

Headwaters Groundwater Conservation District

**Annual Financial Report
For the Year Ended September 30, 2025**

**RECORDS
MANAGEMENT
PERMANENT**



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Headwaters Groundwater Conservation District
125 Lehmann Dr.
Suite 201
Kerrville, Texas 78028

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Headwaters Groundwater Conservation District, as of and for the year ended September 30, 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, each major fund, and the aggregate remaining fund information of the Headwater Groundwater District, as of September 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Headwater Groundwater Conservation 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.

Change in Accounting Principle

As described in Note 8 to the financial statements, in 2025, the District adopted new accounting guidance, GASB Statement No. 101, Compensated Absences. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Headwaters Groundwater Conservation 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.

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 Headwaters Groundwater Conservation 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 Headwaters Groundwater Conservation 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.

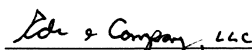
Required Supplementary Information

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

Other Information

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

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


Ede & Company, LLC
Certified Public Accountants
Uvalde, Texas
February 11, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, the management of the Headwaters Groundwater Conservation District (the "District") offers the following narrative on the financial performance of the District for the year ended September 30, 2025. Please read it in connection with the District's financial statements that follow.

For purposes of GASB Statement No. 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Total Governmental Funds" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$1,366.5 thousand at September 30, 2025.
- During the year, the District's expenses were \$86.0 thousand more than the \$623.3 thousand generated in taxes, service fees and other revenues for governmental activities.
- The total cost of the District's programs were more than last year, due to increased aquifer investigation costs.
- The general fund reported a fund balance this year of \$639.7 thousand.
- The District's governmental fund balance decreased \$14.5 thousand which represents a 2 percent decrease from 2024.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District: The *Statement of Net Position and Governmental Funds Balance Sheet* includes a column (titled "Total Governmental Funds") that represents a balance sheet prepared using the modified accrual basis of accounting. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net position will indicate financial health. The *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances* includes a column (titled "Total Governmental Funds") that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$1,366.5 thousand at September 30, 2025. (See Table A-1).

Table A-1
Headwaters Groundwater Conservation District
(in thousands dollars)

	Governmental Activities		Total Percentage Change 2025 - 2024
	2025	2024	
Current assets:			
Cash and cash equivalents	\$ 646.0	\$ 658.0	-1.8%
Property taxes receivable	33.3	27.5	21.1%
Due from other governments	2.0	1.6	25.0%
Total current assets	<u>681.3</u>	<u>687.1</u>	<u>-0.8%</u>
Noncurrent assets:			
Capital Assets	1,598.8	1,559.0	2.6%
Less accumulated depreciation	<u>(808.5)</u>	<u>(759.9)</u>	<u>6.4%</u>
Total noncurrent assets	<u>790.3</u>	<u>799.1</u>	<u>-1.1%</u>
Total Assets	<u>1,471.6</u>	<u>1,486.2</u>	<u>-1.0%</u>
Current liabilities:			
Accounts payable	3.8	2.2	72.7%
Payroll taxes & retirement	4.4	3.1	41.9%
Current portion - Lease payable	<u>18.3</u>	<u>2.9</u>	<u>531.6%</u>
Total current liabilities	<u>26.5</u>	<u>8.2</u>	<u>223.4%</u>
Noncurrent liabilities:			
Leases payable - Long -term	63.8	-	100.0%
Compensated Absences	<u>14.7</u>	<u>-</u>	<u>100.0%</u>
Total Liabilities	<u>105.1</u>	<u>8.2</u>	<u>1181.5%</u>
Net Position:			
Invested in capital assets	708.2	863.3	-18.0%
Unrestricted	<u>658.3</u>	<u>614.9</u>	<u>7.1%</u>
Total Net Position	<u>\$ 1,366.5</u>	<u>\$ 1,478.2</u>	<u>-7.6%</u>

The District's unrestricted net position, which can be used to finance day to day operations, totaled \$658.3 thousand. The overall financial condition of the District increases from 2024 to 2025.

