

VARNER CREEK UTILITY DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2025



**8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566**

THIS PAGE LEFT BLANK INTENTIONALLY.

VARNER CREEK UTILITY DISTRICT
Annual Financial Report
For the Year Ended December 31, 2025

	<u>Page</u>
<u>Financial Section</u>	
Independent Auditor's Report	7-9
Management's Discussion and Analysis	11-16
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	18
Statement of Activities	19
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	20
Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Position.....	21
Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Funds.....	22
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Funds to the Governmental Activities Statement of Activities.....	23
Notes to the Financial Statements.....	26-40

Required Supplementary Information

Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual - General Fund	42
--	----

Supplemental Information Required by Texas Commission on Environmental Quality

TSI-1 Services and Rates.....	44-45
TSI-2 General Fund Expenditures	46
TSI-3 Schedule of Investments	47
TSI-4 Taxes Levied and Receivable.....	48
TSI-5 Long-Term Debt Service Requirements by Years.....	50-51
TSI-6 Changes in Long-Term Bonded Debt	52
TSI-7a Comparative Schedule of Revenues and Expenditures - General Fund - Five Years.....	54-55
TSI-7b Comparative Schedule of Revenues and Expenditures - Debt Service Fund - Five Years.....	56-57
TSI-8 Board Members, Key Personnel, and Consultants.....	58-59

THIS PAGE LEFT BLANK INTENTIONALLY.

FINANCIAL SECTION

THIS PAGE LEFT BLANK INTENTIONALLY.



Independent Auditor's Report

To the Board of Directors
Varner Creek Utility District
West Columbia, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Varner Creek Utility District (the "District"), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Lake Jackson
8 W Way Ct.
Lake Jackson, TX 77566
979-297-4075

El Campo
201 W. Webb St.
El Campo, TX 77437
979-543-6836

Angleton
2801 N. Velasco, Suite C
Angleton, TX 77515
979-849-8297

Bay City
2245 Avenue G
Bay City, TX 77414
979-245-9236



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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information required by the Texas Commission on Environmental Quality is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information required by the Texas Commission on Environmental Quality is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KM&L, LLC

Lake Jackson, Texas
April 15, 2026

THIS PAGE LEFT BLANK INTENTIONALLY.

VARNER CREEK UTILITY DISTRICT

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

As management of the Varner Creek Utility District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2025. We encourage readers to consider this information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 3,095,424. Of this amount, \$ 619,994 (unrestricted net position) may be used to meet the government's ongoing obligations.
- The District's total net position increased by \$ 645,783.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 1,810,405. 33.77% of this total amount, \$ 611,446 (unassigned fund balance) is available for use within the District's fund designation.
- At the end of the current fiscal year, fund balance for the general fund was \$ 617,648. Of this amount, \$ 6,202 is nonspendable leaving an unassigned fund balance of \$ 611,446. The unassigned fund balance represents 37.31% of current general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes).

VARNER CREEK UTILITY DISTRICT

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and water/sewer service revenues. The *governmental activities* of the District include service operations.

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

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

The District maintains three (3) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and Capital Projects Fund; all of which are considered to be major funds.

The fund financial statements can be found on pages 20 through 23 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 40 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget and actual schedule for the General Fund. Required supplementary information can be found on page 42 of this report.

VARNER CREEK UTILITY DISTRICT

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

In addition this report also presents supplementary information required by the Texas Commission on Environmental Quality, which can be found on pages 44 through 59 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 3,095,424 at December 31, 2025.

Net position of \$ 1,450,812 reflects its balance in the net investment in capital assets (e.g., land, water production and distribution facilities, wastewater collection and treatment facilities, drainage facilities, improvements, right to use leased assets and construction in progress), less any debt used to acquire those assets that is still outstanding. The District uses capital assets to provide service to citizens; consequently these assets are not available for future spending.

