

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1**

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2025

McCALL GIBSON SWEDLUND BARFOOT ELLIS PLLC
Certified Public Accountants

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McCall Gibson Swedlund Barfoot Ellis PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Water Control
and Improvement District No. 1
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Water Control and Improvement District No. 1 (the "District") as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund, the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of District Contributions - Pension 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

Board of Directors
Harris County Water Control and
Improvement District No. 1

Required Supplementary Information (Continued)

assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide*, are 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 supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide an assurance, 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot Ellis PLLC

McCall Gibson Swedlund Barfoot Ellis PLLC
Certified Public Accountants
Houston, Texas

January 13, 2026

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Management’s discussion and analysis of Harris County Water Control and Improvement District No. 1’s (the “District”) financial performance provides an overview of the District’s financial activities for the fiscal year ended September 30, 2025. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District’s annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District’s overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District’s assets, liabilities, deferred inflows of resources and deferred outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District’s net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for customer service revenues, tax revenues and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District’s governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information (“RSI”) and other supplementary information. The budgetary comparison schedule is included as RSI for the General Fund. Additional schedules related to the pension plan and the other postemployment benefits plan are included as RSI as well.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District’s financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$22,133,461 as of September 30, 2025. A portion of the District’s net position reflects its net investment in capital assets (buildings and equipment as well as the water, sewer and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of Government-wide changes in Net Position:

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2025	2024	Change Positive (Negative)
Current and Other Assets	\$ 11,042,303	\$ 10,234,349	\$ 807,954
Capital Assets (Net of Accumulated Depreciation)	<u>25,211,488</u>	<u>25,080,874</u>	<u>130,614</u>
Total Assets	<u>\$ 36,253,791</u>	<u>\$ 35,315,223</u>	<u>\$ 938,568</u>
Deferred Outflows of Resources	<u>\$ 117,767</u>	<u>\$ 194,626</u>	<u>\$ (76,859)</u>
Bonds Payable	\$ 13,130,653	\$ 13,845,669	\$ 715,016
Other Liabilities	<u>1,057,885</u>	<u>937,391</u>	<u>(120,494)</u>
Total Liabilities	<u>\$ 14,188,538</u>	<u>\$ 14,783,060</u>	<u>\$ 594,522</u>
Deferred Inflows of Resources	<u>\$ 49,559</u>	<u>\$ 4,937</u>	<u>\$ (44,622)</u>
Net Position:			
Net Investment in Capital Assets	\$ 13,980,059	\$ 13,976,419	\$ 3,640
Restricted	1,473,270	1,329,323	143,947
Unrestricted	<u>6,680,132</u>	<u>5,416,110</u>	<u>1,264,022</u>
Total Net Position	<u>\$ 22,133,461</u>	<u>\$ 20,721,852</u>	<u>\$ 1,411,609</u>

The following table provides a summary of the District's operations for the years ended September 30, 2025, and September 30, 2024.

	Summary of Changes in the Statement of Activities		
	2025	2024	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,613,758	\$ 1,618,839	\$ (5,081)
Charges for Services	3,167,813	3,031,907	135,906
Other Revenues	<u>440,979</u>	<u>593,208</u>	<u>(152,229)</u>
Total Revenues	<u>\$ 5,222,550</u>	<u>\$ 5,243,954</u>	<u>\$ (21,404)</u>
Expenses for Services	<u>3,810,941</u>	<u>4,114,676</u>	<u>303,735</u>
Change in Net Position	\$ 1,411,609	\$ 1,129,278	\$ 282,331
Net Position, Beginning of Year	<u>20,721,852</u>	<u>19,592,574</u>	<u>1,129,278</u>
Net Position, End of Year	<u>\$ 22,133,461</u>	<u>\$ 20,721,852</u>	<u>\$ 1,411,609</u>

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

The District’s combined fund balances as of September 30, 2025, were \$9,285,229, an increase of \$428,467 from the prior year.

The General Fund fund balance increased by \$1,168,597, primarily due to operating revenues and maintenance tax revenues revenues being higher than operating and capital outlay costs.

The Debt Service Fund fund balance increased by \$101,860, primarily due to the structure of the District’s outstanding debt.

The Capital Projects Fund fund balance decreased by \$841,990, primarily due to the use of expenditures from prior year bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$55,876 more than budgeted revenues primarily due to higher than expected penalty and interest revenues and investment revenues. Actual expenditures were \$842,740 less than budgeted expenditures primarily due to lower than expected personnel services, contracted services, utilities costs, repair and maintenance costs, and capital outlay.

LONG-TERM DEBT ACTIVITY

As of September 30, 2025, the District had total bond debt payable of \$12,805,000. The changes in the debt position of the District during the fiscal year ended September 30, 2025, are summarized as follows:

Bond Debt Payable, October 1, 2024	\$ 13,500,000
Less: Bond Principal Paid	<u>695,000</u>
Bond Debt Payable, September 30, 2025	<u>\$ 12,805,000</u>

The District’s Series 2017 Bonds carry an underlying rating of “A” issued and an insured rating of “AA” by virtue of bond insurance issued by Build America Mutual Insurance Corp. The District’s Series 2022 Bonds carry an underlying rating of “A” issued and an insured rating of “AA” by virtue of bond insurance issued by Assured Guaranty. These ratings were in effect for the current and prior fiscal years.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

CAPITAL ASSETS

Capital assets as of September 30, 2025, total \$25,211,488 (net of accumulated depreciation) and include land, buildings and equipment, furniture and fixtures, vehicles as well as the water, sewer and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2025	2024	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 217,031	\$ 185,453	\$ 31,578
Construction in Progress	600,515	3,054,534	(2,454,019)
Capital Assets, Net of Accumulated Depreciation:			
Building	92,116	104,396	(12,280)
Water System	10,556,756	7,513,682	3,043,074
Sewer System	13,581,512	14,006,734	(425,222)
Right-to-Use Equipment	1	61,495	(61,494)
Machinery and Equipment	51,699	63,913	(12,214)
Furniture and Fixtures			
Vehicles	111,858	90,667	21,191
	\$ 25,211,488	\$ 25,080,874	\$ 130,614

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Water Control and Improvement District No. 1, 125 San Jacinto Avenue, Highlands, TX 77562.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2025**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 6,489,118	\$ 1,278,498
Receivables:		
Property Taxes	76,332	175,654
Penalty and Interest on Delinquent Taxes		
Service Accounts	258,664	
Other		7,444
Due from Other Funds	44,162	
Prepaid Costs	34,225	
Net Pension Assets		
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 6,902,501	\$ 1,461,596
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Plan Charges	\$ - 0 -	\$ - 0 -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 6,902,501	\$ 1,461,596