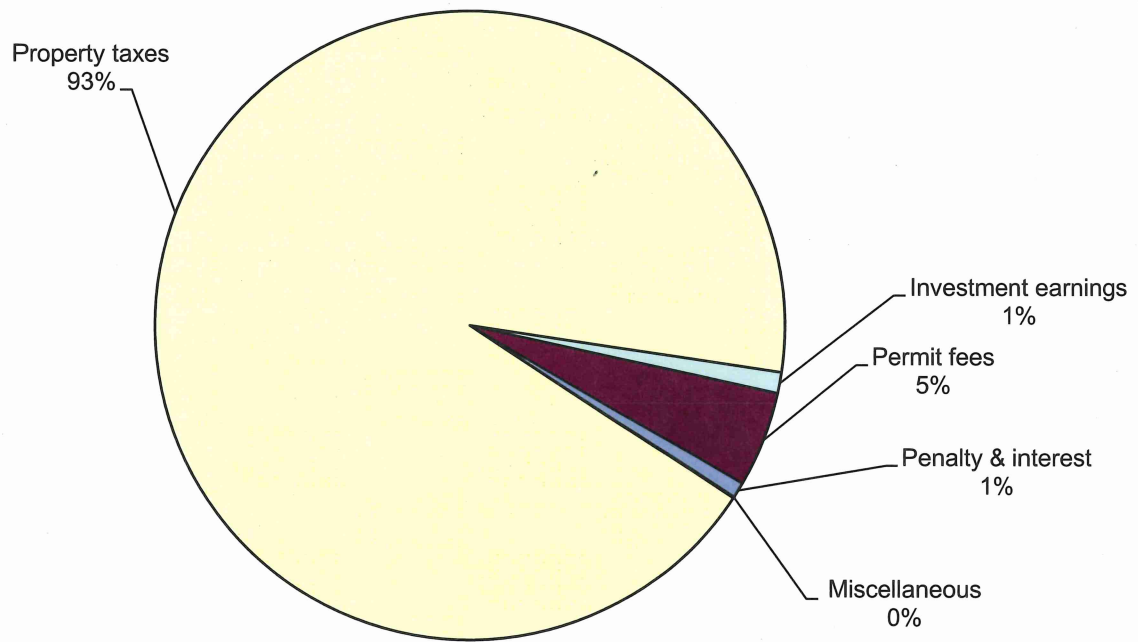
Changes in net position. The District's total revenues were \$623.3 thousand. A significant portion, 93 percent, of the District's revenue comes from property taxes. (See Figure A-3.) 1 percent comes from penalty & interest on property taxes, and 1 percent relates permits & fees.

The total cost of all programs and services was \$709.3 thousand; 100 percent of these costs are for General Government.

Table A-2
Changes in Headwaters Groundwater Conservation District's Net Position
(In thousands dollars)

	Governmental Activities		Total Percentage Change 2025-2024
	2025	2024	
General Revenue			
Property Taxes	\$ 580.6	\$ 550.2	5.5%
Permits & fees	30.6	58.0	-47.2%
Other	12.1	20.9	-42.1%
Total Revenue	<u>623.3</u>	<u>629.1</u>	<u>-0.9%</u>
Program Expenses			
General Government	<u>709.3</u>	<u>562.8</u>	<u>26.0%</u>
Total Expense	<u>709.3</u>	<u>562.8</u>	<u>26.0%</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (86.0)</u>	<u>\$ 66.3</u>	<u>-229.7%</u>

