MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

Annual Financial Report

For the Year Ended August 31, 2025

Davis, Heinemann & Company, P.C.

Certified Public Accountants

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Introductory Section

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Mid-East Texas Groundwater Conservation District
Annual Financial Report
For The Year Ended August 31, 2025

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Financial Section

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Independent Auditor's Report

To the Board of Directors
Mid-East Texas Groundwater Conservation District
P.O. Box 477
Madisonville, Texas 77864

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mid-East Texas Groundwater Conservation District ("the District"), as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the Mid-East Texas Groundwater Conservation District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-East Texas Groundwater Conservation District, as of August 31, 2025 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

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 Mid-East Texas Groundwater Conservation District's ability to continue as a going concern for twelve months beyond the financial statement issuance date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mid-East Texas Groundwater Conservation 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Respectfully submitted,

Davis, Heineman & Co.

Davis, Heinemann & Company, P.C.

Huntsville, Texas
November 30, 2025

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Mid-East Texas Groundwater Conservation District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2025. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was $295.1 thousand at August 31, 2025.
- During the year, the District's expenses were $7.0 thousand less than the $186.0 thousand generated in fees and other revenues for governmental activities.
- The total cost of the District's programs was $179.0 thousand.
- The general fund reported a fund balance this year of $295.1 thousand.

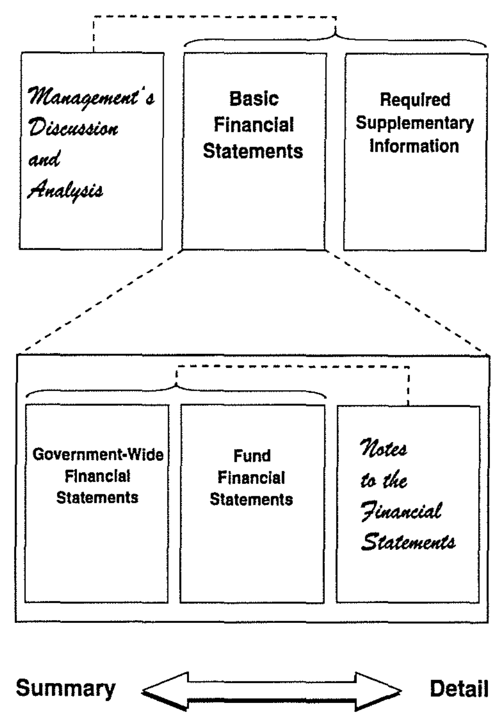
OVERVIEW OF THE FINANCIAL STATEMENTS

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 first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Figure A-1 shows the required parts of this annual report and how they relate to one another.

Figure A- 1, Required Components of the District's Annual Financial Report



Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in State legislation.

The government-wide financial statements of the District include the *governmental activities*. The District's basic services are included here. Charges for service paid by participating customers and other revenues finance these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and when applicable by bond covenants.

- The Board of Directors establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grants.

The District has the following type of fund:

- *Governmental fund*—The District's basic services are included in the governmental fund, which focuses on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statement, or on the subsequent page, that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's net position was $295.1 thousand at August 31, 2025. (See Table A-1). Accounts payable was substantially higher than in 2024 primarily due to bills sent out by the attorney after year end for work performed in 2024 and 2025.

Table A-1
Statement of Net Position
(In thousands of dollars)

	Governmental Activities 2025	Governmental Activities 2024	Change 2025-2024
Assets:			
Cash and Cash Equivalents	$ 64.5	$ 53.6	$ 10.9
Investments	245.0	233.3	11.7
Accounts Receivable	0.3	0.3	-
Prepaid Expenses	2.1	2.2	(0.1)
Total Assets	311.9	289.4	22.5
Liabilities:			
Accounts Payable and Accrued Liabilities	16.8	1.2	15.6
Total Liabilities	16.8	1.2	15.6
Net Position:			
Unrestricted	295.1	288.2	6.9
Total Net Position	$ 295.1	$ 288.2	$ 6.9

Changes in net position. The District's total revenues were $186.0 thousand. A significant portion, ninety (90) percent, of the District's revenue comes from charges for water production which allows the District to monitor and regulate groundwater usage in the district. Six (6) percent comes from interest earnings and the remaining revenue comes from the donation of an office in two of the counties in which the District provides services. Program revenues increased by $12.2 thousand in 2025 compared to 2024 primarily due to contributions. Investment earnings increased due to a higher percentage being held in certificates of deposits, rather than in cash accounts, which pay a lower rate of interest. The total cost of all programs and services in 2025 was $179.0 thousand. Expenditures in 2025 were $34.7 thousand higher than in 2024. Legal fees went up by $13.5 thousand and hydrogeologist services increased by $6.8 thousand, both due to work on Desired Future Conditions (DFCs) and some large production permits during the year. DFCs are long-range forecasts, required to be submitted to the Texas Water Development Board (TWDB) every five years.

