

**JACKSON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2**

ANNUAL FINANCIAL REPORT

For the year ended December 31, 2025

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ANNUAL FILING AFFIDAVIT

**THE STATE OF TEXAS
COUNTY OF JACKSON**

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

I, Clifford K. Born
(Name of Duly Authorized District Representative)

of the Jackson County Water Control and Improvement District No. 2

hereby swear, or affirm, that the District named above has reviewed and approved at a meeting of the District's Board of Directors on the _____ day of _____, 2026, its annual audit report for the fiscal period ended December 31, 2025, and that copies of the annual audit report have been filed in the District's office, located at 5955 FM 616, Vanderbilt, Texas 77991.

The filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date _____, _____.

By: _____
(Signature of District Representative)

Clifford K. Born, President
(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this _____ day of _____.

(Signature of Notary)

(SEAL)

My Commission Expires On: _____,
Notary Public in the State of Texas

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Directors of
Jackson County Water Control and
Improvement District No. 2
Vanderbilt, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Jackson County Water Control and Improvement District No. 2 (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 each major fund of the District as of December 31, 2025 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 and budgetary comparison information, as listed in the table of contents, 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Commission on Environmental Quality requires districts to include certain information in their Annual Financial Report in conformity with laws and regulations of the State of Texas. This information is designated as supplemental information in the table of contents and is included herein as Exhibits TSI-1 through TSI-8. 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, with the exception of Exhibit TSI-1, 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 Texas Supplementary Information, with the exception of Exhibit TSI-1, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Texas Supplementary Information contained in Exhibit TSI-1 but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does 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.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants
Victoria, Texas

April 9, 2026

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2025

In this section of the Annual Financial Report, we, the managers of the Jackson County Water Control and Improvement District No. 2 (the "District"), discuss and analyze the District's financial performance for the year ended December 31, 2025. Please read it in conjunction with the independent auditors' report on page 1 and the District's basic financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities and deferred inflows at the close of the fiscal year ended December 31, 2025 by \$1,406,054. Of this amount, \$105,270 of unrestricted net position is available to meet the District's ongoing obligations to customers and creditors.
- At December 31, 2025, the District's General Fund reported an ending deficit fund balance of (\$6,080), a decrease of \$15,571 or 68% from prior year.
- The District's net capital assets as of December 31, 2025 was \$1,491,261, which is a net increase of \$512,981 or 52% from prior year, primarily due to the lift station rehabilitation project that was completed in the current year.
- The District's outstanding debt had a net increase of \$10,728 or 8% from prior year, due to a new promissory note for system equipment from Sherrel Mercer in the amount of \$46,036 and principal payments made on the outstanding notes of \$35,308.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 through 14). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (also on pages 10 through 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget.

The notes to the basic financial statements (starting on page 15) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations are on pages 10 through 14. Its primary purpose is to show whether the District's financial condition improved or declined as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year, while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements - (Continued)

The Statement of Net Position and the Statement of Activities - (Continued)

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or declining. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we disclose the District's one type of activity:

Governmental activities - All of the District's basic services are reported here. Charges for water and sewer services and property taxes finance most of these activities.

Fund Financial Statements

The fund financial statements also are included on pages 10 through 14 and provide detailed information about the District's most significant funds, not the District as a whole. Laws and contracts require the District to establish some funds. The District's administration can establish other funds to help it control and manage money for particular purposes such as debt service and capital projects. The District has only one fund, the General Fund, which is governmental.

Governmental funds - All of the District's basic services are reported in one governmental fund. This uses modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund as shown in the adjustments column in reconciliation schedules on pages 11 and 14.

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 statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintained one individual governmental fund during the year: General Fund. Information is presented in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund, which is considered a major fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities and deferred inflows of resources by \$1,406,054 at the close of the year ended December 31, 2025.

At the end of 2025, the District is able to report positive balances in all categories of net position for the government as a whole.

Jackson County Water Control and Improvement District No. 2

Net Position			
	Governmental Activities		Total %
	2025	2024*	Change
ASSETS			
Current assets	\$ 149,681	\$ 99,480	50%
Capital assets (net)	1,491,261	978,280	52%
Total assets	1,640,942	1,077,760	52%
LIABILITIES			
Long-term liabilities	150,943	140,215	8%
Other liabilities	70,256	12,129	479%
Total liabilities	221,199	152,344	45%
DEFERRED INFLOWS			
Unavailable revenue	13,689	10,329	33%
Total deferred inflows	13,689	10,329	33%
NET POSITION			
Net investment in capital assets	1,300,784	838,065	55%
Unrestricted net position	105,270	77,022	37%
Total net position	\$ 1,406,054	\$ 915,087	54%

*2024 balances have been restated. See note 9 for details.