2025 Revenue Sources



2025 Expenses

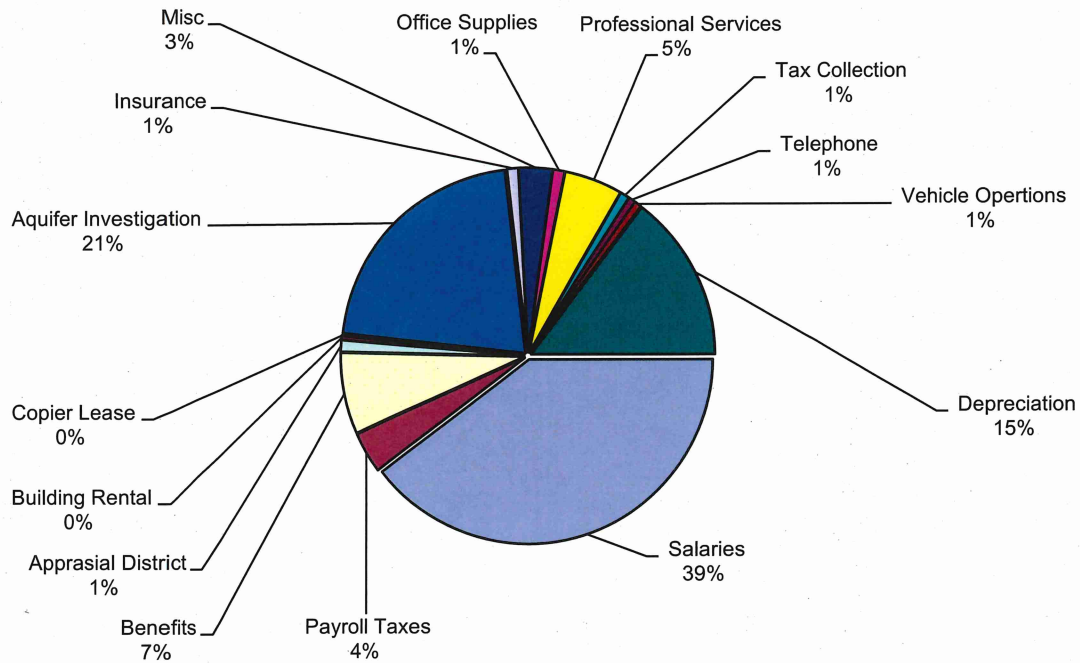


Table A-3 presents the cost of each of the District's largest functions as well as the major administrative categories.

- The cost of all *governmental* activities this year was \$709.3 thousand.
- The cost of all *governmental* activities in the previous year was \$562.8 thousand.

Table A-3

Net Cost of Selected District Functions & Major Administrative Categories
(in thousands of dollars)

	Total Costs of Services		Percent Change
	2025	2024	
Salaries	281.0	262.2	7.2%
Payroll Taxes	25.7	24.3	5.8%
Benefits	50.6	55.7	-9.2%
Appraisal District	7.2	6.8	5.9%
Building Rental	2.4	0.2	1100.0%
Copier Lease	0.3	2.1	-83.6%
Aquifer Investigation	151.7	10.9	1291.4%
Insurance	7.0	6	17.3%
Office Supplies	7.3	6.4	14.2%
Professional Services	36.5	55.9	-34.8%
Tax Collections	5.8	5.4	7.3%
Telephone	4.4	5.1	-13.0%
Vehicle Operations	4.4	4.2	4.5%
Depreciation	103.7	103.4	0.3%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**General Fund Budgetary Highlights**

The District did not amend its original budget throughout the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

At the end of 2025, the District had invested \$1,598.8 thousand in a broad range of capital assets, including wells, equipment, and vehicles. (See Table A-4.)

Table A-4

District's Capital Assets
(in thousands of dollars)

	Governmental Activities		Percentage Change 2025-2024
	2025	2024	
Wells, Vehicles and Equipment	\$ 1,598.8	\$ 1,559.2	2.5%
Totals at historical cost	1,598.8	1,559.2	2.5%
Total Accumulated Depreciation	(808.5)	(759.9)	6.4%
Net Capital Assets	\$ 790.3	\$ 799.3	-1.1%

Long-Term Debt

The District had two Right to Use Leases Payable at the end of 2025.

Copier Lease Payable	\$ 27,747.60
Building Lease Payable	\$ 54,410.62

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2026 budget will increase slightly. Tax rates will decrease slightly in 2026 to .6573%/\$100.
- Tax revenue will increase slightly in 2026.

These indicators were taken into account when adopting the general fund budget for 2026. The adopted general fund budget will decrease in 2026 to \$62,464.55

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Services Department.