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 2,229,656	\$ 9,997,272	\$	\$ 9,997,272
	251,986		251,986
		101,345	101,345
	258,664		258,664
	7,444		7,444
	44,162	(44,162)	
	34,225		34,225
		391,367	391,367
		217,031	217,031
		600,515	600,515
		24,393,942	24,393,942
<u>\$ 2,229,656</u>	<u>\$ 10,593,753</u>	<u>\$ 25,660,038</u>	<u>\$ 36,253,791</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 117,767</u>	<u>\$ 117,767</u>
<u>\$ 2,229,656</u>	<u>\$ 10,593,753</u>	<u>\$ 25,777,805</u>	<u>\$ 36,371,558</u>

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2025**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 202,361	\$
Accrued Compensated Absences	26,487	
Accrued Interest Payable		
Due to Other Funds		44,162
Security Deposits	453,096	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 681,944	\$ 44,162
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 76,332	\$ 175,654
Pension Plan Income		
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 76,332	\$ 175,654
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 34,225	\$
Restricted for Authorized Construction		
Restricted for Debt Service		1,241,780
Unassigned	6,110,000	
TOTAL FUND BALANCES	\$ 6,144,225	\$ 1,241,780
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 6,902,501	\$ 1,461,596
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 330,432	\$ 532,793	\$	\$ 532,793
	26,487		26,487
		45,509	45,509
	44,162	(44,162)	
	453,096		453,096
		720,000	720,000
		12,410,653	12,410,653
<u>\$ 330,432</u>	<u>\$ 1,056,538</u>	<u>\$ 13,132,000</u>	<u>\$ 14,188,538</u>
\$	\$ 251,986	\$ (251,986)	\$
		49,559	49,559
<u>\$ - 0 -</u>	<u>\$ 251,986</u>	<u>\$ (202,427)</u>	<u>\$ 49,559</u>
\$	\$ 34,225	\$ (34,225)	\$
1,899,224	1,899,224	(1,899,224)	
	1,241,780	(1,241,780)	
	6,110,000	(6,110,000)	
<u>\$ 1,899,224</u>	<u>\$ 9,285,229</u>	<u>\$ (9,285,229)</u>	<u>\$ - 0 -</u>
<u>\$ 2,229,656</u>	<u>\$ 10,593,753</u>		
		\$ 13,980,059	\$ 13,980,059
		1,473,270	1,473,270
		6,680,132	6,680,132
		<u>\$ 22,133,461</u>	<u>\$ 22,133,461</u>

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2025**

Total Fund Balance - Governmental Funds		\$ 9,285,229
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Deferred inflows and outflows of resources related to the pension plan activities are recorded in the government-wide financial statements.		68,208
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Certain assets are not available in the current period and, therefore, are not reported as assets in the governmental funds. These assets at year-end consist of net pension asset.		391,367
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		25,211,488
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2024 and prior tax levies became part of recognized revenue in the governmental activities of the District.		353,331
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (45,509)	
Bonds Payable	<u>(13,130,653)</u>	<u>(13,176,162)</u>

Total Net Position - Governmental Activities		<u>\$ 22,133,461</u>
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The accompanying notes to the financial statements are an integral part of this report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 484,918	\$ 1,091,729
Service Revenues	2,920,449	
Penalty and Interest	86,661	67,675
Tap Connection and Inspection Fees	78,257	
Investment and Miscellaneous Revenues	254,616	69,972
TOTAL REVENUES	\$ 3,824,901	\$ 1,229,376
EXPENDITURES/EXPENSES		
Service Operations:		
Personnel Expenditures	\$ 1,198,975	\$
Professional Fees	78,712	21,302
Contracted Services	185,766	29,750
Purchased Water Services	402,417	
Utilities	123,852	
Repair and Maintenance	131,168	
Depreciation		
Other	359,457	5,319
Capital Outlay	175,957	
Debt Service:		
Principal		695,000
Interest		376,145
		376,145
TOTAL EXPENDITURES/EXPENSES	\$ 2,656,304	\$ 1,127,516
NET CHANGE IN FUND BALANCES	\$ 1,168,597	\$ 101,860
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - OCTOBER 1, 2024	4,975,628	1,139,920
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2025	\$ 6,144,225	\$ 1,241,780

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,576,647	\$ 37,111	\$ 1,613,758
	2,920,449		2,920,449
	154,336	14,771	169,107
	78,257		78,257
<u>116,391</u>	<u>440,979</u>	<u> </u>	<u>440,979</u>
\$ 116,391	\$ 5,170,668	\$ 51,882	\$ 5,222,550
\$	\$ 1,198,975	\$ (82,611)	\$ 1,116,364
735	100,749		100,749
	215,516		215,516
	402,417		402,417
	123,852		123,852
201,562	332,730		332,730
		801,427	801,427
756,084	364,776		364,776
	932,041	(932,041)	
	695,000	(695,000)	
<u> </u>	<u>376,145</u>	<u>(23,035)</u>	<u>353,110</u>
\$ 958,381	\$ 4,742,201	\$ (931,260)	\$ 3,810,941
\$ (841,990)	\$ 428,467	\$ (428,467)	\$
		1,411,609	1,411,609
<u>2,741,214</u>	<u>8,856,762</u>	<u>11,865,090</u>	<u>20,721,852</u>
\$ 1,899,224	\$ 9,285,229	\$ 12,848,232	\$ 22,133,461

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Net Change in Fund Balances - Governmental Funds	\$	428,467
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		37,111
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Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		14,771
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(801,427)
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Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		932,041
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This adjustment accounts for the current year activity related to the pension plan and other postemployment benefit plan as well as the associated deferred inflows and outflows of resources.		82,611
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Governmental funds report principal payments as expenditures. However, in the Statement of Net Position, principal payments are reported as decreases in long-term liabilities.		695,000
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		23,035
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Change in Net Position - Governmental Activities	\$	<u>1,411,609</u>
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The accompanying notes to the financial statements are an integral part of this report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 1. CREATION OF DISTRICT

Harris County Water Control and Improvement District No. 1 of Harris County, Texas (the “District”) was created, according to official state records, on May 1, 1939, by the State Board of Water Engineers, a state agency that was a predecessor of the Texas Commission on Environmental Quality pursuant to Article XVI, Section 59 of the Texas Constitution, and operates under provisions of Chapter 51 of the Texas Water Code, as amended, and other general statutes of Texas. The first board meeting of the lawfully appointed Board of Directors was on or about May 25, 1939. On July 1, 1939, a new board was duly elected in accordance with state law by the duly qualified voters of the District. The first bonds were sold July 20, 1939. The District is located in an unincorporated area north of Baytown, Texas.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- * Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- * Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- * Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, tax revenues and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Individual capital items, including infrastructure assets are capitalized, if they have an original cost greater than \$2,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	35-40
Furniture and Fixtures	7-10
Machinery and Equipment	5-15
Water Distribution System	30-50
Sewer Collection System	30-50

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pension and Other Postemployment Benefits

The Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only. A pension plan has not been established for the directors. A plan has been established for the District’s employees other than directors. (See Note 8).