DISTRICT'S NET POSITION

	<u>2025</u>	<u>2024</u>
Assets:		
Current and other assets	\$ 3,512,816	\$ 3,523,371
Capital assets	<u>6,668,689</u>	<u>6,731,803</u>
Total assets	<u>10,181,505</u>	<u>10,255,174</u>
Total deferred outflows of resources	<u>127,741</u>	<u>163,010</u>
Liabilities:		
Current liabilities	330,427	286,494
Long-term liabilities	<u>5,446,705</u>	<u>6,311,456</u>
Total liabilities	<u>5,777,132</u>	<u>6,597,950</u>
Total deferred inflows of resources	<u>1,436,690</u>	<u>1,370,593</u>
Net Position:		
Net investment in capital assets	1,450,812	876,954
Restricted	1,024,618	937,746
Unrestricted	<u>619,994</u>	<u>634,941</u>
Total net position	<u>\$ 3,095,424</u>	<u>\$ 2,449,641</u>

An additional portion of the District's net position of \$ 1,024,618 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$ 619,994 and may be used to meet the government's ongoing obligations to citizens and creditors.

VARNER CREEK UTILITY DISTRICT

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

Analysis of the District's Operations. Overall the District had an increase in net position of \$ 645,783.

Total revenues for governmental activities were \$ 2,763,952 comprised of program and general revenues. Components of revenues were charges for services of \$ 1,270,893 (45.98%), property taxes of \$ 1,379,559 (49.91%), and investment income of \$ 113,500 (4.11%).

The following table provides a summary of the District's operations for the years ended December 31, 2025 and 2024.

DISTRICT'S CHANGES IN NET POSITION

	<u>2025</u>	<u>2024</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 1,270,893	\$ 849,253
General Revenues:		
Property taxes	1,379,559	1,408,074
Investment income	<u>113,500</u>	<u>66,913</u>
Total revenues	<u>2,763,952</u>	<u>2,324,240</u>
Expenses:		
Service operations	1,890,527	1,482,994
Interest and fiscal charges	<u>227,642</u>	<u>255,898</u>
Total expenses	<u>2,118,169</u>	<u>1,738,892</u>
Change in net position	645,783	585,348
Net position - beginning	<u>2,449,641</u>	<u>1,864,293</u>
Net position - ending	<u>\$ 3,095,424</u>	<u>\$ 2,449,641</u>

Financial Analysis of the District's Funds

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

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

VARNER CREEK UTILITY DISTRICT

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 1,810,405. 33.77% of this total amount \$ 611,446 constitutes *unassigned fund balance*. The remainder of the fund balance is *nonspendable or restricted* to indicate that it is not available for spending because it has already been classified for 1) prepaid expenditures \$ 6,202, 2) debt service \$ 1,091,670, and 3) capital projects \$ 101,087.

The General Fund fund balance decreased by \$ 14,609 during the current fiscal year due to a decrease in property taxes.

The Debt Service Fund fund balance increased by \$ 77,439 due to investment income.

The Capital Projects Fund fund balance decreased by \$ 192,510 during the current fiscal year due to increased need for capital expenditures.

General Fund Budgetary Highlights

The original budget was amended throughout the year. Actual revenues were less than budgetary revenues by \$ 112,736 and actual expenditures were less than budgeted expenditures by \$ 98,127, the District's excess of revenues over expenditures was less than the budgeted amount by \$ 14,609.

Capital Assets

The District's investment in capital assets for its governmental type activities as of December 31, 2025, amounts to \$ 6,668,689 (net of accumulated depreciation/amortization). This investment in capital assets includes land, water production and distribution facilities, waste water collection and treatment facilities, drainage facilities, improvements, right to use leased assets, and construction in progress.

There were \$ 256,742 of capital additions during the current fiscal year.

Capital Assets Net of Accumulated Depreciation/Amortization

	<u>2025</u>	<u>2024</u>
Land	\$ 1,237,554	\$ 1,204,554
Water production and distribution facilities	1,734,901	1,660,580
Waste water collection and treatment facilities	2,566,349	2,675,704
Drainage facilities	1,052,288	1,116,666
Improvements	32,590	-
Right to use leased assets	35,294	74,299
Construction in progress	<u>9,713</u>	<u>-</u>
Net capital assets	<u>\$ 6,668,689</u>	<u>\$ 6,731,803</u>

Additional information on the District's capital assets can be found in Note 5 on page 37 of this report.