The largest portion of the District's net position (93%) is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors. The remaining balance of net position reflects the District's investment in capital assets (i.e., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Jackson County Water Control and Improvement District No. 2

Changes in Net Position

	Governmental Activities		Total % Change
	2025	2024*	
Revenues			
Program revenues			
Charges for services	\$ 229,722	\$ 210,857	9%
Capital grants and contributions	463,590	-	N/A
General revenues			
Tax collections	51,788	38,107	36%
Investment income	604	746	-19%
Miscellaneous income	1,775	1,703	4%
Total revenues	<u>747,479</u>	<u>251,413</u>	197%
Expenses			
General government	249,769	225,223	11%
Debt service	<u>6,743</u>	<u>8,074</u>	-16%
Total expenses	<u>256,512</u>	<u>233,297</u>	10%
Change in net position	490,967	18,116	
Beginning net position, as restated	<u>915,087</u>	<u>896,971</u>	
Net position - ending	<u>\$ 1,406,054</u>	<u>\$ 915,087</u>	

*2024 balances have been restated. See note 9 for details.

Overall net position has increased from prior year by \$490,967. Key elements of the net increase in revenues includes:

- Increase in water and sewer revenues of \$18,865 due to increased customer rates in 2025.
- Increase in capital grants and contributions in the amount of \$463,590 due to the completion of the lift station rehabilitation project which was contributed to the District by Jackson County paid for with grant funds.

The cost of all governmental activities this year was \$256,512 compared to \$233,297 for 2024. The amount that our taxpayers ultimately financed for these activities through District taxes was \$51,788. Those who directly benefited from the District's water and sewer facilities, interest income, and miscellaneous income, paid the remainder of the cost. Total expenses increased \$13,681 primarily due to increased repair and maintenance activity and an increase in depreciation expense.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At December 31, 2025, the District's General Fund reported an ending fund balance of (\$6,080). \$3,703 was reported as nonspendable for prepaid items and the remainder was a deficit unassigned fund balance of \$9,783.

The General Fund fund balance is less than last year's total of \$22,802. The decrease in fund balance is mainly due to the increase in total expenditures of \$97,718 which was primarily due to an increase in repairs and maintenance costs and additional contract labor costs incurred in comparison with 2024. Other financing sources increased \$46,036 due to the receipt of new note proceeds in 2025 which helped offset some of the increase in costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's Board did not amend the budget for 2025. Actual revenues were greater than final budgeted amounts by \$16,604 primarily due to more water and sewer service revenues than expected in the amount of \$16,782. Actual expenditures were greater than the final budgeted amounts by \$78,211, primarily due to unbudgeted expenditures related to contract labor (\$18,000) and grant expenditures (\$32,462). Also, the District's repairs and maintenance expenditures exceeded budget expectations by \$46,872.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2025, amounts to \$1,491,261, net of accumulated depreciation. The investment in capital assets includes a range of capital assets, most of which relates to the water and sewer system. The net increase in the District's investment in capital assets for the current year was \$512,981 or 52%. Major asset additions during the year relate to the lift station rehabilitation project, as well as the purchase of various equipment.

More detailed information about the District's capital assets is presented in Note 5 to the financial statements.

Long-term Debt

At the end of 2025, the District had two notes outstanding with a principal balance of \$150,943. This was a net increase of \$10,728 or 8% from the prior year. The disbursements from the loans were used to fund various water and system improvements.

Additional information can be found in Note 6 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's Board of Directors considered many factors when setting the 2026 budget and tax rates. The District also considered expenditures to be made in the upcoming year. At the end of 2025, the District anticipated the continuation of repairs and improvements to the system.

REQUESTS FOR INFORMATION

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 show 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 office, at the Jackson County Water Control and Improvement District No. 2, 5955 FM 616, Vanderbilt, Texas 77991.

BASIC FINANCIAL STATEMENTS

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET

December 31, 2025

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Current assets			
Cash and cash equivalents	\$ 39,873	\$ -	\$ 39,873
Investments	12,297	-	12,297
Receivables (net)			
Water and sewer	26,796	-	26,796
Property taxes	45,020	-	45,020
Due from other governments	5,005	-	5,005
Restricted assets			
Cash	16,987	-	16,987
Prepaid items	3,703	-	3,703
Capital assets, net of accumulated depreciation			
Land	-	7,729	7,729
Buildings and equipment	-	46,137	46,137
Water and sewer system	-	1,437,395	1,437,395
Total assets	<u>\$ 149,681</u>	<u>\$ 1,491,261</u>	<u>\$ 1,640,942</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 51,257	\$ -	\$ 51,257
Accrued expenses	633	-	633
Meter deposits refundable	16,884	-	16,884
Unapplied credits	1,482	-	1,482
Notes payable	-	40,988	40,988
Noncurrent liabilities			
Notes payable	-	109,955	109,955
Total liabilities	<u>70,256</u>	<u>150,943</u>	<u>221,199</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	85,505	(71,816)	13,689
Total deferred inflows of resources	<u>85,505</u>	<u>(71,816)</u>	<u>13,689</u>
FUND BALANCE/NET POSITION			
Fund balance			
Nonspendable	3,703	(3,703)	-
Unassigned	(9,783)	9,783	-
Total fund balance	<u>(6,080)</u>	<u>6,080</u>	<u>-</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 149,681</u>		
Net position			
Net investment in capital assets		1,300,784	1,300,784
Unrestricted		105,270	105,270
Total net position		<u>\$ 1,406,054</u>	<u>\$ 1,406,054</u>