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

	Governmental Activities 2025	Governmental Activities 2024	Change 2025-2024
Program Revenues:			
Charges for Water Production	$ 167.7	$ 165.5	$ 2.2
Intergovernmental Contributions	6.4	-	6.4
General Revenues:			
Other	-	0.1	(0.1)
Investment Earnings	11.9	8.2	3.7
Total Revenues	186.0	173.8	12.2
Program Expenses:			
Conservation	179.0	144.3	(34.7)
Total Expenses	179.0	144.3	(34.7)
Change in Net Position	7.0	29.5	(22.5)
Net Position, Beginning	288.1	258.7	29.4
Net Position, Ending	$ 295.1	$ 288.2	$ 6.9

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund Budgetary Highlights

The District prepared a budget for the year and made no changes during the year. Actual expenditures were $7.0 thousand less than final budget amounts. The District spent $7.2 thousand less than budgeted in hydrogeology services and $4.9 thousand more than budgeted in office expense, due to the classification of donated office space as office expense in 2025.

Resources available exceeded expectations by $6.0 thousand, primarily due to higher interest income and the contribution of office space, partially offset by lower production fees and non-compliance penalties.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Production fees and interest revenue were budgeted to remain the same in 2026 as compared to the 2025 budget.

Total expenditures are expected to increase by $15.9 thousand in 2026 over actual expenditures in 2025. Legal fees in 2026 are expected to be comparable with actual legal fees in 2025 due to the ongoing legal work needed to complete the DFC (Desired Future Conditions) used to project the amount of water to be available to the District in the future.

These indicators were evaluated when adopting the general fund budget for 2026. The total amount available for appropriation in the general fund budget is $178.1 thousand, a decrease of $1.9 thousand over the final 2025 budget of $180.0 thousand. The District will use any increases in revenues to finance programs it currently offers. No major new programs or initiatives are planned for the 2026 budget.

If these estimates are realized, the General Fund's fund balance is expected to decrease by $16.3 thousand by the close of 2026.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, 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 administration office.

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Basic Financial Statements

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MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

STATEMENT OF NET POSITION
AUGUST 31, 2025

	Governmental Activities
ASSETS:	
Cash and Cash Equivalents	$ 64,515
Investments	245,033
Accounts Receivable	242
Prepaid Expenses	2,140
Total Assets	311,930
LIABILITIES:	
Accounts Payable and Other Current Liabilities	16,791
Total Liabilities	16,791
NET POSITION:	
Unrestricted	295,139
Total Net Position	$ 295,139

The accompanying notes are an integral part of this statement.

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
PRIMARY GOVERNMENT:				
Governmental Activities:				
Conservation	$ 179,023	$ 167,709	$ 6,400	$ (4,914)
Total Governmental Activities	179,023	167,709	6,400	(4,914)
Total Primary Government	$ 179,023	$ 167,709	$ 6,400	(4,914)
General Revenues:				
Unrestricted Investment Earnings				11,901
Total General Revenues				11,901
Change in Net Position				6,987
Net Position - Beginning				288,152
Net Position - Ending				$ 295,139

The accompanying notes are an integral part of this statement.

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2025

	General Fund
ASSETS AND OTHER DEBITS	
Assets:	
Cash and Cash Equivalents	$ 64,515
Investments	245,033
Accounts Receivable	242
Prepaid Expenses	2,140
Total Assets and Other Debits	$ 311,930
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts Payable	$ 16,791
Total Liabilities	16,791
Fund Balances:	
Nonspendable	2,140
Unassigned	292,999
Total Fund Balances	295,139
Total Liabilities and Fund Balances	$ 311,930

The accompanying notes are an integral part of this statement.