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 3. LONG-TERM DEBT

	<u>Series 2017</u>	<u>Series 2022</u>
Amount Outstanding – September 30, 2025	\$ 5,355,000	\$ 7,450,000
Interest Rates	3.00% - 3.50%	2.00% - 4.00%
Maturity Date	February 15, 2026/2037	February 15, 2026/2042
Interest Payment Dates	February 15/ August 15	February 15/ August 15
Callable Dates	February 15, 2026*	February 15, 2031*

* Or any date thereafter at a price of par plus unpaid accrued interest in whole or in part, at the option of the District.

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2025:

	<u>October 1, 2024</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2025</u>
Bonds Payable	\$ 13,500,000	\$	\$ 695,000	\$ 12,805,000
Unamortized Discounts	(57,021)		(4,616)	(52,405)
Unamortized Premiums	<u>402,690</u>		<u>24,632</u>	<u>378,058</u>
Total Long-Term Liabilities	<u>\$ 13,845,669</u>	<u>\$ -0-</u>	<u>\$ 715,016</u>	<u>\$ 13,130,653</u>
			Amount Due Within One Year	\$ 720,000
			Amount Due After One Year	<u>12,410,653</u>
			Total Bonds Payable	<u>\$ 13,130,653</u>

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 3. LONG-TERM DEBT (Continued)

As of September 30, 2025, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 720,000	\$ 351,545	\$ 1,071,545
2027	745,000	326,045	1,071,045
2028	765,000	299,745	1,064,745
2029	795,000	272,570	1,067,570
2030	820,000	246,420	1,066,420
2031-2035	4,485,000	866,758	5,351,758
2036-2040	3,445,000	399,009	3,844,009
2041-2042	1,030,000	24,581	1,054,581
	<u>\$ 12,805,000</u>	<u>\$ 2,786,673</u>	<u>\$ 15,591,673</u>

As of September 30, 2025, the District does not have any authorized but unissued bonds.

During the year ended September 30, 2025, the District levied ad valorem debt service tax rate of \$0.224 per \$100 of assessed valuation, which resulted in a levy of \$1,117,407 on the adjusted taxable valuation of \$498,842,319 for the 2024 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the costs of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond order states that the District is required by the Securities and Exchange Commission to provide annual continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on each 5th year anniversary of each issue.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits was \$9,997,272 and the bank balance was \$10,028,760. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2025, as listed below:

	Cash
GENERAL FUND	\$ 6,489,118
DEBT SERVICE FUND	1,278,498
CAPITAL PROJECTS FUND	2,229,656
TOTAL DEPOSITS	\$ 9,997,272

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth.

The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

As of September 30, 2025, the District did not own any investments.

Restrictions

All cash and investments of the Debt Service Fund are restricted for payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for purchases of capital assets.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 6. CAPITAL ASSETS

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

	October 1, 2024	Increases	Decreases	September 30, 2025
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 185,453	\$ 31,578	\$	\$ 217,031
Construction in Progress	<u>3,054,534</u>	<u>932,041</u>	<u>3,386,060</u>	<u>600,515</u>
Total Capital Assets Not Being Depreciated	<u>\$ 3,239,987</u>	<u>\$ 963,619</u>	<u>\$ 3,386,060</u>	<u>\$ 817,546</u>
Capital Assets Subject to Depreciation				
Building	\$ 346,200	\$	\$	\$ 346,200
Water System	9,848,153	3,262,587		13,110,740
Sewer System	24,138,329	45,065		24,183,394
Right-to-Use Equipment	931,342			931,342
Machinery and Equipment	467,642			467,642
Furniture and Fixtures	5,688			5,688
Vehicles	<u>220,112</u>	<u>46,830</u>		<u>266,942</u>
Total Capital Assets Subject to Depreciation	<u>\$ 35,957,466</u>	<u>\$ 3,354,482</u>	<u>\$ - 0 -</u>	<u>\$ 39,311,948</u>
Accumulated Depreciation				
Building	\$ 241,804	\$ 12,280	\$	\$ 254,084
Water System	2,334,471	219,513		2,553,984
Sewer System	10,131,595	470,287		10,601,882
Right-to-Use Equipment	869,847	61,494		931,341
Machinery and Equipment	403,729	12,214		415,943
Furniture and Fixtures	5,688			5,688
Vehicles	<u>129,445</u>	<u>25,639</u>		<u>155,084</u>
Total Accumulated Depreciation	<u>\$ 14,116,579</u>	<u>\$ 801,427</u>	<u>\$ - 0 -</u>	<u>\$ 14,918,006</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 21,840,887</u>	<u>\$ 2,553,055</u>	<u>\$ - 0 -</u>	<u>\$ 24,393,942</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 25,080,874</u>	<u>\$ 3,516,674</u>	<u>\$ 3,386,060</u>	<u>\$ 25,211,488</u>

NOTE 7. MAINTENANCE TAX

At an election held September 14, 2002, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District. During the year ended September 30, 2025, the District levied a maintenance tax rate of \$0.10 per \$100 of assessed valuation, which resulted in a tax levy of \$498,842 on the adjusted taxable valuation of \$498,842,319 for the 2024 tax year.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 8. PENSION PLAN

Plan Description

The District provides retirement for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 850 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a annual comprehensive financial report (ACFR) on a calendar year basis. The ACFR is available on the TCDRS website (www.tcdrs.org).