The accompanying notes are an integral part of this statement.

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES
December 31, 2025

Total governmental fund balance	\$	(6,080)
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unavailable" in the funds.		45,020
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.		26,796
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 2,358,904	
Accumulated depreciation of governmental capital assets	<u>(867,643)</u>	1,491,261
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Notes payable		<u>(150,943)</u>
Net position of governmental activities	\$	<u>1,406,054</u>

The accompanying notes are an integral part of this statement.

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE

For the year ended December 31, 2025

	General Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Current			
Audit fees	\$ 5,800	\$ -	\$ 5,800
Contract labor	18,000	-	18,000
Depreciation	-	49,412	49,412
Insurance	2,799	-	2,799
Jackson County Appraisal District	1,313	-	1,313
Jackson County Tax Assessor Collector	186	-	186
Lab	9,566	-	9,566
Legal and accounting	4,375	-	4,375
License and permits	429	-	429
Late fees	173	-	173
Office and building expenses	6,931	-	6,931
Payroll			
Salary	40,433	-	40,433
Payroll taxes	3,097	-	3,097
Employee travel	1,821	-	1,821
Telephone	3,071	-	3,071
Utilities	23,848	-	23,848
Water and sewer system			
Engineering	81	-	81
Grant	32,462	(32,462)	-
Repairs and maintenance	143,775	(65,341)	78,434
Debt service			
Principal retirement	35,308	(35,308)	-
Interest and fiscal charges	6,743	-	6,743
Total expenditures/expenses	<u>340,211</u>	<u>(83,699)</u>	<u>256,512</u>

(continued)

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended December 31, 2025

	General Fund	Adjustments	Statement of Activities
REVENUES			
Program revenues			
Charges for services	\$ 226,782	\$ 2,940	\$ 229,722
Capital grants and contributions	-	463,590	463,590
Total program revenues	<u>226,782</u>	<u>466,530</u>	<u>693,312</u>
Net program revenues/expenses			<u>436,800</u>
General revenues			
Tax revenues			
Tax collections	49,443	2,345	51,788
Penalty and interest	688	(688)	-
Investment income	604	-	604
Miscellaneous income	1,087	688	1,775
Total general revenues	<u>51,822</u>	<u>2,345</u>	<u>54,167</u>
Total revenues	<u>278,604</u>	<u>468,875</u>	<u>747,479</u>
Excess (deficiency) of revenues over (under) expenditures	(61,607)	61,607	
OTHER FINANCING SOURCES			
Debt issued	46,036	(46,036)	-
Total other financing sources	<u>46,036</u>	<u>(46,036)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(15,571)	15,571	
Change in net position		490,967	490,967
FUND BALANCE/NET POSITION			
Beginning of year, as previously reported	22,802	905,596	928,398
Error correction	(13,311)	-	(13,311)
Beginning of year, as restated	<u>9,491</u>	<u>905,596</u>	<u>915,087</u>
End of the year	<u>\$ (6,080)</u>	<u>\$ 1,412,134</u>	<u>\$ 1,406,054</u>

(concluded)

The accompanying notes are an integral part of this statement.

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES*
For the year ended December 31, 2025

Total net change in fund balance - governmental funds \$ (15,571)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Increase in capital assets	\$ 97,803	
Depreciation expense	<u>(49,412)</u>	48,391

The net effect of various transactions involving capital assets (i.e., transfers, contributions, adjustments and dispositions) is to increase (decrease) net position.	463,590
--	---------

Current year note proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net position.	(46,036)
--	----------

Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:

Principal retirement	35,308
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Because some property taxes will not be collected for several months after the fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

Property taxes	2,345	
Other revenues	<u>2,940</u>	<u>5,285</u>

Change in net position of governmental activities \$ 490,967

The accompanying notes are an integral part of this statement.