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2025

Total fund balances - governmental funds balance sheet	$	295,139
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Net position of governmental activities - Statement of Net Position	$	295,139

The accompanying notes are an integral part of this statement.

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2025

	General Fund
Revenue:	
Current:	
Production Fees	$ 156,733
Transport Fees	7,576
Non-compliance Penalty	1,000
Permit Fees	2,400
Investment Earnings	11,901
Intergovernmental Contribution	6,400
Total Revenues	186,010
Expenditures:	
Current:	
Professional Services	142,531
Utilities	3,181
Insurance	2,600
Office Expense	15,406
Conservation Initiatives	4,423
Director Expenses	799
Conference/Training/Travel	8,037
Other Expenses	2,046
Total Expenditures	179,023
Net Change in Fund Balances	6,987
Fund Balances - Beginning	288,152
Fund Balances - Ending	$ 295,139

The accompanying notes are an integral part of this statement.

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2025

Net change in fund balances - total governmental funds	$ 6,987
Amounts reported for governmental activities in the Statement of Activities are different because:	
Change in net position of governmental activities - Statement of Activities	$ 6,987

The accompanying notes are an integral part of this statement.

A. Summary of Significant Accounting Policies

The combined financial statements of Mid-East Texas Groundwater Conservation District (the "District") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The District's basic financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under lease contracts and subscription-based information technology arrangements are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

d. Use of Estimates

The preparation of financial statements in accordance with GAAP requires the use of management's estimates.

e. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Directors. Committed amounts cannot be used for any other purpose unless the Board of Directors removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Directors. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Directors or by an official or body to which the Board of Directors delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

f. Net Position Flow Assumption

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

g. Fund Balance Flow Assumptions

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation	Action Taken
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At August 31, 2025, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $309,549 and the bank balance was $312,347. The District's cash deposits at August 31, 2025 and during the year ended August 31, 2025, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Investments

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The District's investments at August 31, 2025 are shown below.

Investment or Investment Type	Maturity	Fair Value
Certificate of Deposit	09/30/2025	$ 108,969
Certificate of Deposit	01/05/2026	136,064
Total Investments		$ 245,033

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other 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. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy
The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

D. Intergovernmental Contributions

In two of the three counties that make up the District, an office is provided by the County for the General Manager to use when working in that county. The District's home office is in Madisonville, Texas, with an additional office provided in Centerville. It is estimated that the value of the office space donated would be approximately $3,200 per year for each office, for a total of $6,400.

E. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2025, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years. The District obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Water Conservation Association Risk Management Fund ("TWCARMF"). TWCARMF is a self-funded pool operating as a common risk management and insurance program. The District pays an annual premium to TWCARMF for its above insurance coverage. The agreement for the formation of TWCARMF provides that TWCARMF will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The District continues to carry commercial insurance for other risks of loss.

F. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at August 31, 2025.

G. Subsequent Events

The District evaluated subsequent events through November 30, 2025, which is the date through which the financial statements were available to be issued. The District did not identify any events that require recording or disclosure in the financial statements for the year ended August 31, 2025.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

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MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

EXHIBIT B-1

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2025

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Current:				
Production Fees	$ 160,000	$ 160,000	$ 156,733	$ (3,267)
Transport Fees	7,500	7,500	7,576	76
Non-compliance Penalty	3,000	3,000	1,000	(2,000)
Permit Fees	1,000	1,000	2,400	1,400
Investment Earnings	8,000	8,000	11,901	3,901
Intergovernmental Contribution	--	--	6,400	6,400
Other Income	500	500	--	(500)
Total Revenues	180,000	180,000	186,010	6,010
Expenditures:				
Audit	6,500	6,500	6,700	(200)
Hydrogeology Services	20,000	20,000	12,781	7,219
Legal	15,000	15,000	14,150	850
Management Services	108,900	108,900	108,900	--
Utilities	3,400	3,400	3,181	219
Insurance	2,600	2,600	2,600	--
Office Expense	10,526	10,526	15,406	(4,880)
Conservation Initiatives	5,774	5,774	4,423	1,351
Director Expenses	1,750	1,750	799	951
Management Conference/Training/Travel	9,000	9,000	8,037	963
Other Expenses	2,550	2,550	2,046	504
Total Expenditures	186,000	186,000	179,023	6,977
Net Change in Fund Balances	(6,000)	(6,000)	6,987	12,987
Fund Balances - Beginning	288,152	288,152	288,152	--
Fund Balances - Ending	$ 282,152	$ 282,152	$ 295,139	$ 12,987

