Retirements | Balance December 31, 2025 |
|---|-------------------------------|-------------------|---------------------|---------------------------------|
| Accumulated Depreciation: | | | | |
| Equipment | \$ 1,069,612 | \$ 51,568 | \$ (30,400) | \$ 1,090,780 |
| Buildings | 149,418 | 11,494 | - | 160,912 |
| Bridges | <u>1,554,227</u> | <u>110,783</u> | <u>-</u> | <u>1,665,010</u> |
| Total accumulated depreciation | <u>2,773,257</u> | <u>173,845</u> | <u>(30,400)</u> | <u>2,916,702</u> |
| Total capital assets being depreciated, net | <u>2,583,500</u> | <u>187,642</u> | <u>(96,337)</u> | <u>2,674,805</u> |
| Governmental activities capital assets, net | <u>\$ 2,632,100</u> | <u>\$ 187,642</u> | <u>\$ (96,337)</u> | <u>\$ 2,723,405</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--|-------------------|
| Governmental Activities: | |
| Drainage | \$ <u>173,845</u> |
| Total depreciation expense-governmental activities | \$ <u>173,845</u> |

See Note 1 for additional information regarding capital assets.

NOTE 6. LONG-TERM DEBT

On September 23, 2024, the District purchased a John Deere utility tractor for \$ 101,343. The note calls for four yearly payments of \$ 27,751. The note payable requirements by year as of December 31, 2025 are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 2026 | \$ 24,498 | \$ 3,253 | \$ 27,751 |
| 2027 | <u>26,074</u> | <u>1,677</u> | <u>27,751</u> |
| | <u>\$ 50,572</u> | <u>\$ 4,930</u> | <u>\$ 55,502</u> |

Long-term liabilities from which general funds will be used to liquidate include compensated absences and post-employment health insurance benefits as follows:

| | Balance January 1, 2025 | Additions | Retirements | Balance December 31, 2025 | Amounts Due Within One Year |
|-------------------------------|-------------------------------|------------------|----------------------|---------------------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Note payable | \$ 73,592 | \$ - | \$ (23,020) | \$ 50,572 | \$ 24,498 |
| Compensated absences | 28,068 | 26,181 | (23,713) | 30,536 | 30,536 |
| Total OPEB liability | <u>645,381</u> | <u>52,741</u> | <u>(93,367)</u> | <u>604,755</u> | <u>-</u> |
| Total governmental activities | <u>\$ 747,041</u> | <u>\$ 78,922</u> | <u>\$ (140,100)</u> | <u>\$ 685,863</u> | <u>\$ 55,034</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 7. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN

Plan Description - The District provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 890 non-traditional defined benefit plans. TCDRS in the aggregate issues a annual comprehensive financial report (ACFR) on a calendar year basis. The ACFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, TX 79768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

All eligible employees of the District are required to participate in TCDRS.

The plan provisions are adopted by the Board of Directors of the District, within the options available in the state statutes governing TCDRS. Plan provisions for the District were as follows:

| | <u>Plan Year 2025</u> | <u>Plan Year 2024</u> |
|---|-----------------------|-----------------------|
| Employee deposit rate | 7.00% | 7.00% |
| Employer deposit rate | 11.80% | 11.80% |
| Matching ratio (District to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 8 | 8 |
| Service retirement eligibility (expressed as age/years of service) | 60/8, 0/30 | 60/8, 0/30 |

Employees Covered by Benefit Terms:

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

| | |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefits | - |
| Inactive employees entitled to but not yet receiving benefits | 3 |
| Active employees | <u>8</u> |
| | <u><u>11</u></u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 7. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Contributions - The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee compensation, and the employer matching percentages are either 100%, 150%, 200% or 250%, both as adopted by the governing body of the employer. Under the state laws governing TCDRS, the contribution rate for each employer is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. Participating employers are required to contribute at the actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees.

Each employer has the opportunity to make additional contributions in excess of its annual required contribution rate either by adopting an elected rate that is higher than the required rate or by making additional contributions on an ad hoc basis. Employers may make additional contributions to pay down their liabilities faster, pre-fund benefit enhancements and/or buffer against future adverse experience. In addition, employers annually review their plans and may adjust benefits and costs based on their local needs and budgets. Although accrued benefits may not be reduced, employers may reduce future benefit accruals and immediately reduce costs.

Employees of the District were required to contribute 7.00% of their annual compensation during the fiscal year. The District's required contribution rates of 9.60% in 2025. The District's contributions to TCDRS for the year ended December 31, 2025 were \$ 64,799.

Net Pension Asset - The District's Net Pension Asset was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset 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 | 3.00% per year |
| Investment Rate of Return | 7.50%, net of pension plan investment expense, including inflation |

Except where indicated in the section of this GASB 68 report entitled "Actuarial Methods and Assumptions Used for GASB Calculations", the assumptions used in this analysis for the December 31, 2024 financial reporting metrics are the same as those used in the December 31, 2024 actuarial valuation analysis for the District.

Following is a description of the assumptions used in the December 31, 2024 actuarial valuation analysis for the District. This information may also be found in the Matagorda County Drainage District No. 1 December 31, 2024 Summary Valuation Report.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 7. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Economic Assumptions:

TCDRS System-Wide Economic Assumptions

| | |
|-----------------------------|-------|
| Real rate of return | 5.00% |
| Inflation | 2.50% |
| Long-term investment return | 7.50% |

The assumed long-term investment return of 7.50% is net after investment and administrative expenses and is expected to enable the system to credit each employer's Subdivision Accumulation Fund (SAF) with a nominal annual rate of 7.50% on the combined Employee Savings Fund (ESF) and SAF funds, less the amount credited to the District's ESF. Under the TCDRS Act, the ESF is credited with a nominal annual rate of 7.00%. It is assumed interest will be credited at the nominal annual rate of 7.50% for calculating the actuarial accrued liability and the normal cost contribution rate for the retirement plan of each participating employer.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.00% (made up of 2.50% inflation and 0.50% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.70% per year for a career employee.