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Jackson County Water Control and Improvement District No. 2 (the "District") operates under a Board of Directors form of government and provides water and wastewater services to the District. The District was established in September 1952 as Jackson County Fresh Water Supply District No. 2 by the actions of the legislature of the State of Texas in compliance with laws of the State. The District was converted to a Water Control and Improvement District by Act of the 54th Legislature of the State of Texas in 1956 under acts of Section 4 SB 160. The District operates under Chapter 3A of Title 128 of the Revised Civil Statutes of Texas and all amendments and additions thereto.

The Board is elected by the public, and has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters including taxing authority. Therefore, the District is not included in any other governmental reporting entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

A. Reporting Entity

The District considered the guidelines specified by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, when determining which entities to include in the accompanying financial statements. Under these guidelines, the reporting entity consists of the primary government (all funds of the District), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organizations for which the nature and significance of their relationship with the primary government is such that exclusion could cause the District's financial statements to be misleading or incomplete. Entities other than the primary government, which are included in the primary government's financial statements are called component units. Under these guidelines, no legally separate organization met the necessary criteria for inclusion as component units in the accompanying financial statements.

B. Government-wide and Fund Financial Statements

The combined government-wide and fund financial statements (i.e., the Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance) report information on all activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year ending December 31, 2025.

The combined Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance demonstrate the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide and fund financial statements are provided for the District with a column for adjustments between the two statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

The government-wide information (i.e., the columns labeled “Statement of Net Position” and “Statement of Activities”) in the financial statements is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund (i.e., the column labeled “General 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 period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The 2025 tax levy is dedicated to pay for expenditures of the 2026 budget. The entire 2025 tax levy has either been recorded as unearned revenue or unavailable revenue as of December 31, 2025.

The District reports the following major governmental fund:

The General Fund is the District’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The District reports no other fund types.

D. Budgets and Budgetary Accounting

The Board of Directors prepares and votes on the adopted budget. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP) in the United States of America. Any revisions to the budget are approved by the Board of Directors. The original budget and final amended budget are used in this report. The District does not employ the use of encumbrances in its budgetary accounting.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Other Accounting Policies

Deposits and Investments

Cash and cash equivalents include amounts in petty cash, demand deposits, time deposits, and any investments purchased with an original maturity date of 90 days or less.

The District may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas (the "Act"). Investments authorized under this act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

Investments are recorded at fair value as of December 31, 2025. Fair value is defined by GASB as 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. Quoted market prices were used to determine fair value at the end of the current fiscal period.

Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Restricted Assets

Resources for customer meter deposit refunds are classified as Restricted Assets in the fund financial statements. The related liability is reported as "Meter Deposits Refundable".

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid items in the fund financial statements as well as in the government-wide statements. Prepaid items are recorded when purchased rather than when consumed.

Capital Assets

Capital assets, which include land, structures, and equipment, are reported in the applicable governmental activities column in the government-wide statement of net position. The District capitalizes and depreciates assets purchased or constructed that have an individual cost of \$5,000 or more and a useful life in excess of one year. Purchased or constructed capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of an asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Other Accounting Policies - (Continued)

Capital Assets - (Continued)

The District's capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-20
Water and sewer system	20-50
Machinery and equipment	10
Vehicles	5

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and insurance proceeds. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balance

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The District did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2025. This Statement did not have an impact on the District's functions, financial position or results of operations.

Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires management to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

For the year ended December 31, 2025, the District's actual expenditures were greater than budgeted expenditures by \$78,211.

Deficit Fund Balance

As of December 31, 2025 the District's General Fund reported a deficit fund balance of \$6,080. This deficit will be eliminated in the 2026 fiscal year.

NOTE 3: DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Public Funds Investment Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository bank's agent bank. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>	<u>Credit Rating</u>	<u>Portfolio %age</u>
Certificate of deposit	\$ 12,297	11	N/A	100%
	<u>\$ 12,297</u>			

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of December 31, 2025, the District has certificates of deposit valued using quoted prices for similar assets in active markets (Level 2 inputs).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the District's investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to less than one year from the time of purchase.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. As of December 31, 2025, and for the year then ended, the District was not exposed to credit risk.

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific user. At year end, the District was not exposed to a concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires that securities be held in the name of the District or on behalf of the District and that all securities are purchased using the delivery versus payment method. As of December 31, 2025, and for the year then ended, the District was not exposed to any custodial credit risk.

NOTE 4: RECEIVABLES

Receivables at December 31, 2025 consisted of the following:

	<u>General Fund</u>	<u>Total</u>
Gross receivables:		
Water and sewer	\$ 26,796	\$ 26,796
Property taxes	<u>45,020</u>	<u>45,020</u>
Total gross receivables	71,816	71,816
Less: Allowances	<u>-</u>	<u>-</u>
Total net receivables	<u>\$ 71,816</u>	<u>\$ 71,816</u>

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. Taxes are delinquent by February 1 following the October 1 levy date. A statutory lien becomes effective on all property with unpaid taxes as of January 1 of the year following the assessment. Taxes are billed and collected by the Jackson County Tax Assessor Collector.