Basic Financial Statements

Headwaters Groundwater Conservation District
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2025

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and investments	\$ 646,020.42	\$ -	\$ 646,020.42
Taxes receivable	33,287.73	-	33,287.73
Due from other governments	1,959.29	-	1,959.29
Accrued Interest	-	-	-
Capital assets (net of accumulated depreciation)			
Wells, vehicles & equipment	-	790,318.00	790,318.00
Total assets	<u>\$ 681,267.44</u>	<u>\$ 790,318.00</u>	<u>\$ 1,471,585.44</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 3,790.54	\$ -	\$ 3,790.54
Payroll taxes payable	1,043.86	-	1,043.86
Simple IRA Payable	3,410.76	-	3,410.76
Current Portion - Leases Payable	-	18,317.54	18,317.54
Total Current Liabilities	<u>8,245.16</u>	<u>18,317.54</u>	<u>26,562.70</u>
Long Term Liabilities			
Compensated Absences		14,726.83	14,726.83
Lease Payable - Long-Term	-	63,840.68	63,840.68
Total liabilities	<u>8,245.16</u>	<u>96,885.05</u>	<u>105,130.21</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue- Property taxes	33,287.73	(33,287.73)	-
Total deferred inflows of resources	<u>33,287.73</u>	<u>(33,287.73)</u>	<u>-</u>
FUND BALANCES/NET POSITION			
Fund balances:			
Unassigned	639,734.55	(639,734.55)	-
Total fund balances	<u>639,734.55</u>	<u>(639,734.55)</u>	<u>-</u>
Total liabilities deferred infows and fund balances	<u>\$ 681,267.44</u>		
Net Position:			
Invested in capital assets, net of related debt		708,159.78	708,159.78
Unrestricted		658,295.45	658,295.45
Total net position		<u>\$ 1,366,455.23</u>	<u>\$ 1,366,455.23</u>

The accompanying notes are an integral part of this statement.

Headwaters Groundwater Conservation District
Statement of Activities and Governmental Funds
Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2025

	General Fund	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 574,521.84	\$ 6,100.56	\$ 580,622.40
Property taxes penalty & interest	5,011.33	-	5,011.33
Permit fees	30,615.97	-	30,615.97
Miscellaneous income	413.51	-	413.51
Investment earnings	6,686.61	-	6,686.61
Total revenues	<u>617,249.26</u>	<u>6,100.56</u>	<u>623,349.82</u>
Expenditures/expenses:			
Service operations:			
Salaries	281,028.44	-	281,028.44
Payroll taxes	25,688.88	-	25,688.88
Benefits	58,517.98	(7,872.04)	50,645.94
Advertising	-	-	-
Appraisal district	7,204.00	-	7,204.00
Building maintenance	1,467.44	-	1,467.44
Building rental	14,742.48	(12,300.99)	2,441.49
Copier lease	6,356.80	(6,011.60)	345.20
Office Equipment	2,303.11	-	2,303.11
Dues & subscriptions	5,686.95	-	5,686.95
Election	5,026.99	-	5,026.99
Aquifer investigation	151,666.72	-	151,666.72
Insurance	7,035.68	-	7,035.68
Office supplies	7,309.25	-	7,309.25
Postage	787.50	-	787.50
Professional services	36,456.00	-	36,456.00
Surety bond	623.00	-	623.00
Tax collection	5,795.63	-	5,795.63
Telephone	4,436.14	-	4,436.14
Travel & conference	400.00	-	400.00
Ground Water Mgt Area	4,868.25	-	4,868.25
Vehicle operations	4,390.79	-	4,390.79
Capital Outlay	97,578.00	(97,578.00)	-
Depreciation	-	103,748.00	103,748.00
Total expenditures/expenses	<u>729,370.03</u>	<u>(20,014.63)</u>	<u>709,355.40</u>
Excess (deficiency) of revenues over expenditures	(112,120.77)	26,115.19	(86,005.58)
Other Financing Sources (Uses)			
Lease Proceeds	<u>97,578.00</u>	<u>(97,578.00)</u>	<u>-</u>
Total other financing sources (uses)	<u>97,578.00</u>	<u>(97,578.00)</u>	<u>-</u>
Change in fund balance/net position	(14,542.77)	(71,462.81)	(86,005.58)
Fund balance/net position:			
Beginning of the year	654,277.32	820,782.36	1,475,059.68
Prior Period Adjustment	-	(22,598.87)	(22,598.87)
End of the year	<u>\$ 639,734.55</u>	<u>\$ 726,720.68</u>	<u>\$ 1,366,455.23</u>

The accompanying notes are an integral part of this statement.