Employer Specific Economic Assumptions

| | |
|----------------------|-------|
| Growth in membership | 0.00% |
| Payroll growth | 0.00% |

The payroll growth assumption is for the aggregate covered payroll of an employer.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers are based on January 2025 information for a 10-year time horizon.

The valuation assumption for long-term expected return is re-assessed in detail at a minimum of every four years, and is set based on a long-term time horizon. The TCDRS Board of Trustees adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 7. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

| Asset Class | Benchmark | Target Allocation ⁽¹⁾ | Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾ |
|--|---|----------------------------------|---|
| US Equities | Dow Jones U.S. Total Stock Market Index | 13.00% | 5.35% |
| Global Equities | MSCI World (net) Index | 4.00% | 5.15% |
| International Equities - Developed Markets | MSCI World Ex USA (net) Index | 6.00% | 4.75% |
| International Equities - Emerging Markets | MSCI Emerging Markets (net) Index | 0.00% | 4.75% |
| Investment-Grade Bonds | Bloomberg U.S. Aggregate Bond Index | 3.00% | 2.25% |
| Strategic Credit | FTSE High-Yield Cash-Pay Index | 9.00% | 3.70% |
| Direct Lending | Morningstar LSTA US Leveraged Loan TR USD Index | 16.00% | 6.85% |
| Distressed Debt | Cambridge Associates Distressed Securities Index ⁽³⁾ | 4.00% | 6.80% |
| REIT Equities | 67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index | 2.00% | 3.95% |
| Master Limited Partnerships | Alerian MLP Index | 2.00% | 4.95% |
| Commodities | Bloomberg Commodities Index | 2.00% | 1.00% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index ⁽⁴⁾ | 6.00% | 5.75% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾ | 25.00% | 8.15% |
| Hedge Funds | Hedge Fund Research, Inc. Fund of Funds Composite Index | 6.00% | 3.60% |
| Cash Equivalents | 90-Day U.S. Treasury | 2.00% | 1.10% |

⁽¹⁾ Target asset allocation adopted at the March 2025 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return for the asset class minus the assumed inflation rate of 2.35%, per Cliffwater's 2025 capital market assumptions

⁽³⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

⁽⁵⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

Discount Rate - The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not include in (1), calculated using the municipal bond rate.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 7. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan’s fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 7.60%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.50%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

| | Increase (Decrease) | | |
|--|--------------------------------------|--|---------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Asset (a)-(b) |
| Balance as of December 31, 2023 | \$ 1,796,880 | \$ 1,912,412 | \$ (115,532) |
| Changes for the Year: | | | |
| Service cost | 57,872 | - | 57,872 |
| Interest on total pension liability ⁽¹⁾ | 139,484 | - | 139,484 |
| Effect of economic/demographic gains or losses | 22,355 | - | 22,355 |
| Employer contributions | - | 54,265 | (54,265) |
| Member contributions | - | 32,191 | (32,191) |
| Net investment income | - | 195,930 | (195,930) |
| Benefit payment, | (39,608) | (39,608) | - |
| Administrative expense | - | (1,174) | 1,174 |
| Other changes ⁽²⁾ | - | 3,145 | (3,145) |
| Balance as of December 31, 2024 | <u>\$ 1,976,983</u> | <u>\$ 2,157,161</u> | <u>\$ (180,178)</u> |

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ Relates to allocation of system-wide items.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 7. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Sensitivity Analysis - The following presents the net pension liability of the District, calculated using the discount rate of 7.60%, as well as what the District's net pension liability would be if it were calculated using a discount rate of 1 percentage-point lower (6.60%) or 1 percentage-point higher (8.60%) than the current rate:

| | 1% Decrease In Discount Rate <u>(6.60%)</u> | Discount Rate <u>(7.60%)</u> | 1% Increase In Discount Rate <u>(8.60%)</u> |
|---------------------------------|---|---------------------------------|---|
| Total pension liability | \$ 2,204,861 | \$ 1,976,983 | \$ 1,778,461 |
| Fiduciary net position | <u>2,157,161</u> | <u>2,157,161</u> | <u>2,157,161</u> |
| Net pension liability / (asset) | \$ <u>47,700</u> | \$ <u>(180,178)</u> | \$ <u>(378,700)</u> |

| <i>Pension Expense:</i> | <u>Year Ended 12-31-24</u> |
|--|--------------------------------|
| Service cost | \$ 57,872 |
| Interest on total pension liability ⁽¹⁾ | 139,484 |
| Administrative expenses | 1,174 |
| Member contributions | (32,191) |
| Expected investment return net of investment expenses | (147,165) |
| Recognition of deferred inflows/outflows of resources: | |
| Recognition of economic/demographic gains or losses | (6,707) |
| Recognition of assumption changes or inputs | 17,060 |
| Recognition of investment gains or losses | (18,905) |
| Other ⁽²⁾ | <u>(3,145)</u> |
| Pension expense | \$ <u>7,477</u> |

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ Related to allocation of system-wide items.