Property taxes levied for the 2025 tax roll were \$52,841 with a maintenance tax rate set at \$0.3634 per \$100 valuation. The assessed value at January 1, 2025, upon which the 2025 levy was based, was \$14,540,846.

The District's General Fund reports unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The General Fund also defers revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable and unearned revenue reported in the General Fund were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Water and sewer	\$ 26,796	\$ -	\$ 26,796
Property taxes	<u>58,709</u>	<u>-</u>	<u>58,709</u>
	<u>\$ 85,505</u>	<u>\$ -</u>	<u>\$ 85,505</u>

NOTE 5: DUE FROM OTHER GOVERNMENTS

The District reported amounts due from other governments as of the end of the current fiscal year. These amounts are comprised of the following at December 31, 2025:

	<u>General Fund</u>	<u>Total</u>
Property taxes	\$ 5,005	\$ 5,005
	<u>\$ 5,005</u>	<u>\$ 5,005</u>

NOTE 6: CAPITAL ASSETS

The District's capital asset activity for the year ended December 31, 2025, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 7,729	\$ -	\$ -	\$ 7,729
Total capital assets, not being depreciated	<u>7,729</u>	<u>-</u>	<u>-</u>	<u>7,729</u>
Capital assets, being depreciated				
Buildings and equipment	267,090	-	-	267,090
Water and sewer system	<u>1,522,692</u>	<u>561,393</u>	<u>-</u>	<u>2,084,085</u>
Total capital assets, being depreciated	<u>1,789,782</u>	<u>561,393</u>	<u>-</u>	<u>2,351,175</u>
Less accumulated depreciation for				
Buildings and equipment	216,080	4,873	-	220,953
Water and sewer system	<u>602,151</u>	<u>44,539</u>	<u>-</u>	<u>646,690</u>
Total accumulated depreciation	<u>818,231</u>	<u>49,412</u>	<u>-</u>	<u>867,643</u>
Total capital assets being depreciated, net	<u>971,551</u>	<u>511,981</u>	<u>-</u>	<u>1,483,532</u>
Governmental activities capital assets, net	<u>\$ 979,280</u>	<u>\$ 511,981</u>	<u>\$ -</u>	<u>\$ 1,491,261</u>

Depreciation expense of \$49,412 was charged to the general government function/program.

NOTE 7: LONG-TERM DEBT

The following is a summary of long-term debt transactions of the District for the year ended December 31, 2025 for governmental activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Direct borrowings					
Note payable - Prosperity	\$ 140,215	\$ -	\$ (34,962)	\$ 105,253	\$ 36,592
Note payable - Mercer	<u>-</u>	<u>46,036</u>	<u>(346)</u>	<u>45,690</u>	<u>4,396</u>
Total governmental activity long-term liabilities	<u>\$ 140,215</u>	<u>\$ 46,036</u>	<u>\$ (35,308)</u>	<u>\$ 150,943</u>	<u>\$ 40,988</u>

NOTE 7: LONG-TERM DEBT - (Continued)Revenue Anticipation Note

The District was granted permission from the Texas Commission on Environmental Quality (TCEQ) to enter into a long-term revenue anticipation note agreement with Prosperity Bank. The maximum permitted amount is \$374,934 with a maximum rate of 4.99%. The District executed the note on October 17, 2016 and utilized the funding to eliminate existing debt at Prosperity Bank related to the District's local match requirement for construction of a wastewater treatment plant. The new loan totaled \$370,617 and bears an interest rate of 4.99%. The note matures September 5, 2028.

Equipment Note

The District entered into a Promissory Note agreement with S. A. Mercer on November 11, 2025 to fund various water and sewer system expenditures. The note totaled \$46,036 and bears interest at a rate of 7.5% and matures November 26, 2033.

Annual debt service requirements to maturity for the notes payable are as follows:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 40,988	\$ 8,095	\$ 49,083
2027	43,097	5,986	49,083
2028	35,396	3,333	38,729
2029	5,499	2,171	7,670
2030	5,926	1,744	7,670
2031-2033	20,037	2,333	22,370
Total	<u>\$ 150,943</u>	<u>\$ 23,662</u>	<u>\$ 174,605</u>

Interest incurred on the District's long-term debt in the current fiscal year totaled \$6,743.

NOTE 8: COMMITMENTS AND CONTINGENCIES

The District is subject to regulation by the Texas Commission on Environmental Quality (TCEQ). TCEQ can levy fines if the District is noncompliant with state regulations. There were notices received regarding noncompliance with some issues in the current year. The District does not anticipate any fines will be assessed after December 31, 2025, but if they are, they do not expect it to be material to the financial statements. TCEQ is continuing monitoring of the District.