Benefits Provided

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

Benefit amounts are determined by the sum of the employee’s deposits to the plan, with interest, and employer-financed monetary credit. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee’s accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

At September 30, 2025, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	<u>6</u>
Inactive employees entitled but not yet receiving benefits	<u>13</u>
Active employees	<u>12</u>

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 8. PENSION PLAN (Continued)

Contributions

The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 14.0% for the months of the 2025 accounting year and the 2024 accounting year. The deposit rate payable by the employee members for calendar years 2024 and 2025 is 7.0% as adopted by the governing body of the District. The employee deposit rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

For the District’s accounting year ended September 30, 2025, the annual pension cost for the TCDRS plan for its employees was \$115,916 and the actual contributions were \$115,916.

Actuarial Assumptions

The total pension liability in the December 31, 2024, actuarial valuation was determined using the following actuarial assumption:

Actuarial valuation date	12/31/24
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment return ¹	7.50%
Projected salary increases ¹	4.70%
Inflation	2.50%
Cost-of-living adjustments	0.00%

¹ Includes inflation at the stated rate

The demographic assumptions were developed from an actual experience investigation of TCDRS over the years 2017-2020. They were recommended by Milliman and adopted by the TCDRS Board of Trustees in December of 2021. All economic assumptions were recommended by Milliman and adopted by the TCDRS Board of Trustees in March of 2021. These assumptions, except where required to be different by GASB 68, are used to determine the total pension liability as of December 31, 2024. The assumptions are reviewed annually for continued compliance with the relevant actuarial standards of practice.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 8. PENSION PLAN (Continued)

Mortality rates were based on the following:

Depositing members – 135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% of Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate Scale after 2010.

Service retirees, beneficiaries and non-depositing members – 135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% of Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Disabled retirees - 160% of the Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Depletion of Plan Assets/ GASB Discount Rate

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

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

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 8. PENSION PLAN (Continued)

Depletion of Plan Assets/ GASB Discount Rate (Continued)

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

- 1) TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
- 2) Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
- 3) The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
- 4) An increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 8. PENSION PLAN (Continued)

Therefore, we have used a discount rate of 7.60%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.50%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Long-Term Expected Rate of Return

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

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is based on a long-term time horizon. The TCDRS Board of Trustees adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. Milliman relies on the expertise of Cliffwater in this assessment.

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	13.00%	5.35%
Global Equities	4.00%	5.15%
International Equities-Development	6.00%	4.75%
International Equities-Emerging	0.00%	4.75%
Investment-Grade Bonds	3.00%	2.55%
Strategic Credit	9.00%	3.70%
Direct Lending	16.00%	6.85%
Distressed Debt	4.00%	6.80%
REIT Equities	2.00%	3.95%
Master Limited Partnerships (MLPs)	2.00%	4.95%
Commodities	2.00%	1.00%
Private Real Estate Partnerships	6.00%	5.75%
Private Equity	25.00%	8.15%
Hedge Funds	6.00%	3.60%
Cash Equivalents	2.00%	1.10%

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 8. PENSION PLAN (Continued)

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances of December 31, 2023	\$ 4,348,351	\$ 4,535,626	\$ (187,275)
Changes for the year:			
Service Costs	95,458		95,458
Interest on the Total Pension Liability	330,753		330,753
Effect of Economic/Demographic			
Gains or Losses	12,014		12,014
Refund of Contributions	(9,866)	(9,866)	
Benefit Payments	(177,157)	(177,157)	
Administrative Expenses		(2,717)	2,717
Member Contributions		60,587	(60,587)
Net investment income		462,217	(462,217)
Employer Contributions		121,174	(121,174)
Other		1,056	(1,056)
Balances of December 31, 2024	<u>\$ 4,599,553</u>	<u>\$ 4,990,920</u>	<u>\$ (391,367)</u>

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

	1% Decrease	Current Discount Rate	1% Increase
	6.60%	7.60%	8.60%
Total pension liability	\$ 5,157,251	\$ 4,599,553	\$ 4,125,504
Fiduciary net position	<u>4,990,920</u>	<u>4,990,920</u>	<u>4,990,920</u>
Net pension liability	<u>\$ 166,331</u>	<u>\$ (391,367)</u>	<u>\$ (865,416)</u>

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 8. PENSION PLAN (Continued)

As of December 31, 2024, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of resources	Deferred Outflows of resources
Differences between expected and actual experience	\$ 2,070	\$ 29,245
Net difference between projected and actual earnings	47,489	
Contributions paid to TCDRS subsequent to the measurement date		88,522
Total	\$ 49,559	\$ 117,767

The District made plan contributions subsequent to the measurement date and prior to the District fiscal year-end of \$88,522 which are recorded as deferred outflows of resources. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

Year ended December 31:	
2025	\$ (28,451)
2026	78,619
2027	(49,332)
2028	(21,150)
2029	-0-
Thereafter	-0-

NOTE 9. COMPENSATED ABSENCES

Compensated absences payable recorded in the accompanying financial statements relates to earned vacation time. Accumulated compensated absences related to sick time amounting to approximately \$80,230 as of September 30, 2025, are not recorded in the accompanying financial statement since such compensation is not fully vested and is dependent upon the occurrence of future employee illnesses, the probability of which cannot be measured.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 10. PURCHASE WATER AGREEMENT

The District entered into an agreement with the Baytown Area Water Authority (“BAWA”) in September, 1993, to purchase at least 350,000 gallons of water per day at a minimum cost of one dollar (\$1.00) per one thousand (1,000) gallons and that such purchase shall begin no later than December 31, 1994. The agreement was extended on August 17, 2023, and it set to expire on December 31, 2040. The extension allows the District to purchase up to 850,000 gallons of water per day from BAWA. The cost of the water will increase periodically and the current rate at year-end was \$3.88 per 1,000 gallons. The District’s cost for such water during the current year was \$402,417. The District currently purchases approximately 50% of its water from BAWA and would likely incur an interruption in service and/or a significant increase in costs if BAWA ceased to provide the water.

NOTE 11. 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; and natural disasters. The District participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, errors and omissions, windstorm and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML’s management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 12. INTERFUND RECEIVABLES AND PAYABLES

As of September 30, 2025, the Debt Service Fund recorded a payable to the General Fund in the amount of \$44,162 for maintenance tax collections.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

NOTE 13. GROUP TERM LIFE INSURANCE

The District participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees.

The GTLF is a separate trust administered by the TCDRS board of trustees. TCDRS issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for the GTLF. This report is available at www.tcdrs.org. TCDRS' ACFR may also be obtained by writing to the Texas County & District Retirement System; P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782.