Deferred Inflows and Outflows - At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual economic experience | \$ 22,637 | \$ 27,780 |
| Changes in assumptions | 1,610 | - |
| Net difference between projected and actual investment earnings | - | 17,365 |
| Contributions subsequent to the measurement date ⁽³⁾ | <u>64,799</u> | <u>-</u> |
| Totals | \$ <u>89,046</u> | \$ <u>45,145</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 7. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expenses as follows:

| <u>Year Ended</u> <u>December 31,</u> | |
|--|--------------|
| 2026 | \$ (19,152) |
| 2027 | 19,024 |
| 2028 | (15,488) |
| 2029 | (5,282) |

⁽³⁾ Any eligible employer contributions were made subsequent to the measurement date through the employer's fiscal year end, the employer should reflect these contributions, adjusted as outlined in GASB No. 71.

NOTE 8. HEALTH CARE COVERAGE

The District's employees were covered by a health insurance plan by joining together with Matagorda County in their self-insurance pool under an interlocal agreement. The pool is treated as an internal service fund of Matagorda County and is administered by Texas Association of Health Employee Benefits, a third party administrator acting on behalf of the self-funded pool. The plan is authorized by Chapter 172 of the Local Government Code and is documented by contractual agreement between Matagorda County and TAX HEBP. The District contributed \$ 93,367 for active employees and \$ 24,000 for retirees to Matagorda County for the year ended December 31, 2025.

The agreement between the County and HEBP renews automatically annually for an additional one-year term without the necessity of any action by the parties other than payment of the appropriate premium or contribution. Either party may elect not to renew the agreement by giving written notice at least thirty days prior to the end of the original term or any renewal term. HEBP purchased specific stop-loss coverage of \$ 100,000, with an aggregate attachment factor based on the number of employees, from Texas Association of Counties, Health and Benefit Pool/Blue Cross Blue Shield of Texas. The contract is renewable October 1, 2025, and terms of coverage and contribution costs are included in the contractual provisions. Each member, to the extent its benefit plan is self-insured, remains responsible for the payment of benefits under the benefit plan in the event HEBP fails to make such payments. The pool has claims that are probable but not reasonably estimable for Drainage District No. 1 individually, therefore, no liability has been accrued.

Further information on estimated liabilities for unpaid claims can be obtained by contacting Matagorda County at 1700 Seventh Street, Room 326, Bay City, TX 77414 or calling 979-244-7611.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description - The District's defined benefit OPEB plan provides medical and prescription drug benefits to plan members of the District. The plan is a single-employer defined benefit OPEB plan administered by the District. Local Government Code Section 157.101 assigns the authority to establish and amend benefit provisions to the Board of Directors. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided - The plan provides medical and prescription drug benefits for retirees. Benefits are provided by a self-insured plan through the Texas Association of Counties Health and Employee Benefits Pool for the medical plan under age 65. The Medicare Supplement is underwritten by Hartford Life & Accident Insurance Company. A Medicare supplement is available for Medicare eligible retirees with the District. The retiree is responsible for paying any additional costs for dependent coverage elected.

The following table provides a summary of the number of participants in the plan as of December 31, 2024:

| | |
|---|----------|
| Inactive plan members or beneficiaries currently receiving benefits | 2 |
| Inactive plan members entitled to but not yet receiving benefits | - |
| Active plan members | <u>6</u> |
| | <u>8</u> |

Contributions - Local Government Code Section 157.102 assigns to the Board of Directors the authority to establish and amend contribution requirements of the plan members. The District may contribute all, part of, or none of the premium payment. The District's contribution, if any, will be determined annually by the Board of Directors during the District budget process and will be effective on a fiscal year basis. The District does not contribute toward the cost of coverage for retirees who do not meet the eligibility requirements. The District pays no more for retiree healthcare than the premium it pays for active employees.

The plan is funded on a pay-as-you-go basis. For the year ended December 31, 2025, the total benefit payments made to the plan was \$ 93,367. The total benefit payments made include explicit benefit payments made by the District of \$ 24,000.

Total OPEB Liability - The District's total OPEB liability of \$ 604,755 was measured as of December 31, 2025, and was determined by an actuarial valuation as of December 31, 2024 rolled forward to December 31, 2025.

Actuarial assumptions and other inputs - The total OPEB liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-------------------------|----------------------|
| Actuarial cost method | Individual Entry-Age |
| Discount rate | 4.28% |
| Inflation | 2.50% |
| Salary increases | 3.50% |
| Health care trend rates | Level 4.50% |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - Continued

Mortality rates were based on the RPH-2014 Total Table with projection MP-2021.

The actuarial assumptions used on December 31, 2024 valuation were measured from December 31, 2024 valuation.

The actuarial assumptions used in the December 31, 2024 valuation were based on the experience study covering the four-year period ending December 31, 2017, as conducted for the Texas County and District Retirement System.

Discount Rate - For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of a 20-year general obligation bond with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rate is 4.28% (based on the daily rate closest to but not later than the measurement date of the "S & P Municipal Bond 20 year High Grade Rate Index").