Legal Proceedings

At December 31, 2025, the District had no pending or threatened litigation.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding coverage.

NOTE 9: ERROR CORRECTIONS

The District incorrectly reported various assets and liabilities in the prior period. Those amounts totaled \$13,311 and overstated Governmental Activities net position and General Fund fund balance by the same amount.

The error correction resulted in the restatement of beginning balances, as follows:

	<u>Governmental Activities</u>	<u>General</u>
Net position/fund balance at December 31, 2024, as previously reported	\$ 928,398	\$ 22,802
Error corrections	<u>(13,311)</u>	<u>(13,311)</u>
Net position/fund balance at December 31, 2024, as restated	<u>\$ 915,087</u>	<u>\$ 9,491</u>

NOTE 10: SIGNIFICANT FORTHCOMING STANDARDS

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the District include the following:

GASB Statement No. 103, Financial Reporting Model Improvements - The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, Disclosure of Certain Capital Assets - The objective of the Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 105, Subsequent Events - The objective of the Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and the impact has not yet been determined.

NOTE 11: SUBSEQUENT EVENT

No events have occurred subsequent to the balance sheet date that would materially affect the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

MAJOR GOVERNMENTAL FUND - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL

For the year ended December 31, 2025

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Water and sewer service	\$ 210,000	\$ 210,000	\$ 226,782	\$ 16,782
Property tax revenues	50,200	50,200	49,443	(757)
Penalties and interest	800	800	688	(112)
Investment income	-	-	604	604
Other income and reimbursements	1,000	1,000	1,087	87
Total revenues	<u>262,000</u>	<u>262,000</u>	<u>278,604</u>	<u>16,604</u>
EXPENDITURES				
Current				
Administrative	1,500	1,500	-	1,500
Audit fees	-	-	5,800	(5,800)
Contract labor	-	-	18,000	(18,000)
Insurance	-	-	2,799	(2,799)
Jackson County Appraisal District	-	-	1,313	(1,313)
Jackson County Tax Assessor Collector	-	-	186	(186)
Lab	10,000	10,000	9,566	434
Legal and accounting	9,000	9,000	4,375	4,625
License and permits	2,000	2,000	429	1,571
Late fees	-	-	173	(173)
Office and building expenses	6,000	6,000	6,931	(931)
Payroll				
Salary	70,000	70,000	40,433	29,567
Payroll taxes	-	-	3,097	(3,097)
Employee travel	-	-	1,821	(1,821)
Telephone	3,000	3,000	3,071	(71)
Utilities	22,000	22,000	23,848	(1,848)
Water and sewer system				
Engineering	-	-	81	(81)
Grant	-	-	32,462	(32,462)
Repairs and maintenance	96,903	96,903	143,775	(46,872)
Debt service				
Principal retirement	41,597	41,597	35,308	6,289
Interest and fiscal charges	-	-	6,743	(6,743)
Total expenditures	<u>262,000</u>	<u>262,000</u>	<u>340,211</u>	<u>(78,211)</u>
Excess (deficiency) of revenues over (under) expenditures (GAAP BUDGETARY BASIS)	-	-	(61,607)	(61,607)

(continued)

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

MAJOR GOVERNMENTAL FUND - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL

For the year ended December 31, 2025

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OTHER FINANCING SOURCES				
Debt issued	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,036</u>	<u>\$ 46,036</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>46,036</u>	<u>46,036</u>
Change in fund balance	-	-	(15,571)	(15,571)
Fund balance at beginning of year, as previously reported	22,802	22,802	22,802	-
Error correction	<u>(13,311)</u>	<u>(13,311)</u>	<u>(13,311)</u>	<u>-</u>
Fund balance at beginning of year, as restated	<u>9,491</u>	<u>9,491</u>	<u>9,491</u>	<u>-</u>
Fund balance at end of year	<u>\$ 9,491</u>	<u>\$ 9,491</u>	<u>\$ (6,080)</u>	<u>\$ (15,571)</u>

(concluded)

The accompanying notes to required supplementary information are an integral part of this schedule.

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2025

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

The District annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

NOTE 2: BUDGETARY LEGAL COMPLIANCE

For the year ended December 31, 2025, the District's actual expenditures were greater than budgeted expenditures by \$78,211.