Headwaters Groundwater Conservation District

Notes to the Financial Statements

For the Year Ended September 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Headwaters Groundwater Conservation District was created by Acts of House Bill No. 1463 of the State of Texas on July 16, 1991, under the provisions of Article 16, Section 59 of the constitution of the State of Texas. The District was established to provide for the conservation, preservation, protection, recharging, and prevention of waste of underground water reservoirs or their subdivisions. The boundaries of the District are coterminous with the boundaries of Kerr County. The District is governed by a board of directors who serve for terms of four years. One director is elected for each of the counties four precincts, and one director is elected at large.

The District's Board of Directors has governance responsibilities over all activities related to the District's operations within the jurisdiction of Headwaters Groundwater Conservation District. Because members of the Board of Directors are elected by the public, they have the primary accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial reporting Standards. In addition, there are no component units included in the District's reporting entity.

B. Government-wide and Fund Financial Statements

For purposes of GASB Statement No. 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Total Governmental Funds" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the statement of net position and the statement of activities.

The government-wide financial statements report information on all of the activities of the District. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates what the District did with the revenue it raised. The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

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

No accrual for property taxes collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end are reported as deferred inflows of resources.

Headwaters Groundwater Conservation District

Notes to the Financial Statements

For the Year Ended September 30, 2025

Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources.

Expendable assets are assigned to the various governmental funds according to the purpose for which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The District reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources of the District except those required to the accounted for in another fund.

D. Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device for the General Fund. The budget is proposed by the District Manager for the fiscal year commencing the following October 1, and is adopted on the modified accrual basis, which is consistent with generally accepted accounting principles.

E. 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 may differ from those estimates.

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Cash and cash equivalents - The District's cash and cash equivalents are considered to be cash-on-hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - The District is entitled to invest any and all of its funds in certificates of deposit, direct debt securities of the United States of America or the State of Texas, certain Federal agency securities and other types of municipal bonds, fully collateralized repurchase agreements, commercial paper and local government investment pools. The District's investment policies and types of investments are governed by Section 2256 of the Government Code ("Public Funds Investment Act"). The District's management believes that it complied with the requirements of the Public Funds Investment Act and the District's investment policies.

Capital Assets - General capital assets generally result from expenditures in the governmental funds. These assets are reported in the statement of net position column of the government-wide statement of net position but are not reported in the general fund column.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$5,000 for equipment, and all additions to infrastructure are capitalized. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Wells, furniture and equipment of the District are depreciated using the straight-line method over the estimated useful lives. Wells 20 years and Equipment 5 years.

Ad Valorem Property Taxes -. The District does not maintain an allowances for uncollectible property taxes. Based upon historical experience in collecting property taxes the district feels these amounts are immaterial.

Headwaters Groundwater Conservation District

Notes to the Financial Statements

For the Year Ended September 30, 2025

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

Compensated Absences - Accrued paid time off and sick leave laps at the end of the year.

Fund Balance -The District complies with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable- Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers or imposed by constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned -The Board, or an official or body that has been delegated authority by the Board, may appropriate amounts that are to be used for a specific purpose.

Unassigned -Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has delegated authority to the General Manager to assign fund balance for a specific purpose. 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, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

G. Property Taxes

The Texas Water Code authorizes the District to levy a tax each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located within its boundaries. Assessed values are established annually by the Kerr County Appraisal District. District property tax revenues are recognized when levied to the extent that they are collected in the current year. The uncollected balance is reported as deferred inflows of resources. Taxes receivables are due January 1 and are delinquent if received after January 31 and are subject to penalty and interest charges.