Changes in Total OPEB Liability - The changes in the total OPEB liability as of December 31, 2025 are as follows:

| | <u>Total OPEB Liability</u> |
|---|-------------------------------------|
| Service cost | \$ 26,004 |
| Interest cost | 26,737 |
| Benefit payments | <u>(93,367)</u> |
| Net change in total OPEB liability | (40,626) |
| Total OPEB liability, December 31, 2024 | <u>645,381</u> |
| Total OPEB liability, December 31, 2025 | <u>\$ 604,755</u> |

Sensitivity of the total OPEB liability to changes in the discount rate - The following presents the total OPEB liability of the District, calculated using the discount rate of 4.28%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate of 1 percentage-point lower (3.28%) or 1 percentage-point higher (5.28%) than the current rate:

| | <u>1% Decrease In Discount Rate (3.28%)</u> | <u>Discount Rate (4.28%)</u> | <u>1% Increase In Discount Rate (5.28%)</u> |
|----------------------|---|----------------------------------|---|
| Total OPEB liability | \$ 692,052 | \$ 604,755 | \$ 549,461 |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - Continued

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates - The following presents the total OPEB liability of the District, calculated using the healthcare cost trend rate of 4.50%, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate of 1 percentage-point lower (3.50%) or 1 percentage-point higher (5.50%) than the current rate:

| | 1% Decrease In Healthcare Cost Trend Rate (3.50%) | Healthcare Cost Trend Rate (4.50%) | 1% Increase In Healthcare Cost Trend Rate (5.50%) |
|----------------------|--|--|--|
| Total OPEB liability | \$ 524,691 | \$ 604,755 | \$ 702,444 |

| <i>Total OPEB Income:</i> | <u>Year Ended 12-31-25</u> |
|---|--------------------------------|
| Service cost | \$ 26,004 |
| Interest cost | 26,737 |
| Difference between expected and actual experience | (30,927) |
| Changes in assumptions or other inputs | <u>(41,539)</u> |
| Total OPEB income | \$ <u>(19,725)</u> |

Deferred Inflows and Outflows - At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 60,474 | \$ 40,449 |
| Changes of assumption/inputs | <u>1,529</u> | <u>33,635</u> |
| Total | \$ <u>62,003</u> | \$ <u>74,084</u> |

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year Ended December 31,</u> | |
|------------------------------------|--------------|
| 2026 | \$ (53,951) |
| 2027 | 20,133 |
| 2028 | 20,133 |
| 2029 | 1,604 |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 10. RISK MANAGEMENT

The District is exposed to all the normally expected risks of a public entity of its size and nature. Management is unaware of any unusual or unexpected types of risk. There has been no significant reduction in bond coverage during the year ended December 31, 2025. As of December 31, 2025 management is unaware of any material liability for unpaid claims or unasserted claims.

NOTE 11. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through March 24, 2026, the date which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTAL INFORMATION

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MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

*Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual - General Fund
For the Year Ended December 31, 2025*

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Favorable (Unfavorable) |
|-----------------------------|-------------------------|---------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Taxes | \$ 1,966,223 | \$ 1,966,223 | \$ 1,935,365 | \$ (30,858) |
| Investment income | 40,000 | 40,000 | 188,586 | 148,586 |
| Miscellaneous | <u>-</u> | <u>-</u> | <u>154,339</u> | <u>154,339</u> |
| Total revenues | <u>2,006,223</u> | <u>2,006,223</u> | <u>2,278,290</u> | <u>272,067</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Personnel | 704,028 | 802,028 | 800,558 | 1,470 |
| Professional fees | 115,000 | 140,500 | 139,856 | 644 |
| Contracted services | 427,500 | 746,850 | 715,703 | 31,147 |
| Utilities | 9,000 | 5,850 | 5,825 | 25 |
| Repairs and maintenance | 360,000 | 368,500 | 319,351 | 49,149 |
| Operating costs | 74,000 | 119,500 | 93,955 | 25,545 |
| Administrative costs | 64,860 | 61,070 | 60,649 | 421 |
| Capital outlay | 251,835 | 361,925 | 361,487 | 438 |
| Debt Service: | | | | |
| Principal | - | - | 23,020 | (23,020) |
| Interest and fiscal charges | <u>-</u> | <u>-</u> | <u>4,731</u> | <u>(4,731)</u> |
| Total expenditures | <u>2,006,223</u> | <u>2,606,223</u> | <u>2,525,135</u> | <u>81,088</u> |
| Change in fund balance | - | (600,000) | (246,845) | 353,155 |
| Fund balance - beginning | <u>4,593,845</u> | <u>4,593,845</u> | <u>4,593,845</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 4,593,845</u> | <u>\$ 3,993,845</u> | <u>\$ 4,347,000</u> | <u>\$ 353,155</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1*Texas County and District Retirement System**Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios**With a Measurement Date of December 31,*