TEXAS SUPPLEMENTARY INFORMATION

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-1: SERVICES AND RATES (UNAUDITED)

For the year ended December 31, 2025

1. Services provided by the District during the fiscal year:

- | | | |
|---|---|-------------------------------------|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input checked="" 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"/> Participation in joint venture, regional system, and/or wastewater service | | |
| <input type="checkbox"/> Other: _____ | | |

2. Retail Service Providers

a. Retail rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$ 37.81	2,000	N/A	\$ 5.55	3,000 to 5,000
WASTEWATER:	\$ 33.97	2,000	N/A	\$ 4.45	3,000 to 5,000

District employs winter averaging for wastewater usage: No

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered	0	0	x 1.0	0
≤ 3/4"	184	159	x 1.0	159
1"	4	4	x 2.5	10
1 1/2"	1	0	x 5.0	0
2"	6	6	x 8.0	48
3"	4	4	x 15.0	60
4"	3	1	x 25.0	25
6"	0	0	x 50.0	0
8"	0	0	x 80.0	0
10"	0	0	x 115.0	0
Total Water	202	174		302
Total Wastewater	195	170	x 1.0	170

3. Total Water Consumption during the fiscal year (rounded to nearest thousand):

Gallons pumped into system:	<u>17,015,961</u>	Water Accountability Ratio: (Gallons billed/Gallons pumped) <u>52.28%</u>
Gallons billed to customers:	<u>8,896,625</u>	

4. Standby Fees: No

5. Location of District: No changes

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-2: GENERAL FUND EXPENDITURES

For the year ended December 31, 2025

Personnel expenditures (including benefits)*	\$ 45,351
Professional fees:	
Auditing	5,800
Accounting	4,375
Other	9,647
Contracted services:	
Appraisal district	1,313
Property tax assessor/collector	186
System maintenance	18,000
Utilities	26,919
Repairs and maintenance	78,434
Administrative expenditures:	
Insurance	2,799
Office supplies	6,931
Other administrative expenditures	602
Capital outlay:	
Capitalized assets	97,803
Debt service:	
Loan principal payments	35,308
Loan interest payments	6,743
TOTAL EXPENDITURES	<u>\$ 340,211</u>

* Number of persons employed by the District: 0 Full-Time 2 Part-Time

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-3: TEMPORARY INVESTMENTS

For the year ended December 31, 2025

<u>Funds</u>	<u>Certificate 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>
Certificate of Deposit	1476.00	3.330%	12/2/2026	\$ <u>12,297</u>	\$ <u>-</u>
Total				\$ <u>12,297</u>	\$ <u>-</u>

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-4: TAXES LEVIED AND RECEIVABLE

For the year ended December 31, 2025

Taxes receivable at beginning of year	\$ 43,674
2025 Original tax levy	52,841
Adjustments	<u>(2,052)</u>
Adjusted taxes receivable at beginning of year	94,463
Less: Collections	
Current year	13,689
Prior years	<u>35,754</u>
Taxes receivable at end of year	<u>\$ 45,020</u>
Taxes receivable by levy years	
2016 and prior	\$ 3,296
2017	226
2018	157
2019	176
2020	121
2021	142
2022	39
2023	539
2024	1,428
2025	<u>38,896</u>
Taxes receivable at end of year	<u>\$ 45,020</u>

ASSESSED VALUATION SUMMARY

Tax roll:	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Property valuations:					
Real estate and personal properties	<u>\$ 14,540,846</u>	<u>\$ 13,633,702</u>	<u>\$ 13,700,553</u>	<u>\$ 12,978,510</u>	<u>\$ 12,918,928</u>
Total property valuations	<u>\$ 14,540,846</u>	<u>\$ 13,633,702</u>	<u>\$ 13,700,553</u>	<u>\$ 12,978,510</u>	<u>\$ 12,918,928</u>
Tax rate per \$100 valuation					
Maintenance tax rates	<u>\$ 0.3634</u>	<u>\$ 0.3717</u>	<u>\$ 0.3433</u>	<u>\$ 0.3397</u>	<u>\$ 0.3096</u>
Total tax rates per \$100 valuation	<u>\$ 0.3634</u>	<u>\$ 0.3717</u>	<u>\$ 0.3433</u>	<u>\$ 0.3397</u>	<u>\$ 0.3096</u>
Original tax levy	<u>\$ 52,841</u>	<u>\$ 50,676</u>	<u>\$ 47,034</u>	<u>\$ 44,088</u>	<u>\$ 39,997</u>
Percent of current year taxes collected to current year taxes levied, as adjusted	<u>26.95%</u>	<u>37.00%</u>	<u>28.00%</u>	<u>45.00%</u>	<u>87.00%</u>

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-7: COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL FUND