Headwaters Groundwater Conservation District

Notes to the Financial Statements

For the Year Ended September 30, 2025

H. Reconciliation of Government-wide and General Fund Financial Statements

Reconciliation of General Fund Balance to Net Position of Governmental Activities

Total Fund Balance - Government	\$ 639,734.55
Amounts reported in governmental activities in the statement of net assets are different because:	
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the governmental funds. At the beginning of the year, the cost of these assets was \$1,559,180 and accumulated depreciation was \$762,692. In addition, long-term liabilities including right to use - lease liabilities are not due and payable in the current period , and therefore are not reported as liability in the governmental fund. The long-term debt at the beginning of the year was \$2,892.81.	793,595.19
Current year capital outlays and long-term debt principal payments are expended in the fund financial statements, but the should be shown as increases in capital assets and reduction in long-term debt in the government-wide financial statements. The net effect of including the capital outlays, and debt principal payments was to increase net position.	18,312.59
Accumulated depreciation has not been included in the general fund financial statements.	(103,748.00)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting	<u>18,560.90</u>
Net Position of Governmental Activities	\$ <u><u>1,366,455.23</u></u>

Headwaters Groundwater Conservation District
Notes to the Financial Statements
For the Year Ended September 30, 2025

Net Change in Governmental Fund Balances \$ (14,542.77)

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

Various other reclassifications and eliminations are
necessary to convert from the modified accrual basis
of accounting to accrual basis 13,972.60

Current year capital outlay and long-term debt payments
are expended in the fund financial statements, but should be
shown as increase in capital assets and reductions in long-
term debt in the government wide financial statements.
The net effects of removing the 2025 capital outlays and
debt principal payments is to increase net position 18,312.59

Depreciation is not recognized as an expense in
governmental funds since it does not require the use
of current financial resources. The effect of the
current year's depreciation is to decrease net position. (103,748.00)

Change in Net Position of Governmental Activities \$ (86,005.58)

Headwaters Groundwater Conservation District

Notes to the Financial Statements

For the Year Ended September 30, 2025

NOTE 2 – DEPOSITS, SECURITIES AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. As of September 30, 2025, the District's cash balance deposited in banks totaled \$654,873.85 and were entirely covered by Federal Deposit Insurance Corporation ("FDIC") insurance or secured by collateral pledged by the depository. Since the District complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not participating in foreign currency transactions.

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing deposits and investments are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to depository bank certificates of deposits and state sponsored investment pools.

Custodial Credit Risk for Investments To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District investments in both depository bank certificates of deposits and state sponsored investment pools.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Headwaters Groundwater Conservation District

Notes to the Financial Statements

For the Year Ended September 30, 2025

Foreign Currency Risk for investments The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in foreign currencies.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

This balance represents taxes and penalty and interest that were collected by the Tax Assessor-Collector, before September 30, 2025, but not remitted to the District.

NOTE 4 – CAPITAL ASSET ACTIVITY

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

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Capital assets being depreciated:</i>				
Wells, Vehicles & Equipment	1,559,180	97,578	57,930	1,598,828
Total capital assets being depreciated	1,559,180	97,578	57,930	1,598,828
Less accumulated depreciation for:				
Wells, Vehicles & Equipment	762,692	103,748	57,930	808,510
Total accumulated depreciation	762,692	103,748	57,930	808,510
Total capital assets being depreciated, net	796,488	(6,170)	-	790,318

NOTE 5 – RIGHT TO USE LEASE LIABILITY

The District leases a photocopy machine with 63-month terms. Payments of \$544 are made monthly which consist of principal and imputed annual interest of 4%.

The District leases a building with 60-month terms. Payments of \$1,229 are made monthly which consist of principal and imputed annual interest of 4%.

No assets were pledged as collateral for these leases.