Funding Policy: Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The District's contribution to the GTLF for the years ending September 30, 2025, 2024, and 2023 were \$994, \$990 and \$776, respectively, which equaled the contractually required contribution.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1**

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2025

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 500,434	\$ 484,918	\$ (15,516)
Service Revenues	2,908,666	2,920,449	11,783
Tap Connection and Inspection Fees	56,525	78,257	21,732
Penalty and Interest	63,000	86,661	23,661
Investment and Miscellaneous Revenues	240,400	254,616	14,216
TOTAL REVENUES	\$ 3,769,025	\$ 3,824,901	\$ 55,876
EXPENDITURES			
Service Operations:			
Personnel Expenditures	\$ 1,472,243	\$ 1,198,975	\$ 273,268
Professional Fees	99,828	78,712	21,116
Contracted Services	235,520	185,766	49,754
Purchased Water Services	560,932	402,417	158,515
Utilities	160,639	123,852	36,787
Repair and Maintenance	184,066	131,168	52,898
Other	507,816	359,457	148,359
Capital Outlay	278,000	175,957	102,043
TOTAL EXPENDITURES	\$ 3,499,044	\$ 2,656,304	\$ 842,740
NET CHANGE IN FUND BALANCE	\$ 269,981	\$ 1,168,597	\$ 898,616
FUND BALANCE - OCTOBER 1, 2024	4,975,628	4,975,628	
FUND BALANCE - SEPTEMBER 30, 2025	\$ 5,245,609	\$ 6,144,225	\$ 898,616

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2025**

	Year Ended December 31, 2024	Year Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Total Pension Liability				
Service Cost	\$ 95,458	\$ 87,235	\$ 84,230	\$ 86,427
Interest (on the Total Pension Liability)	330,753	311,758	296,148	280,209
Effect on plan changes				
Changes of assumptions				(3,196)
Effect of economic/demographic gains or losses	12,014	29,473	12,244	30,250
Benefit payments, including refunds of employee contributions	<u>(187,023)</u>	<u>(186,507)</u>	<u>(193,814)</u>	<u>(170,164)</u>
Net change in total pension liability	\$ 251,202	\$ 241,959	\$ 198,808	\$ 223,526
Total pension liability, beginning	<u>4,348,351</u>	<u>4,106,392</u>	<u>3,907,584</u>	<u>3,684,058</u>
Total pension liability, ending (a)	<u>\$ 4,599,553</u>	<u>\$ 4,348,351</u>	<u>\$ 4,106,392</u>	<u>\$ 3,907,584</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 121,174	\$ 99,167	\$ 95,237	\$ 86,613
Contributions - employee	60,587	49,584	47,618	43,306
Net investment income	462,217	452,772	(255,684)	802,758
Benefit payments, including refunds of employee contributions	(187,023)	(186,507)	(193,814)	(170,164)
Administrative Expense	(2,717)	(2,368)	(2,416)	(2,400)
Other	<u>1,056</u>	<u>(236)</u>	<u>(3,468)</u>	<u>(128)</u>
Net Change in plan fiduciary net position	\$ 455,294	\$ 412,412	\$ (312,527)	\$ 759,985
Plan Fiduciary net position, beginning	<u>4,535,626</u>	<u>4,123,214</u>	<u>4,435,741</u>	<u>3,675,756</u>
Plan Fiduciary net position, ending (b)	<u>\$ 4,990,920</u>	<u>\$ 4,535,626</u>	<u>\$ 4,123,214</u>	<u>\$ 4,435,741</u>
Net Pension Liability/(Asset), Ending = (a) - (b)	<u>\$ (391,367)</u>	<u>\$ (187,275)</u>	<u>\$ (16,822)</u>	<u>\$ (528,157)</u>
Plan fiduciary net position as a percentage of the total pension liability	108.51%	104.31%	100.41%	113.52%
Covered-employee payroll	\$ 865,531	\$ 708,338	\$ 680,262	\$ 618,663
Net pension liability as a percentage of covered employee payroll	-45.22%	-26.44%	-2.47%	-85.37%

Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
\$ 75,880	\$ 71,067	\$ 63,713	\$ 58,679	\$ 63,845	\$ 52,449
265,734	253,296	238,888	235,573	224,728	209,775
204,525			8,734		(13,223)
16,286	(14,478)	23,307	(53,297)	(18,480)	(44,905)
<u>(163,126)</u>	<u>(159,229)</u>	<u>(151,706)</u>	<u>(273,511)</u>	<u>(57,864)</u>	<u>(24,058)</u>
\$ 399,299	\$ 150,656	\$ 174,202	\$ (23,822)	\$ 212,229	\$ 197,843
<u>3,284,759</u>	<u>3,134,103</u>	<u>2,959,901</u>	<u>2,983,723</u>	<u>2,771,494</u>	<u>2,573,651</u>
<u>\$ 3,684,058</u>	<u>\$ 3,284,759</u>	<u>\$ 3,134,103</u>	<u>\$ 2,959,901</u>	<u>\$ 2,983,723</u>	<u>\$ 2,771,494</u>
\$ 84,034	\$ 76,300	\$ 74,473	\$ 74,328	\$ 70,611	\$ 72,512
42,017	38,150	37,236	37,164	35,305	36,256
347,901	481,997	(56,989)	405,479	189,763	(34,211)
(163,126)	(159,229)	(151,706)	(273,511)	(57,864)	(24,058)
(2,690)	(2,567)	(2,357)	(2,018)	(2,063)	(1,835)
<u>(763)</u>	<u>(1,064)</u>	<u>(886)</u>	<u>(2,191)</u>	<u>(6,210)</u>	<u>(18,941)</u>
\$ 307,373	\$ 433,587	\$ (100,229)	\$ 239,251	\$ 229,542	\$ 29,723
<u>3,368,383</u>	<u>2,934,796</u>	<u>3,035,025</u>	<u>2,795,774</u>	<u>2,566,232</u>	<u>2,536,509</u>
<u>\$ 3,675,756</u>	<u>\$ 3,368,383</u>	<u>\$ 2,934,796</u>	<u>\$ 3,035,025</u>	<u>\$ 2,795,774</u>	<u>\$ 2,566,232</u>
<u>\$ 8,302</u>	<u>\$ (83,624)</u>	<u>\$ 199,307</u>	<u>\$ (75,124)</u>	<u>\$ 187,949</u>	<u>\$ 205,262</u>
99.77%	102.55%	93.64%	102.54%	93.70%	92.59%
\$ 600,244	\$ 505,004	\$ 531,949	\$ 530,913	\$ 504,363	\$ 517,942
1.38%	-16.56%	37.47%	-14.15%	37.26%	39.63%