| | <u>2024</u> | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|---------------------|----------------------|
| Total Pension Liability: | | | | |
| Service cost | \$ 57,872 | \$ 55,534 | \$ 61,762 | \$ 60,919 |
| Interest on total pension liability | 139,484 | 127,934 | 122,499 | 110,549 |
| Effect of plan changes | - | - | - | - |
| Effect of assumption changes or inputs | - | - | - | 8,046 |
| Effect of economic/demographic (gains)/losses | 22,355 | 5,766 | (69,453) | 6,457 |
| Benefit payments/refunds of contributions | <u>(39,608)</u> | <u>(39,608)</u> | <u>(34,597)</u> | <u>(24,744)</u> |
| Net Change in total pension liability | 180,103 | 149,626 | 80,211 | 161,227 |
| Total pension liability - beginning | <u>1,796,880</u> | <u>1,647,254</u> | <u>1,567,043</u> | <u>1,405,816</u> |
| Total pension liability - ending (a) | <u>\$ 1,976,983</u> | <u>\$ 1,796,880</u> | <u>\$ 1,647,254</u> | <u>\$ 1,567,043</u> |
| Fiduciary Net Position: | | | | |
| Employer contributions | \$ 54,265 | \$ 41,542 | \$ 42,561 | \$ 44,723 |
| Member contributions | 32,191 | 24,643 | 25,248 | 26,531 |
| Investment income net of investment expenses | 195,930 | 186,870 | (106,355) | 313,905 |
| Benefit payments/refunds of contributions | (39,608) | (39,608) | (34,597) | (24,744) |
| Administrative expenses | (1,174) | (999) | (995) | (955) |
| Other | <u>3,145</u> | <u>2,011</u> | <u>6,155</u> | <u>1,704</u> |
| Net Change in fiduciary net position | 244,749 | 214,459 | (67,983) | 361,164 |
| Fiduciary net position - beginning | <u>1,912,412</u> | <u>1,697,953</u> | <u>1,765,936</u> | <u>1,404,772</u> |
| Fiduciary net position - ending (b) | <u>\$ 2,157,161</u> | <u>\$ 1,912,412</u> | <u>\$ 1,697,953</u> | <u>\$ 1,765,936</u> |
| Net pension liability/(asset), ending = (a)-(b) | <u>\$ (180,178)</u> | <u>\$ (115,532)</u> | <u>\$ (50,699)</u> | <u>\$ (198,893)</u> |
| Fiduciary net position as a percentage of total pension liability | <u>109.11%</u> | <u>106.43%</u> | <u>103.08%</u> | <u>112.69%</u> |
| Pensionable covered payroll | <u>\$ 459,872</u> | <u>\$ 352,049</u> | <u>\$ 360,690</u> | <u>\$ 379,011</u> |
| Net pension liability/(asset) as a percentage of covered payroll | <u>(39.18%)</u> | <u>(32.82%)</u> | <u>(14.06%)</u> | <u>(52.48%)</u> |

| <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
| \$ 54,568 | \$ 52,214 | \$ 50,027 | \$ 48,644 | \$ 48,948 | \$ 45,026 |
| 100,281 | 93,315 | 86,101 | 77,256 | 68,383 | 62,929 |
| - | - | - | - | - | (8,168) |
| 77,263 | - | - | (3,157) | - | 4,225 |
| 1,349 | (43,807) | (32,004) | 6,515 | (9,477) | (17,572) |
| <u>(21,794)</u> | <u>(14,521)</u> | <u>(19,870)</u> | <u>(22,956)</u> | <u>(22,956)</u> | <u>(22,956)</u> |
| 211,667 | 87,201 | 84,254 | 106,302 | 84,898 | 63,484 |
| <u>1,194,149</u> | <u>1,106,948</u> | <u>1,022,694</u> | <u>916,392</u> | <u>831,494</u> | <u>768,010</u> |
| <u>\$ 1,405,816</u> | <u>\$ 1,194,149</u> | <u>\$ 1,106,948</u> | <u>\$ 1,022,694</u> | <u>\$ 916,392</u> | <u>\$ 831,494</u> |
| \$ 43,870 | \$ 42,775 | \$ 40,498 | \$ 38,196 | \$ 36,730 | \$ 37,850 |
| 26,024 | 25,378 | 23,963 | 22,659 | 21,789 | 21,073 |
| 127,071 | 165,606 | (17,784) | 120,721 | 54,090 | (4,420) |
| (21,794) | (14,521) | (19,870) | (22,956) | (22,956) | (22,956) |
| (1,028) | (936) | (810) | (653) | (599) | (525) |
| <u>1,545</u> | <u>2,008</u> | <u>1,427</u> | <u>501</u> | <u>(8,987)</u> | <u>(222)</u> |
| 175,688 | 220,310 | 27,424 | 158,468 | 80,067 | 30,800 |
| <u>1,229,084</u> | <u>1,008,774</u> | <u>981,350</u> | <u>822,882</u> | <u>742,815</u> | <u>712,015</u> |
| <u>\$ 1,404,772</u> | <u>\$ 1,229,084</u> | <u>\$ 1,008,774</u> | <u>\$ 981,350</u> | <u>\$ 822,882</u> | <u>\$ 742,815</u> |
| <u>\$ 1,044</u> | <u>\$ (34,935)</u> | <u>\$ 98,174</u> | <u>\$ 41,344</u> | <u>\$ 93,510</u> | <u>\$ 88,679</u> |
| <u>99.93%</u> | <u>102.93%</u> | <u>91.13%</u> | <u>95.96%</u> | <u>89.80%</u> | <u>89.33%</u> |
| <u>\$ 371,776</u> | <u>\$ 362,538</u> | <u>\$ 342,333</u> | <u>\$ 323,693</u> | <u>\$ 311,268</u> | <u>\$ 301,039</u> |
| <u>0.28%</u> | <u>(9.64%)</u> | <u>28.68%</u> | <u>12.77%</u> | <u>30.04%</u> | <u>29.46%</u> |