A summary of Right-to-Use Lease arrangements for the year ended September 30, 2025, is as follows

Description	Date of Origination	Discount Rate	Current Year Interest	Principal Balance at 10/1/24	New Lease Agreements	Principal Paid This Year	Principal Balance at 9/30/25	Due Within One Year
Copy Machines	2/13/25	4	689	-	30,866	3,119	27,748	5,519
Building	10/1/24	4	2,441	-	66,712	12,301	54,411	12,799
			<u>\$ 3,131</u>	<u>\$ -</u>	<u>\$ 97,578</u>	<u>\$ 15,420</u>	<u>\$ 82,158</u>	<u>\$ 18,318</u>

Future principal and interest payments due to maturity as of the end of the fiscal year are as follows:

Year Ending September 30	Principal	Interest	Total Requirements
2026	18,318	2,953	21,270
2027	19,064	2,207	21,270
2028	19,841	1,430	21,270
2029	20,649	622	21,270
2030	4,287	65	4,352
Totals	<u>\$ 82,158</u>	<u>\$ 7,276</u>	<u>\$ 89,434</u>

Headwaters Groundwater Conservation District

Notes to the Financial Statements

For the Year Ended September 30, 2025

NOTE 6 – PENSION PLAN OBLIGATIONS

The District sponsors a Simple IRA retirement plan covering qualified employees. The District matches the employee's contribution up to a maximum of three percent of the eligible employee's compensation. The Employees contributed approximately \$32,582.50 and the district matched \$7,637.98 in Simple IRA contributions for the years ended September 30, 2025.

NOTE 7 – RISK MANAGEMENT

The District's risk management program includes coverage through third party insurance providers for commercial general liability, property, boiler and machinery, inland marine, pollution, automobile, public officials' liability, public officials' bond, and workers' compensation. During the year ended September 30, 2025, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage with various insurance firms. Settled claims have not exceeded insurance limits for the past three years.

NOTE 8 - IMPLEMENTATION OF GASB STATEMENT NO. 101, COMPENSATED ABSENCES

Effective for the fiscal year ending September 30, 2025, the Headwaters Groundwater Conservation District implemented Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences. This statement establishes recognition and measurement guidance for liabilities related to compensated absences, including vacation, sick leave, and other paid time off, replacing previous guidance under GASB Statement No. 16.

Under GASB 101, compensated absences are recognized as a liability when:

- The leave is attributable to services already rendered,
- The leave accumulates and carries forward,
- The leave is more likely than not to be used for time off or otherwise paid out.

The liability is measured using the employee's pay rate as of the financial reporting date, and includes salary-related payments (e.g., FICA, retirement contributions) that are directly associated with the leave.

As a result of implementing GASB 101:

- The Headwaters Groundwater Conservation District evaluated all compensated absence policies and determined which leave types meet the recognition criteria.
- A liability for compensated absences was recorded in the government-wide financial statements where applicable.
- The implementation did not result in a material change to previously reported liabilities, but enhanced consistency and comparability in accordance with updated GASB guidance.

The cumulative effect of applying GASB 101 did not require a restatement of beginning net position, as the change was applied prospectively.

Management believes the implementation of GASB 101 improves transparency and aligns with best practices in governmental financial reporting.

Required Supplementary Information

Headwaters Groundwater Conservation District
Budgetary Comparison Statement - General Fund
For the Year Ended September 30, 2025