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF DISTRICT CONTRIBUTIONS – PENSION
SEPTEMBER 30, 2025**

Fiscal Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
2016	\$ 52,202	\$ 70,611	\$ (18,409)	\$ 504,363	14.00%
2017	\$ 49,003	\$ 74,328	\$ (25,325)	\$ 530,913	14.00%
2018	\$ 51,014	\$ 74,473	\$ (23,459)	\$ 531,949	14.00%
2019	\$ 41,965	\$ 76,300	\$ (34,335)	\$ 545,004	14.00%
2020	\$ 48,260	\$ 84,034	\$ (35,774)	\$ 600,244	14.00%
2021	\$ 43,554	\$ 86,613	\$ (43,059)	\$ 618,663	14.00%
2022	\$ 68,706	\$ 95,237	\$ (26,531)	\$ 680,262	14.00%
2023	\$ 65,380	\$ 99,167	\$ (33,787)	\$ 708,338	14.00%
2024	\$ 78,590	\$ 121,174	\$ (42,584)	\$ 865,531	14.00%
2025	\$ 115,916	\$ 115,916	\$ - 0 -	\$ 827,971	14.00%

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

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	0.7 years (based on contribution rate calculated in 12/31/2024 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7% average over career including inflation.
Investment Rate of Return	7.50%, net of administrative and investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 Healthy General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale of 2010.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected. 2022: New investment return and inflation assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the schedule. 2016: No changes in plan provisions were reflected in the schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018-2024: No changes in plan provisions were reflected in the schedule.

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

SEPTEMBER 30, 2025

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u> X </u>	Retail Water	_____	Wholesale Water	_____	Drainage
<u> X </u>	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)				
_____	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective September 10, 2025.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 15.50	2,000	N	\$ 8.50	2,001 and over
WASTEWATER:	\$ 15.50	2,000	N	\$ 5.50	2,000 to 18,000

District employs winter averaging for wastewater usage?

_____	_____
Yes	X No

Total monthly charges per 10,000 gallons usage: Water: \$83.50 Wastewater: \$59.50 Total: \$143.00

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>2,601</u>	<u>2,362</u>	x 1.0	<u>2,362</u>
1"	<u>23</u>	<u>23</u>	x 2.5	<u>58</u>
1½"	<u>13</u>	<u>13</u>	x 5.0	<u>65</u>
2"	<u>37</u>	<u>37</u>	x 8.0	<u>296</u>
3"			x 15.0	
4"	<u>4</u>	<u>4</u>	x 25.0	<u>100</u>
6"	<u>3</u>	<u>3</u>	x 50.0	<u>150</u>
8"	<u>2</u>	<u>2</u>	x 80.0	<u>160</u>
10"			x 115.0	
Total Water Connections	<u><u>2,683</u></u>	<u><u>2,444</u></u>		<u><u>3,191</u></u>
Total Wastewater Connections	<u><u>2,923</u></u>	<u><u>2,624</u></u>	x 1.0	<u><u>2,624</u></u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons pumped into system:	130,627,000	Water Accountability Ratio: 83% (Gallons billed/Gallons pumped and purchased)
Gallons purchased:	104,780,000	From: <u>Baytown Area Water Authority</u>
Total gallons pumped and purchased	235,407,000	
Gallons billed to customers and used for maintenance:	194,420,000	

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

Does the District have Operation and Maintenance standby fees? Yes No

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

Cities in which District is located:

N/A

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

Entirely Partly Not at all

ETJ's in which District is located:

Baytown, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

PERSONNEL EXPENDITURES (Including Benefits)	\$ <u>1,198,975</u>
PROFESSIONAL FEES:	
Auditing	\$ 25,000
Engineering	1,952
Attorney	<u>51,760</u>
TOTAL PROFESSIONAL FEES	\$ <u>78,712</u>
PURCHASED WATER SERVICE	\$ <u>402,417</u>
CONTRACTED SERVICES	
Contract Labor	\$ <u>185,766</u>
UTILITIES	\$ <u>123,852</u>
REPAIRS AND MAINTENANCE	\$ <u>131,168</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 16,184
Insurance	111,793
Office Supplies and Postage	28,497
Travel and Meetings	<u>6,596</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ <u>163,070</u>
CAPITAL OUTLAY	\$ <u>175,957</u>
OTHER EXPENDITURES:	
Chemicals	\$ 64,089
Fuels and Lubricants	22,517
Regulatory Assessment	72,381
Other	<u>37,400</u>
TOTAL OTHER EXPENDITURES	\$ <u>196,387</u>
TOTAL EXPENDITURES	\$ <u>2,656,304</u>

Number of persons employed by the District 13 Full-Time -0- Part-Time

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
OCTOBER 1, 2024	\$	63,518	\$	151,357
Adjustments to Beginning				
Balance		<u>(1,110)</u>	\$	<u>(1,381)</u>
		\$	62,408	\$
				149,976
Original 2024 Tax Levy	\$	455,901	\$	1,021,218
Adjustment to 2024 Tax Levy		<u>42,941</u>	<u>498,842</u>	<u>96,189</u>
				<u>1,117,407</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	561,250	\$
				1,267,383
 TAX COLLECTIONS:				
Prior Years	\$	18,614	\$	47,208
Current Year		<u>466,304</u>	<u>484,918</u>	<u>1,044,521</u>
				<u>1,091,729</u>
 TAXES RECEIVABLE -				
SEPTEMBER 30, 2025		<u>\$</u>	<u>76,332</u>	<u>\$</u>
				<u>175,654</u>
 TAXES RECEIVABLE BY				
YEAR:				
2024	\$	32,538	\$	72,886
2023		15,693		36,094
2022		8,245		22,010
2021		3,978		10,724
2020		3,243		8,872
2019		2,355		6,311
2018		1,742		4,592
2017		1,366		4,292
2016		1,162		1,395
2015		1,084		1,300
2014		808		970
2013		840		1,008
2012		729		948
2011		344		516
2010		419		628
2009		358		537
2008 and prior		<u>1,428</u>		<u>2,571</u>
TOTAL	\$	<u>76,332</u>	\$	<u>175,654</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	2024	2023	2022	2021
PROPERTY VALUATIONS:				
Land	\$ 167,223,835	\$ 153,974,299	\$ 134,453,189	\$ 118,493,938
Improvements	340,126,089	327,338,368	288,599,993	254,137,768
Personal Property	98,899,491	109,414,858	92,840,387	70,714,787
Exemptions	<u>(107,407,096)</u>	<u>(99,820,403)</u>	<u>(95,549,370)</u>	<u>(83,028,037)</u>
TOTAL PROPERTY VALUATIONS	<u><u>\$ 498,842,319</u></u>	<u><u>\$ 490,907,122</u></u>	<u><u>\$ 420,344,199</u></u>	<u><u>\$ 360,318,456</u></u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.224	\$ 0.23	\$ 0.26694	\$ 0.248
Maintenance	<u>0.100</u>	<u>0.10</u>	<u>0.10000</u>	<u>0.092</u>
TOTAL TAX RATES PER \$100 VALUATION	<u><u>\$ 0.324</u></u>	<u><u>\$ 0.33</u></u>	<u><u>\$ 0.36694</u></u>	<u><u>\$ 0.340</u></u>
ADJUSTED TAX LEVY*	<u><u>\$ 1,616,249</u></u>	<u><u>\$ 1,619,993</u></u>	<u><u>\$ 1,542,411</u></u>	<u><u>\$ 1,225,404</u></u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u><u>93.48 %</u></u>	<u><u>96.80 %</u></u>	<u><u>98.04 %</u></u>	<u><u>98.80 %</u></u>