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MATAGORDA COUNTY DRAINAGE DISTRICT No. 1*Texas County and District Retirement System**Schedule of Employer Contributions**For the Ten Years Ended December 31,*

| | <u>Actuarially Determined Contribution⁽¹⁾</u> | <u>Actual Employer Contribution⁽¹⁾</u> | <u>Contribution Deficiency (Excess)</u> | <u>Pensionable Covered Payroll⁽²⁾</u> | <u>Actual Contribution as a % of Covered Payroll</u> |
|------|--|---|---|--|--|
| 2016 | \$ 36,730 | \$ 36,730 | \$ - | \$ 311,268 | 11.8% |
| 2017 | 37,160 | 38,196 | (1,036) | 323,693 | 11.8% |
| 2018 | 40,498 | 40,498 | - | 342,333 | 11.8% |
| 2019 | 42,381 | 42,780 | (399) | 362,538 | 11.8% |
| 2020 | 41,007 | 43,870 | (2,863) | 371,776 | 11.8% |
| 2021 | 35,779 | 44,723 | (8,944) | 379,011 | 11.8% |
| 2022 | 40,397 | 42,561 | (2,164) | 360,690 | 11.8% |
| 2023 | 39,113 | 41,542 | (2,429) | 352,049 | 11.8% |
| 2024 | 44,792 | 54,265 | (9,473) | 459,872 | 11.8% |
| 2025 | 52,718 | 64,799 | (12,081) | 549,147 | 11.8% |

⁽¹⁾ TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

⁽²⁾ Payroll is calculated based on contributions as reported to TCDRS.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Last Ten Years Ended December 31,

| | <u>2025</u> | <u>2024</u> | <u>2023</u> | <u>2022</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| Total OPEB Liability: | | | | |
| Service cost | \$ 26,004 | \$ 17,689 | \$ 17,689 | \$ 45,277 |
| Interest cost | 26,737 | 23,912 | 24,078 | 21,313 |
| Experience (gain)/loss | - | 99,742 | - | (242,693) |
| Assumption changes | - | 2,527 | - | (201,787) |
| Benefit payments | <u>(93,367)</u> | <u>(71,213)</u> | <u>(20,000)</u> | <u>(62,380)</u> |
| Net Change in Total OPEB Liability | (40,626) | 72,657 | 21,767 | (440,270) |
| Total OPEB Liability - beginning | <u>645,381</u> | <u>572,724</u> | <u>550,957</u> | <u>991,227</u> |
| Total OPEB Liability - ending | <u>\$ 604,755</u> | <u>\$ 645,381</u> | <u>\$ 572,724</u> | <u>\$ 550,957</u> |
| Covered Payroll | \$ 362,200 | \$ 362,200 | \$ 292,616 | \$ 292,616 |
| Total OPEB Liability as a Percentage of Covered Payroll | <u>166.97%</u> | <u>178.18%</u> | <u>195.73%</u> | <u>188.29%</u> |

There are no assets accumulated in a trust that meets the criteria of GASB to pay benefits for the OPEB plan.

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|----|------------------|-------------------|-------------------|-------------------|
| \$ | 45,277 | 32,812 | \$ 32,812 | 31,520 |
| | 21,310 | 36,042 | 34,672 | 35,947 |
| | - | 28,146 | - | - |
| | - | 84,802 | - | - |
| | <u>(70,500)</u> | <u>(65,838)</u> | <u>(67,920)</u> | <u>(66,200)</u> |
| | (3,913) | 115,964 | (436) | 1,267 |
| | <u>995,140</u> | <u>879,176</u> | <u>879,612</u> | <u>878,345</u> |
| \$ | <u>991,227</u> | \$ <u>995,140</u> | \$ <u>879,176</u> | \$ <u>879,612</u> |
| \$ | 314,073 | \$ 314,073 | \$ 323,558 | \$ 323,558 |
| | <u>315.60%</u> | <u>316.85%</u> | <u>271.72%</u> | <u>271.86%</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

Notes to the Required Supplementary Information

For the Year Ended December 31, 2025

NOTE 1 - SCHEDULE OF CHANGES IN NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS

Valuation Date Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|---|--|
| Actuarial Cost Method | Entry Age (level percentage of pay) |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 2.4 years (based on contribution rate calculated in 12/31/2024 valuation) |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 2.50% |
| Salary Increases | Varies by age and service. 4.7% average over career including inflation. |
| Investment Rate of Return | 7.50%, net of administrative and investment expenses, including inflation |
| Retirement Age | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61. |
| Mortality | 135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010. |
| Changes in Assumptions and Reflected in the Schedule of Employer Contributions* | 2015: New inflation, mortality and other assumption were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected. 2022: New investment return and inflation assumptions were reflected. |
| Changes in Plan Provisions Schedule of Employer Contributions* | 2015: No changes in plan provisions were reflected in the schedule. 2016: No changes in plan provisions were reflected in the schedule. 2017: New Annuity purchase rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the schedule. 2019: No changes in plan provisions were reflected in the schedule. 2020: No changes in plan provisions were reflected in the Schedule. 2021: No changes in plan provisions were reflected in the Schedule. 2022: No changes in plan provisions were reflected in the Schedule. 2023: No changes in plan provisions were reflected in the Schedule. 2024: No changes in plan provisions were reflected in the Schedule. |

* Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to the Schedule.

**INFORMATION REQUIRED BY
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

TSI-1 - Services and Rates

For the Year Ended December 31, 2025

1. Services Provided by the District:

- | | | |
|---|---|--|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than Emergency interconnect) | | |
| <input type="checkbox"/> Other (specify): _____ | | |

2. Location of District:

County(ies) in which District is located. Matagorda

Is the District located entirely within one county? Yes X No _____

Is the District located within a city? Entirely _____ Partly X Not at all _____

City(ies) in which District is located. Bay City, Texas

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely _____ Partly X Not at all _____

ETJ's in which District is located. Bay City, Texas

Is the general membership of the Board appointed by an office outside the District?