VARNER CREEK UTILITY DISTRICT

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

Debt Administration

At the end of the current fiscal year, the District had a total bonded debt of \$ 5,235,000. These bonds will be retired with revenues from property taxes.

Bonds Payable and Components of Debt

	<u>2025</u>	<u>2024</u>
General obligation bonds	\$ 5,235,000	\$ 6,040,000
Lease liability	46,240	62,729
Premium on bonds	<u>165,465</u>	<u>208,727</u>
Total	<u>\$ 5,446,705</u>	<u>\$ 6,311,456</u>

All of the outstanding Bonds of the District payable from its limited taxes are insured and are, therefore, rated "Baa1" by Moody's Ratings ("Moody's"), and "AA" by Standard & Poor's ("S&P").

Additional information of the District's long-term debt can be found in Note 6 on pages 38 through 39.

Economic Factors and Next Year's Budgets and Rates

- The District's total 2026 budgeted revenues and expenses are expected to increase overall with the previous year by nearly \$ 13,000.
- The District expects some growth of operations in 2026 as houses continue being built within the District and the major capital improvement projects are completed.
- Debt service expenditures are expected to be \$ 840,000 for principal and \$ 207,875 for interest in 2026.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Varner Creek Utility District, P.O. Box 265, West Columbia, TX 77486, or call (979) 345-6008.

BASIC FINANCIAL STATEMENTS

VARNER CREEK UTILITY DISTRICT

Statement of Net Position

December 31, 2025

	Total Governmental Activities
Assets:	
Cash and cash equivalents	\$ 2,354,448
Receivables (net of allowance for uncollectibles):	
Taxes	435,327
Due from other governments	715,509
Accounts	1,330
Prepaid expenses	6,202
Capital Assets:	
Land	1,237,554
Water production and distribution facilities, net	1,734,901
Waste water collection and treatment facilities, net	2,566,349
Drainage facilities, net	1,052,288
Improvements, net	32,590
Right to use leased assets, net	35,294
Construction in progress	9,713
Total assets	<u>10,181,505</u>
Deferred Outflows of Resources:	
Deferred outflows of resources	<u>127,741</u>
Total deferred outflows of resources	<u>127,741</u>
Liabilities:	
Accounts and accrued liabilities payable	244,079
Accrued interest payable	78,594
Unearned revenue	7,754
Noncurrent Liabilities:	
Due within one year	900,209
Due in more than one year	4,546,496
Total liabilities	<u>5,777,132</u>
Deferred Inflows of Resources:	
Deferred inflows of resources	<u>1,436,690</u>
Total deferred inflows of resources	<u>1,436,690</u>
Net Position:	
Net investment in capital assets	1,450,812
Restricted For:	
Debt service	1,024,618
Unrestricted	619,994
Total net position	<u>\$ 3,095,424</u>

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

VARNER CREEK UTILITY DISTRICT*Statement of Activities**For the Year Ended December 31, 2025*

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges For Services</u>	<u>Net (Expense) Revenue and Changes in Net Position Governmental Activities</u>
Governmental Activities:			
Service operations	\$ 1,890,527	\$ 1,270,893	\$ (619,634)
Interest and fiscal charges	<u>227,642</u>	<u>-</u>	<u>(227,642)</u>
Total governmental activities	<u>\$ 2,118,169</u>	<u>\$ 1,270,893</u>	<u>(847,276)</u>
General Revenues:			
Property taxes			1,379,559
Investment income			<u>113,500</u>
Total general revenues			<u>1,493,059</u>
Change in net position			645,783
Net position - beginning			<u>2,449,641</u>
Net position - ending			<u>\$ 3,095,424</u>