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2025**

S E R I E S - 2 0 1 7

Due During Fiscal Years Ending September 30	Principal Due February 15	Interest Due February 15/ August 15	Total
2026	\$ 375,000	\$ 166,370	\$ 541,370
2027	385,000	154,970	539,970
2028	395,000	143,270	538,270
2029	410,000	131,195	541,195
2030	420,000	118,745	538,745
2031	435,000	105,920	540,920
2032	450,000	92,364	542,364
2033	465,000	77,776	542,776
2034	480,000	62,060	542,060
2035	495,000	45,238	540,238
2036	515,000	27,563	542,563
2037	530,000	9,275	539,275
2038			
2039			
2040			
2041			
2042			
	<u>\$ 5,355,000</u>	<u>\$ 1,134,746</u>	<u>\$ 6,489,746</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2025**

S E R I E S - 2 0 2 2

Due During Fiscal Years Ending September 30	Principal Due February 15	Interest Due February 15/ August 15	Total
2026	\$ 345,000	\$ 185,175	\$ 530,175
2027	360,000	171,075	531,075
2028	370,000	156,475	526,475
2029	385,000	141,375	526,375
2030	400,000	127,675	527,675
2031	415,000	115,450	530,450
2032	425,000	104,975	529,975
2033	430,000	96,425	526,425
2034	440,000	87,725	527,725
2035	450,000	78,825	528,825
2036	460,000	69,725	529,725
2037	470,000	60,425	530,425
2038	480,000	50,925	530,925
2039	490,000	40,919	530,919
2040	500,000	140,177	640,177
2041	510,000	18,406	528,406
2042	520,000	6,175	526,175
	<u>\$ 7,450,000</u>	<u>\$ 1,651,927</u>	<u>\$ 9,101,927</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2025**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2026	\$ 720,000	\$ 351,545	\$ 1,071,545
2027	745,000	326,045	1,071,045
2028	765,000	299,745	1,064,745
2029	795,000	272,570	1,067,570
2030	820,000	246,420	1,066,420
2031	850,000	221,370	1,071,370
2032	875,000	197,339	1,072,339
2033	895,000	174,201	1,069,201
2034	920,000	149,785	1,069,785
2035	945,000	124,063	1,069,063
2036	975,000	97,288	1,072,288
2037	1,000,000	69,700	1,069,700
2038	480,000	50,925	530,925
2039	490,000	40,919	530,919
2040	500,000	140,177	640,177
2041	510,000	18,406	528,406
2042	520,000	6,175	526,175
	<u>\$ 12,805,000</u>	<u>\$ 2,786,673</u>	<u>\$ 15,591,673</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
ANALYSIS OF CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2024
Harris County Water Control and Improvement District No. 1 Unlimited Tax Bonds - Series 2017	\$ 7,850,000	\$ 5,720,000
Harris County Water Control and Improvement District No. 1 Unlimited Tax Bonds - Series 2022	<u>8,150,000</u>	<u>7,780,000</u>
TOTAL	<u>\$ 16,000,000</u>	<u>\$ 13,500,000</u>

Bond Authority:	<u>Tax Bonds</u>
Amount Authorized by Voters	\$ 19,000,000
Amount Issued	<u>19,000,000</u>
Remaining to be Issued	<u>\$ - 0 -</u>

Debt Service Fund cash and investment balances as of September 30, 2025: \$ 1,278,498

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 917,157

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2025</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 365,000	\$ 177,470	\$ 5,355,000	BOKF, NA Austin, TX
	<u>330,000</u>	<u>198,675</u>	<u>7,450,000</u>	BOKF, NA Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 695,000</u>	<u>\$ 376,145</u>	<u>\$ 12,805,000</u>	

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amounts		
	2025	2024	2023
REVENUES			
Property Taxes	\$ 484,918	\$ 481,138	\$ 418,587
Service Revenues	2,920,449	2,853,350	2,896,071
Tap Connection and Inspection Fees	78,257	36,005	50,665
Penalty and Interest	86,661	73,532	70,964
Grant Revenues			348,374
Investment and Miscellaneous Revenues	254,616	280,588	191,617
TOTAL REVENUES	\$ 3,824,901	\$ 3,724,613	\$ 3,976,278
EXPENDITURES			
Personnel	\$ 1,198,975	\$ 1,160,669	\$ 1,049,117
Professional Fees	78,712	150,958	73,655
Contracted Services	185,766	215,397	143,294
Purchased Water Services	402,417	553,537	451,313
Utilities	123,852	140,253	134,485
Repair and Maintenance	131,168	158,422	79,018
Other	359,457	333,703	390,573
Capital Outlay	175,957	37,700	142,694
Debt Service:			
Principal		113,561	109,880
Interest		3,804	7,485
TOTAL EXPENDITURES	\$ 2,656,304	\$ 2,868,004	\$ 2,581,514
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 1,168,597	\$ 856,609	\$ 1,394,764
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ - 0 -	\$ - 0 -	\$ (746,060)
NET CHANGE IN FUND BALANCE	\$ 1,168,597	\$ 856,609	\$ 648,704
BEGINNING FUND BALANCE	4,975,628	4,119,019	3,470,315
ENDING FUND BALANCE	\$ 6,144,225	\$ 4,975,628	\$ 4,119,019