Yes _____ No X

If Yes, by whom? _____

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

TSI-2 - General Fund Expenditures

For the Year Ended December 31, 2025

| | |
|---|----------------------------|
| Personnel expenditures (including benefits) | \$ 800,558 |
| Professional Fees: | |
| Auditing | 7,500 |
| Actuary | 3,450 |
| Legal | 15,240 |
| Engineering | 113,666 |
| Contracted Services: | |
| Appraisal district fees | 18,686 |
| Bookkeeping fees | 18,330 |
| Tax assessor/collector | 9,712 |
| Spraying | 165,313 |
| Machine hire | 503,662 |
| Utilities | 5,825 |
| Repairs and Maintenance | 319,351 |
| Operating Expenditures: | |
| Supplies | 31,080 |
| Fuel | 53,607 |
| Rentals | 9,268 |
| Administrative Costs: | |
| Soil conservation fee | 2,860 |
| Advertising | 1,662 |
| Insurance and bonds | 56,007 |
| Seminars, dues and training | 120 |
| Capital Outlay | 361,487 |
| Debt Service | <u>27,751</u> |
| Total expenditures | \$ <u><u>2,525,135</u></u> |

Number of persons employed by the District: 8 Full-Time, 1 Part-Time

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

TSI-3 - Temporary Investments

December 31, 2025

| <u>Type</u> | <u>CUSIP Number</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance at End of Year</u> | <u>Accrued Interest Receivable at End of Year</u> |
|------------------------|-------------------------|--------------------------|--------------------------|-----------------------------------|---|
| Texas Class Government | -- | 4.36% | Demand | \$ 255,203 | \$ - |
| FHLB | 3130ANZP8 | 0.70% | 09/29/2026 | 992,350 | 1,784 |
| FHLB | 3130APCH6 | 1.13% | 09/29/2026 | 491,080 | 1,433 |
| Certificate of Deposit | 07371AR88 | 2.60% | 04/21/2027 | 241,722 | 1,134 |
| Certificate of Deposit | 61776CCL9 | 4.20% | 09/28/2029 | 244,117 | 2,639 |
| Certificate of Deposit | 3134HBDF5 | 4.07% | 03/17/2028 | <u>499,745</u> | <u>5,854</u> |
| Total | | | | <u>\$ 2,724,217</u> | <u>\$ 12,844</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

TSI-4 - Taxes Levied and Receivable

For the Year Ended December 31, 2025

| | <u>Total Taxes</u> |
|--|-------------------------|
| Taxes receivable, beginning of year | \$ 1,765,538 |
| 2025 original tax levy, net of current year adjustments | 2,237,776 |
| Adjustments (prior years) | <u>(4,142)</u> |
| Total to be accounted for | <u>3,999,172</u> |
| Tax collections: | |
| Current year | 287,051 |
| Prior years | <u>1,621,389</u> |
| Total collections | <u>1,908,440</u> |
| Taxes receivable, end of year | <u>\$ 2,090,732</u> |
| Taxes receivable, by years | |
| 2025 | \$ 1,950,725 |
| Prior years | 140,007 |
| Less allowance for uncollectible tax | <u>(51,522)</u> |
| Taxes receivable (net), end of year | <u>\$ 2,039,210</u> |

| | <u>2025</u> | <u>2024</u> | <u>2023</u> | <u>2022</u> |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Property Valuations: | | | | |
| Land | \$ 2,505,170,108 | \$ 2,419,584,330 | \$ 2,187,679,291 | \$ 1,803,293,073 |
| Improvements | 5,625,845,913 | 4,896,808,086 | 4,579,360,743 | 3,950,586,378 |
| Non-real property | 668,882,889 | 639,952,020 | 579,640,690 | 532,368,028 |
| Exemptions/caps/productivity losses | <u>(2,219,361,019)</u> | <u>(2,344,860,388)</u> | <u>(2,114,742,909)</u> | <u>(1,461,575,430)</u> |
| Total property valuations | <u>\$ 6,580,537,891</u> | <u>\$ 5,611,484,048</u> | <u>\$ 5,231,937,815</u> | <u>\$ 4,824,672,049</u> |

| Tax Rates Per \$100 Valuation: | | | | |
|--|---------------------|---------------------|---------------------|---------------------|
| Debt service tax rates* | None | None | None | None |
| Maintenance tax rates | 0.034000 | 0.034470 | 0.034470 | 0.038350 |
| Other district tax rates | <u>None</u> | <u>None</u> | <u>None</u> | <u>None</u> |
| Total tax rates per \$ 100 valuation | <u>0.034000</u> | <u>0.034470</u> | <u>0.034470</u> | <u>0.038350</u> |

| | | | | |
|--------------------|---------------------|---------------------|---------------------|---------------------|
| Original Tax Levy: | \$ <u>2,337,776</u> | \$ <u>1,933,917</u> | \$ <u>1,803,235</u> | \$ <u>1,778,641</u> |
|--------------------|---------------------|---------------------|---------------------|---------------------|

| | | | | |
|---|--------|--------|--------|--------|
| Percent of taxes collected to taxes Levied** | 16.56% | 98.48% | 98.96% | 99.34% |
|---|--------|--------|--------|--------|

* Matagorda County Drainage District No. 1 has no debt.