Five years ended December 31

	Amounts				
	2025	2024	2023	2022*	2021*
REVENUES					
Water and sewer service	\$ 226,782	\$ 210,856	\$ 219,720	\$ 237,024	\$ 222,992
Tax revenues	50,131	38,955	43,770	-	-
Investment income	604	746	360	-	-
Other income	1,087	855	703	-	-
Total revenues	<u>278,604</u>	<u>251,412</u>	<u>264,553</u>	<u>237,024</u>	<u>222,992</u>
EXPENDITURES					
Current					
Administrative	-	820	284	-	252
Audit fees	5,800	5,800	5,550	5,550	5,550
Contract labor	18,000	-	-	-	-
Insurance	2,799	1,338	1,652	1,569	1,520
Jackson Co. Appraisal District	1,313	1,153	1,245	688	897
Jackson Co. Tax Assessor Collector	186	255	-	188	94
Lab	9,566	10,254	10,185	6,407	6,079
Legal and accounting	4,375	3,600	3,144	3,256	2,931
License and permits	429	1,994	1,768	-	-
Late fees	173	-	-	-	-
Office and building expenses	6,931	7,973	7,357	9,505	10,656
Payroll					
Salary and taxes	43,530	72,025	65,768	65,398	64,038
Employee travel	1,821	-	2,720	2,370	2,060
Utilities	26,919	23,016	24,102	17,694	12,379
Water and sewer system					
Engineering	81	-	-	-	2,205
Grant	32,462	-	-	-	-
Repairs and maintenance	143,775	66,041	95,095	99,484	82,832
Debt service					
Principal retirement	35,308	40,150	41,597	39,880	36,772
Interest and fiscal charges	6,743	8,074	10,162	11,880	14,988
Total expenditures	<u>340,211</u>	<u>242,493</u>	<u>270,629</u>	<u>263,869</u>	<u>243,253</u>
Excess (deficiency of revenues over (under) expenditures	<u>\$ (61,607)</u>	<u>\$ 8,919</u>	<u>\$ (6,076)</u>	<u>\$ (26,845)</u>	<u>\$ (20,261)</u>
Total active retail water connections					
	174	195	194	N/A	N/A
Total active retail wastewater connections					
	170	188	188	N/A	N/A

* - Breakdown of revenues for 2022 and 2021 was not available.

N/A - Not available

Percent of Total Revenue

2025	2024	2023	2022*	2021*
81.40	83.87	83.05	100.00	100.00
17.99	15.49	16.54	-	-
0.22	0.30	0.14	-	-
0.39	0.34	0.27	-	-
<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
-	0.33	0.11	-	0.11
2.08	2.31	2.10	2.34	2.49
6.46	-	-	-	-
1.00	0.53	0.62	0.66	0.68
0.47	0.46	0.47	0.29	0.40
0.07	0.10	-	0.08	0.04
3.43	4.08	3.85	2.70	2.73
1.57	1.43	1.19	1.37	1.31
0.15	0.79	0.67	-	-
0.06	-	-	-	-
2.49	3.17	2.78	4.01	4.78
15.62	28.65	24.86	27.59	28.72
0.65	-	1.03	1.00	0.92
9.66	9.15	9.11	7.47	5.55
0.03	-	-	-	0.99
11.65	-	-	-	-
51.61	26.27	35.95	41.97	37.15
12.67	15.97	15.72	16.83	16.49
2.42	3.21	3.84	5.01	6.72
<u>122.09</u>	<u>96.45</u>	<u>102.30</u>	<u>111.32</u>	<u>109.08</u>
<u>(22.09)</u>	<u>3.55</u>	<u>(2.30)</u>	<u>(11.32)</u>	<u>(9.08)</u>

JACKSON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-8: BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

For the year ended December 31, 2025

Complete District Mailing Address: P.O. Box 574, Vanderbilt, Texas 77991

District Business Telephone Number: (361) 284-3572

Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): 06/15/2006

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

<u>Names:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid 2025</u>	<u>Expense Reimburse- ments 2025</u>	<u>Title at Year-End</u>
Board Members:				
Clifford K. Born	(Elected) 5/24 - 5/28	\$ -	\$ -	President
Bruce Deen	(Elected) 5/23 - 5/27	\$ -	\$ -	Vice President
Jeri Garza	(Elected) 5/24 - 5/28	\$ -	\$ -	Secretary/Treasurer
Emily Castillo	(Elected) 5/23 - 5/27	\$ -	\$ -	Director
Julie Simek	(Elected) 8/23 - 5/27	\$ -	\$ -	Director
Key Administrative Personnel:				
Christy Clark	10/2003	\$ 27,069	\$ 1,414	Secretary/Bookkeeper
Kervin Robinson	12/2008	\$ 13,364	\$ 407	System Operator
Consultants:				
Jackson County Appraisal District		\$ 1,313		Appraisal Services
Lynn Engineering		\$ 81		Engineer
Jackson County Tax Assessor Collector		\$ 186		Tax Collection Services
Cherrilyn R. Henneke, CPA		\$ 4,375		Accounting Services
Garland R. Sandhop, CPA		\$ 5,800		Outside Auditor