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2022</u>	<u>2021</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
\$ 319,744	\$ 294,559	12.6 %	12.9 %	10.6 %	4.9 %	9.5 %
2,544,078	2,516,216	76.4	76.6	72.8	38.6	81.1
109,945	48,411	2.0	1.0	1.3	1.7	1.6
63,218	62,530	2.3	2.0	1.8	1.0	2.0
3,521,105				8.7	53.4	
<u>24,554</u>	<u>179,892</u>	<u>6.7</u>	<u>7.5</u>	<u>4.8</u>	<u>0.4</u>	<u>5.8</u>
<u>\$ 6,582,644</u>	<u>\$ 3,101,608</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 949,385	\$ 918,143	31.3 %	31.2 %	26.4 %	14.4 %	29.6 %
71,482	80,615	2.1	4.1	1.9	1.1	2.6
178,306	178,716	4.9	5.8	3.6	2.7	5.8
452,361	431,176	10.5	14.9	11.4	6.9	13.9
115,408	110,105	3.2	3.8	3.4	1.8	3.5
130,665	119,613	3.4	4.3	2.0	2.0	3.9
338,106	253,291	9.4	9.0	9.8	5.1	8.2
	111,743	4.6	1.0	3.6		3.6
106,318	102,871		3.0	2.8	1.6	3.3
<u>11,047</u>	<u>14,493</u>		<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.5</u>
<u>\$ 2,353,078</u>	<u>\$ 2,320,766</u>	<u>69.4 %</u>	<u>77.2 %</u>	<u>65.1 %</u>	<u>35.8 %</u>	<u>74.9 %</u>
<u>\$ 4,229,566</u>	<u>\$ 780,842</u>	<u>30.6 %</u>	<u>22.8 %</u>	<u>34.9 %</u>	<u>64.2 %</u>	<u>25.1 %</u>
<u>\$ (2,972,403)</u>	<u>\$ (2,040,992)</u>					
\$ 1,257,163	\$ (1,260,150)					
<u>2,213,152</u>	<u>3,473,302</u>					
<u>\$ 3,470,315</u>	<u>\$ 2,213,152</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2025	2024	2023
REVENUES			
Property Taxes	\$ 1,091,729	\$ 1,112,863	\$ 1,112,286
Penalty and Interest	67,675	58,099	62,466
Investment and Miscellaneous Revenues	69,972	69,180	54,997
TOTAL REVENUES	\$ 1,229,376	\$ 1,240,142	\$ 1,229,749
EXPENDITURES			
Tax Collection Expenditures	\$ 55,571	\$ 67,642	\$ 54,057
Debt Service Principal	695,000	670,000	650,000
Debt Service Interest and Fees	376,945	400,670	422,320
TOTAL EXPENDITURES	\$ 1,127,516	\$ 1,138,312	\$ 1,126,377
NET CHANGE IN FUND BALANCE	\$ 101,860	\$ 101,830	\$ 103,372
BEGINNING FUND BALANCE	1,139,920	1,038,090	934,718
ENDING FUND BALANCE	\$ 1,241,780	\$ 1,139,920	\$ 1,038,090
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,444	2,430	2,431
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,624	2,593	2,595

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2022	2021	2025	2024	2023	2022	2021
\$ 860,915	\$ 803,712	88.8 %	89.7 %	90.4 %	94.8 %	95.5 %
41,417	36,203	5.5	4.7	5.1	4.6	4.3
<u>5,165</u>	<u>2,094</u>	<u>5.7</u>	<u>5.6</u>	<u>4.5</u>	<u>0.6</u>	<u>0.2</u>
\$ 907,497	\$ 842,009	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
\$ 42,026	\$ 40,935	4.5 %	5.5 %	4.4 %	4.6 %	4.9 %
580,000	560,000	56.5	54.0	52.9	63.9	66.5
<u>351,156</u>	<u>238,045</u>	<u>30.7</u>	<u>32.3</u>	<u>34.3</u>	<u>38.7</u>	<u>28.3</u>
\$ 973,182	\$ 838,980	91.7 %	91.8 %	91.6 %	107.2 %	99.7 %
\$ (65,685)	\$ 3,029	<u>8.3 %</u>	<u>8.2 %</u>	<u>8.4 %</u>	<u>(7.2) %</u>	<u>0.3 %</u>
<u>1,000,403</u>	<u>997,374</u>					
\$ 934,718	\$ 1,000,403					
<u>2,411</u>	<u>2,399</u>					
<u>2,573</u>	<u>2,561</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2025**

District Mailing Address - Harris County Water Control and Improvement
District No. 1
125 San Jacinto Avenue
Highlands, Texas 77562

District Telephone Number - (281) 426-2115

Board Members	Term of Office (Elected or Appointed)	Fees of office for the year ended <u>September 30, 2025</u>	Expense reimbursements for the year ended <u>September 30, 2025</u>	<u>Title</u>
Leon R. Mullins	05/2023 05/2027 (Elected)	\$ 3,332	\$ -0-	President/ Investment Officer
John H. Wright, III	05/2025 05/2029 (Elected)	\$ 3,111	\$ -0-	Vice President
Harvey Little	05/2025 05/2029 (Elected)	\$ 3,315	\$ -0-	Secretary
Kenneth Boudreaux	05/2025 05/2029 (Elected)	\$ 3,332	\$ -0-	Treasurer
Michael Angelle, Sr.	05/2023 05/2027 (Elected)	\$ 3,094	\$ -0-	Director

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form: August 21, 2025

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2025**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2025</u>	<u>Title</u>
Johnson Petrov LLP	01/01/18	\$ 40,992	General Counsel
McCall Gibson Swedlund Barfoot Ellis PLLC	10/13/20	\$ 25,000	Auditor
San Jacinto Tax Service	1983	\$ 17,179	Tax Assessor
LJA Engineering	01/01/90	\$ 490,953	Engineer
Linebarger, Goggan, Blair & Sampson, LLC	05/10/16	\$ 21,302	Delinquent Tax Attorney
SAMCO Capital Markets, Inc.	02/08/16	\$ 2,250	Financial Advisor
Mark Taylor	2010	\$ -0-	Investment Officer

See accompanying independent auditor's report.