Budget

The budget was prepared for adoption by the District in accordance with the Texas Water Code, Chapter 36, Section 36.154.

a. Each year the general manager, in conjunction with the executive committee, prepares a proposed budget for the operations of the District before the beginning of the fiscal year.

b. Notice will be given in accordance with the Texas Open Meetings Act before the date of the public hearing to approve the budget and to preseent the proposed fee for the next year.

c. The board of directors must approve the budget and the approval will be noted in the minutes of the board of directors meeting.

d. The board of directors may amend the budget at any time during the year until the end of the fiscal year.

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

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MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT
List of Supplementary Schedules
August 31, 2025

(TSI-1) Services and Rates

(TSI-2) General Fund Expenditures

(TSI-3) Temporary Investments

(TSI-4) Analysis of Taxes Levied and Receivable - The District has never levied taxes.

(TSI-5) Long-Term Debt Service Requirements by Years - The District has no debt.

(TSI-6) Schedule of Analysis of Changes in Bonded Debt - Not applicable.

(TSI-7) Comparative Schedule of Revenues and Expenses – General Fund - Five Years

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

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT
(TSI-1) Services and Rates
August 31, 2025

A. Services Provided by the District During the Fiscal Year:

_______	Retail Water	_______	Wholesale Water	_______	Drainage
_______	Retail Wastewater	_______	Wholesale Wastewater	_______	Irrigation
_______	Parks/Recreation	_______	Fire Protection	_______	Security
_______	Solid Waste/ Garbage	_______	Flood Control	_______	Roads
_______	Participates in joint venture, regional system, and/or wastewater service (other than emergency interconnect)				
X	Other (specify): Conservation				

B. Retail Rates for a 5/8" Meter (or Equivalent): N/A

C. Water Retail Connections: N/A

D. Total Water Consumption During the Fiscal Year: N/A

E. Standby Fees: N/A

F. Location of District

Counties in which the District is Located: Madison, Leon and Freestone

Is the District located entirely within one county? _____Yes __X__ No

Is the District located within a City? ____Entirely __X__ Partly ____Not at all

Cities in which the District's offices are located: Madisonville, Centerville and Fairfield

Is the District located within a city's extra territorial jurisdiction (ETJ)?
_______Entirely _______Partly __X__ Not at all

Are Board members appointed by an office outside the District? ______Yes __X__ No

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT
(TSI-2) General Fund Expenditures
August 31, 2025

Professional Fees:			
	Audit	$	6,700
	Legal		14,150
Contracted Services:			
	Hydrogeology Services		12,781
	Management Services		108,900
Utilities:			3,181
Administrative:			
	Office Expense		15,406
	Insurance		2,600
	Conference/Training/Travel		8,037
Other Expenses:			
	Conservation Initiatives		4,423
	Director Expenses		799
	Miscellaneous		2,046
TOTAL EXPENDITURES		$	179,023

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT
(TSI-3) Temporary Investments
August 31, 2025

Fund	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
General Fund				
Certificate of Deposit	3.92%	9/30/2025	$ 108,969	$ -
Certificate of Deposit	3.50%	1/5/2026	136,064	-
Total Investments			$ 245,033	$ -

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT
(TSI-7) Comparative Schedule of Revenues and Expenses – General Fund – Five Years
August 31, 2025