** Calculated as taxes collected for a tax year divided by taxes levied for that year.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1*TSI-7a - Comparative Schedule of Revenues and Expenditures - General Fund - Five Years**For the Five Years Ended December 31,*

| | AMOUNTS | | | | |
|--|----------------------|-------------------|-------------------|----------------------|------------------|
| | <u>2025</u> | <u>2024</u> | <u>2023</u> | <u>2022</u> | <u>2021</u> |
| Revenues: | | | | | |
| Tax revenue | \$ 1,935,365 | \$ 1,805,327 | \$ 1,782,229 | \$ 1,733,896 | \$ 1,703,659 |
| Investment income (loss) | 188,586 | 188,888 | 189,752 | (248,051) | 16,299 |
| Miscellaneous | <u>154,339</u> | <u>47,587</u> | <u>124,525</u> | <u>71,727</u> | <u>60,485</u> |
| Total revenues | <u>2,278,290</u> | <u>2,041,802</u> | <u>2,096,506</u> | <u>1,557,572</u> | <u>1,780,443</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Personnel | 800,558 | 668,828 | 524,586 | 554,816 | 551,910 |
| Professional fees | 139,856 | 140,173 | 131,284 | 115,379 | 202,368 |
| Contracted services | 715,703 | 198,350 | 508,601 | 555,173 | 487,349 |
| Utilities | 5,825 | 7,943 | 10,544 | 9,142 | 8,150 |
| Repairs and maintenance | 319,351 | 394,516 | 405,160 | 373,254 | 300,784 |
| Operating costs | 93,955 | 89,093 | 64,481 | 88,133 | 52,636 |
| Administrative costs | 60,649 | 62,972 | 57,483 | 48,538 | 85,481 |
| Capital outlay | 361,487 | 331,736 | 113,942 | 119,822 | - |
| Debt Service: | | | | | |
| Principal | 23,020 | 27,751 | - | - | - |
| Interest and fiscal charges | <u>4,731</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>2,525,135</u> | <u>1,921,362</u> | <u>1,816,081</u> | <u>1,864,257</u> | <u>1,688,678</u> |
| Excess (deficiency) of revenues over expenditures | \$ <u>(246,845)</u> | \$ <u>120,440</u> | \$ <u>280,425</u> | \$ <u>(306,685)</u> | \$ <u>91,765</u> |

PERCENTAGES

| 2025 | 2024 | 2023 | 2022 | 2021 |
|------------------|--------------|--------------|------------------|--------------|
| 84.9% | 88.4% | 85.0% | 111.3% | 95.7% |
| 8.3 | 9.3 | 9.1 | (15.9) | 0.9 |
| <u>6.8</u> | <u>2.3</u> | <u>5.9</u> | <u>4.6</u> | <u>3.4</u> |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| 35.1 | 32.7 | 25.0 | 35.6 | 31.0 |
| 6.1 | 6.9 | 6.3 | 7.4 | 11.4 |
| 31.4 | 9.7 | 24.3 | 35.6 | 27.4 |
| 0.3 | 0.4 | 0.5 | 0.6 | 0.5 |
| 14.0 | 19.3 | 19.3 | 24.0 | 16.9 |
| 4.1 | 4.4 | 3.1 | 5.7 | 3.0 |
| 2.7 | 3.1 | 2.7 | 3.1 | 4.8 |
| 15.9 | 16.2 | 5.4 | 7.7 | 0.0 |
| 0.9 | 1.4 | 0.0 | 0.0 | 0.0 |
| <u>0.2</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| <u>110.7</u> | <u>94.1</u> | <u>86.6</u> | <u>119.7</u> | <u>95.0</u> |
| <u>(10.7%)</u> | <u>5.9%</u> | <u>13.4%</u> | <u>(19.7%)</u> | <u>5.0%</u> |

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1

TSI-8 - Board Members, Key Personnel, and Consultants

For the Year Ended December 31, 2025

Complete District Mailing Address:

PO Box 834
Bay City, Texas 77404-0834

District Business Telephone Number:

(979) 245-6751

Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054):

February 25, 2009

Limit on Fees of Office that a Director may receive during a fiscal year:
(Set by Board Resolution - TWC Section 49.060):

\$ 6,000

| <u>Names</u> | <u>Term of Office (Elected or Appointed) or Date Hired</u> | <u>Fees of Office Paid* 12/31/25</u> | <u>Expense Reimburse- ments 12/31/25</u> | <u>Title at Year End</u> | <u>Resident of District</u> |
|-----------------------|--|--|--|------------------------------|-------------------------------------|
| <i>Board Members:</i> | | | | | |
| Barrett Franz | Appointed February/2024 - February/2026 | \$ 6,000 | \$ - | Director | Yes |
| Arthur Milberger | Appointed February/2024 - February/2026 | 6,000 | - | Director | Yes |
| Keith Meyer | Appointed February/2024 - February/2026 | 6,000 | - | Director | Yes |

*Fees of office are the amounts actually paid to a Director during the District's fiscal year.

MATAGORDA COUNTY DRAINAGE DISTRICT No. 1*TSI-8 - Board Members, Key Personnel, and Consultants - Continued**For the Year Ended December 31, 2025*

| <u>Name</u> | <u>Date Hired</u> | <u>Fees & Expenses 12/31/25</u> | <u>Title Year End</u> |
|-------------------------------------|-------------------|---|---------------------------|
| Consultants: | | | |
| Wade Schultz | 2008 | \$ 100,612 | Manager |
| Matagorda County TAC | Inception | 9,712 | Tax Collector |
| Matagorda County Appraisal District | 1982 | 18,686 | Appraisal District |
| KM&L, LLC | 2017 | 7,500 | Auditor |
| Ellen Dodd | 2015 | 15,600 | Bookkeeper |
| Danny Schindler | 1997 | 6,000 | Attorney |
| Quiddity Engineering, LLC | 2022 | 113,666 | Engineer |

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