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

VARNER CREEK UTILITY DISTRICT

Balance Sheet - Governmental Funds

December 31, 2025

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 1,026,536	\$ 1,298,594	\$ 29,318	\$ 2,354,448
Receivables (net of allowance for uncollectibles):				
Taxes	112,214	323,113	-	435,327
Due from other governments	186,712	528,797	-	715,509
Accounts	1,330	-	-	1,330
Due from other funds	-	14,493	71,769	86,262
Prepaid expenditures	6,202	-	-	6,202
	<u>1,332,994</u>	<u>2,164,997</u>	<u>101,087</u>	<u>3,599,078</u>
Total assets	\$ <u>1,332,994</u>	\$ <u>2,164,997</u>	\$ <u>101,087</u>	\$ <u>3,599,078</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:				
Liabilities:				
Accounts and accrued liabilities payable	\$ 137,832	\$ -	\$ -	\$ 137,832
Due to other funds	86,262	-	-	86,262
Customer deposits	106,247	-	-	106,247
Unearned revenue	7,754	-	-	7,754
	<u>338,095</u>	<u>-</u>	<u>-</u>	<u>338,095</u>
Total liabilities	<u>338,095</u>	<u>-</u>	<u>-</u>	<u>338,095</u>
Deferred Inflows of Resources:				
Deferred inflows of resources - property taxes	377,251	1,073,327	-	1,450,578
	<u>377,251</u>	<u>1,073,327</u>	<u>-</u>	<u>1,450,578</u>
Total deferred inflows of resources	<u>377,251</u>	<u>1,073,327</u>	<u>-</u>	<u>1,450,578</u>
Fund Balance:				
Nonspendable:				
Prepaid expenditures	6,202	-	-	6,202
Restricted:				
Debt service	-	1,091,670	-	1,091,670
Capital projects	-	-	101,087	101,087
Unassigned	611,446	-	-	611,446
	<u>617,648</u>	<u>1,091,670</u>	<u>101,087</u>	<u>1,810,405</u>
Total fund balance	<u>617,648</u>	<u>1,091,670</u>	<u>101,087</u>	<u>1,810,405</u>
Total liabilities, deferred inflows of resources, and fund balance	\$ <u>1,332,994</u>	\$ <u>2,164,997</u>	\$ <u>101,087</u>	\$ <u>3,599,078</u>

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

VARNER CREEK UTILITY DISTRICT

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

Total fund balance - governmental funds balance sheet	\$ 1,810,405
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 15,003,155 in assets less \$ 8,334,466 in accumulated depreciation.	6,668,689
Property taxes receivable unavailable to pay for the current period expenditures are unearned in the funds. Unearned property tax revenues for the general fund and the debt service fund amounted to \$ 2,346 and \$ 11,542, respectively.	13,888
Other long-term assets are not available to pay for current year expenditures and, therefore, are not reported in the funds. This is the bond refunding costs, which is amortized over the life of the refunding bonds, or the refunded bonds, whichever is shorter. Net bond refunding costs were \$ 127,741.	127,741
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term liabilities in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was \$ 165,465.	(165,465)
Payables for bond principal are not reported in the funds.	(5,235,000)
Payables for leases are not reported in the funds.	(46,240)
Payables for bond interest are not reported in the funds.	<u>(78,594)</u>
Net position of governmental activities - statement of net position.	<u>\$ 3,095,424</u>

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

VARNER CREEK UTILITY DISTRICT*Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Funds
For the Year Ended December 31, 2025*

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenue:				
Property taxes	\$ 312,151	\$ 1,069,939	\$ -	\$ 1,382,090
Water service	392,608	-	-	392,608
Sewer service	367,932	-	-	367,932
Garbage service	401,406	-	-	401,406
Tap connection and inspection fees	108,947	-	-	108,947
Investment income	41,220	67,802	4,478	113,500
	<u>1,624,264</u>	<u>1,137,741</u>	<u>4,478</u>	<u>2,766,483</u>
Total revenues				
Expenditures:				
Current:				
Purchased services	585,162	-	-	585,162
Professional fees	59,250	-	-	59,250
Contracted services	127,818	9,552	-	137,370
Utilities	38,561	-	-	38,561
Repairs and maintenance	686,484	-	-	686,484
Administrative	63,844	-	-	63,844
Capital Outlay	59,754	-	196,988	256,742
Debt Service:				
Principal	16,489	805,000	-	821,489
Interest and fiscal charges	1,511	245,750	-	247,261
	<u>1,638,873</u>	<u>1,060,302</u>	<u>196,988</u>	<u>2,896,163</u>
Total expenditures				
Net change in fund balance	(14,609)	77,439	(192,510)	(129,680)
Fund balance - beginning	632,257	1,014,231	293,597	1,940,085
Fund balance - ending	<u>\$ 617,648</u>	<u>\$ 1,091,670</u>	<u>\$ 101,087</u>	<u>\$ 1,810,405</u>