	AMOUNTS				
	2025	2024	2023	2022	2021
INCOME:					
Production Fees	$ 156,733	$ 160,022	$ 118,661	$ 120,955	$ 120,057
Transport Fees	7,576	4,474	1,183	5,262	8,150
Non-compliance Penalty	1,000	-	750	2,500	750
Permit Fees	2,400	1,000	1,000	600	600
Interest Income	11,901	8,131	3,995	2,041	2,609
Intergovernmental Contribution	6,400	-	-	-	-
Other Income	-	95	318	-	-
GROSS INCOME	186,010	173,722	125,907	131,358	132,166
EXPENSES:					
Audit	6,700	6,300	5,800	5,000	4,500
Legal	14,150	655	19,395	18,242	6,784
Hydrogeology Services	12,781	6,000	9,804	8,592	3,780
Management Services	108,900	105,876	102,145	99,984	95,500
Utilities	3,181	3,053	3,281	3,523	3,465
Office Expense	15,406	6,153	7,333	6,434	5,905
Insurance	2,600	2,600	2,600	2,600	2,600
Conference/Training/Travel	8,037	5,307	5,518	5,419	1,860
Conservation Initiatives	4,423	4,506	4,085	3,369	4,773
Director Expenses	799	1,606	921	901	627
Other Expense	2,046	2,217	2,017	2,051	2,003
TOTAL EXPENSES	179,023	144,273	162,899	156,115	131,797
Net Income (Loss) for Year	$ 6,987	$ 29,449	$ (36,992)	$ (24,757)	$ 369

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT
(TSI-7) Comparative Schedule of Revenues and Expenses – General Fund – Five Years
August 31, 2025

		PERCENT OF TOTAL REVENUE		
2025	2024	2023	2022	2021
84.3%	92.0%	94.2%	92.0%	90.7%
4.1%	2.6%	0.9%	4.0%	6.2%
0.5%	0.0%	0.6%	1.9%	0.6%
1.3%	0.6%	0.8%	0.5%	0.5%
6.4%	4.7%	3.2%	1.6%	2.0%
3.4%	0.0%	0.0%	0.0%	0.0%
0.0%	0.1%	0.3%	0.0%	0.0%
100.0%	100.0%	100.0%	100.0%	100.0%
3.6%	3.6%	4.6%	3.8%	3.4%
7.6%	0.4%	15.4%	13.9%	5.1%
6.9%	3.5%	7.8%	6.5%	2.9%
58.5%	60.9%	81.1%	76.1%	72.3%
1.7%	1.8%	2.6%	2.7%	2.6%
8.3%	3.5%	5.8%	4.9%	4.5%
1.4%	1.5%	2.1%	2.0%	2.0%
4.3%	3.1%	4.4%	4.1%	1.4%
2.4%	2.6%	3.2%	2.6%	3.6%
0.4%	0.9%	0.7%	0.7%	0.5%
1.1%	1.3%	1.6%	1.6%	1.5%
96.2%	83.1%	129.3%	118.9%	99.8%
3.8%	16.9%	-29.3%	-18.9%	0.2%

MID-EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

(TSI-8) Board Members, Key Personnel and Consultants
August 31, 2025

Complete District Mailing Address: P.O. Box 477
101 W. Main, Suite B22
Madisonville, Texas 77864

District Business Telephone Number: (936) 348-3212

Submission Date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):
January 6, 2025

Limit of Fee of Office that a Director may receive during a fiscal year: $0 (Set by Board Resolution - TWC Section 49.060)

Names	Term of Office or Date Hired	Elected or Appointed	Fees of Office*	Expenses/ Reimbursements	Title at Year End
Board Members:					
Leon County					
Mr. Wade Hedrick	1/1/2024 - 12/31/2025	Appointed	None	None	Director
Mr. Jim Nash	1/1/2024 - 12/31/2027	Appointed	None	None	Director
Mr. George Holleman	1/1/2024 - 12/31/2027	Appointed	None	None	Vice President
Freestone County					
Mr. John Fryer	1/1/2022 - 12/31/2025	Appointed	None	None	President
Ms. Elyse Schill	1/1/2022 - 12/31/2025	Appointed	None	None	Director
Mr. Clyde Woods	1/1/2024 - 12/31/2027	Appointed	None	None	Director
Madison County					
Mr. Kevin Counsil	1/1/2024 - 12/31/2027	Appointed	None	None	Director
Mr. William Parten	1/1/2022 - 12/31/2025	Appointed	None	None	Secretary
Mr. Daniel Bracewell	1/1/2024 - 12/31/2027	Appointed	None	None	Director
Key Personnel (Contracted):					
Mr. David Bailey	2/2/2009 N/A	Hired	$108,900	0	General Manager
Consultants:					
Intera Inc.			$ 12,781	0	Hydrogeologist
G. M. Ellis Law Firm P.C.			$ 14,150	0	Legal
Davis, Heinemann & Company, P.C.			$ 6,700	0	Auditor

* Fees of Office are the amounts actually paid to a director during the district's fiscal year.

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