	Actual	Original Budget	Final Amended Budget	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 574,521.84	\$ 579,440.00	\$ 579,440.00	\$ (4,918.16)
Property taxes penalty & interest	5,011.33	-	-	5,011.33
Permit fees	30,615.97	45,000.00	45,000.00	(14,384.03)
Miscellaneous income	413.51	-	-	413.51
Investment earnings	6,686.61	4,800.00	4,800.00	1,886.61
Total revenues	<u>617,249.26</u>	<u>629,240.00</u>	<u>629,240.00</u>	<u>(11,990.74)</u>
Expenditures:				
Service operations:				
Salaries	281,028.44	275,340.00	275,340.00	(5,688.44)
Payroll taxes	25,688.88	26,157.00	26,157.00	468.12
Benefits	58,517.98	59,140.00	59,140.00	622.02
Advertising	-	500.00	500.00	500.00
Appraisal district	7,204.00	7,500.00	7,500.00	296.00
Building maintenance	1,467.44	500.00	500.00	(967.44)
Building rental	14,742.48	15,000.00	15,000.00	257.52
Copier lease	6,356.80	5,900.00	5,900.00	(456.80)
Office Equipment	2,303.11	3,500.00	3,500.00	1,196.89
Dues & subscriptions	5,686.95	6,500.00	6,500.00	813.05
Education	-	250.00	250.00	250.00
Election	5,026.99	10,000.00	10,000.00	4,973.01
Enviornmental-Well Plunging	-	1,000.00	1,000.00	1,000.00
Aquifer investigation	151,666.72	330,000.00	330,000.00	178,333.28
Insurance	7,035.68	7,594.00	7,594.00	558.32
Office supplies	7,309.25	7,150.00	7,150.00	(159.25)
Postage	787.50	1,200.00	1,200.00	412.50
Professional services	36,456.00	94,375.00	94,375.00	57,919.00
Surety bond	623.00	1,000.00	1,000.00	377.00
Tax collection	5,795.63	5,794.00	5,794.00	(1.63)
Telephone	4,436.14	4,800.00	4,800.00	363.86
Travel & conference	400.00	3,500.00	3,500.00	3,100.00
Ground Water Mgt Area	4,868.25	20,000.00	20,000.00	15,131.75
Vehicle operations	4,390.79	4,800.00	4,800.00	409.21
Capital Outlay	97,578.00			(97,578.00)
Total expenditures	<u>729,370.03</u>	<u>891,500.00</u>	<u>891,500.00</u>	<u>162,129.97</u>
Excess (deficiency) of revenues over expenditures	(112,120.77)	(262,260.00)	(262,260.00)	150,139.23
Other financing sources/uses:				
Lease Proceeds	<u>97,578.00</u>	<u>-</u>	<u>-</u>	<u>97,578.00</u>
Change in fund balance	(14,542.77)	(262,260.00)	(262,260.00)	247,717.23
Fund balance:				
Beginning of the year	<u>654,277.32</u>	<u>654,277.32</u>	<u>654,277.32</u>	<u>-</u>
End of the year	<u>\$ 639,734.55</u>	<u>\$ 392,017.32</u>	<u>\$ 392,017.32</u>	<u>\$ 247,717.23</u>

Other Schedules

**HEADWATERS GROUNDWATER CONSERVATION DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED SEPTEMBER 30, 2025**

<u>LAST TEN YEARS ENDED SEPTEMBER 30,</u>	<u>TAX RATE</u>	<u>ASSESSED VALUE FOR TAX PURPOSES (in thousands)</u>	<u>BEGINNING BALANCE 10/1/24</u>	<u>CURRENT YEAR TOTAL LEVY</u>	<u>ENTIRE YEAR'S ADJUSTMENTS</u>	<u>TOTAL COLLECTIONS</u>	<u>BALANCE 9/30/25</u>
Prior years			\$ 3,940.07	\$	\$ 143.65	\$ 4.77	\$ 3,791.65
2016	.007400	4,508,221	794.52		0.00	20.41	774.11
2017	.007400	4,769,399	985.11		0.00	31.88	953.23
2018	.007400	4,883,801	1,136.13		0.00	62.89	1,073.24
2019	.007400	4,887,997	1,277.29		0.00	79.51	1,197.78
2020	.007400	5,250,141	1,648.81		2.59	120.84	1,525.38
2021	.007400	5,807,404	2,079.42		8.38	187.01	1,884.03
2022	.007231	6,069,105	2,522.36		(1.66)	299.15	2,224.87
2023	.007003	7,166,466	3,919.79		(106.66)	810.76	3,215.69
2024	.006757	8,192,835	9,153.02		(98.75)	3,943.63	5,308.14
2025	.006722	8,624,827		579,760.89	(539.71)	568,960.99	11,339.61
			<u>\$ 27,456.52</u>	<u>\$ 579,760.89</u>	<u>\$ (592.16)</u>	<u>\$ 574,521.84</u>	<u>\$ 33,287.73</u>