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

VARNER CREEK UTILITY DISTRICT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities For the Year Ended December 31, 2025

Change in fund balances - total governmental funds	\$ (129,680)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation/amortization of \$ 319,856 exceeded capital outlay by \$ 256,742 in the current period.	(63,114)
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Unearned property tax revenues for the general fund decreased by \$ 338 and the debt service fund decreased by \$ 2,193.	(2,531)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. These amounts were for general obligation bonded debt of \$ 805,000 and lease liability of \$ 16,489.	821,489
Premium on the issuance of bonds provides current financial resources to the governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Current year amortization was \$ 43,262.	43,262
Deferred refunding costs is another use in the governmental funds, but the costs increase long-term assets in the statement of net position. This amount is amortized over the life of the refunding bonds or the refunded bonds, whichever is shorter. Current amortization was \$ 35,269.	(35,269)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	<u>11,626</u>
Change in net position of governmental activities	<u>\$ 645,783</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

Note	Page
1. Summary of Significant Accounting Policies	26
2. Deposits and Investments	33
3. Receivables, Uncollectible Accounts, Deferred Inflows/Outflows of Resources, and Unearned Revenues	35
4. Interfund Receivables/Payables and Transfers.....	36
5. Capital Assets.....	37
6. Long-Term Debt	38
7. Leases	39
8. Groundwater Conservation District.....	39
9. Operation of Regional Facilities.....	40
10. Risk Pool Participation.....	40
11. Evaluation of Subsequent Events.....	40

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Varner Creek Utility District (the "District") was created by enactment of the Legislature of the State of Texas in 1971. This District operates under Chapter 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the "TCEQ"). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and service to the customers of the District. In 2006, the District was granted the power to repair or maintain streets on a one time basis.

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

Reporting Entity

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation

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

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and the unrestricted resources as needed.

The District has presented the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

The *Debt Service Fund* accounts for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest, and other costs. The primary source of revenue is property taxes.

The *Capital Projects Fund* accounts for the financial resources to construct or acquire capital facilities and improvements. Such resources are derived principally from proceeds of the sale of bonds.

New Pronouncements

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

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - Continued

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

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

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

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

Budgetary Data

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

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

The District adopts annual budgets for the general fund only.

Encumbrance Accounting

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

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the District. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value.

Property Taxes

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

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

In the government funds, property taxes are measurable when levied even though not available. As a result, at December 31, 2025, property taxes receivable and taxes collected in advance have been recorded in the governmental funds. In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

The taxable value of the property tax roll on October 1, 2025, upon which the levy for the 2026 year was based, was \$ 381,726,416. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended December 31, 2025, to finance general fund operations were \$ 0.094986 per \$ 100 valuation and \$ 0.269014 for the debt service fund.

As of December 31, 2025, the District had collected \$ 1,017,115 of the 2025 levy (levied October 1, 2025), which is unearned and has been set aside for 2026 operations. Additionally, property taxes receivable of \$ 419,575 and \$ 20,149 from the 2025 levy and prior year levies, respectively, are recorded as deferred inflows of resources, net of an allowance for uncollectible taxes of \$ 4,397. Allowances for uncollectible taxes are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Standby Fees

In the governmental funds, standby fees are recorded when billed with the uncollected balance recorded as a receivable. Revenues are recorded as levied. In the government-wide statement of net position, standby fees are considered earned in the period they are levied.

Capital Assets

Capital assets, which include property, plant, equipment, are reported in the governmental activities columns in the government-wide financial statement. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets capitalized have an original cost of \$ 5,000 or more and over one year of useful life. Depreciation/amortization, which is an allocation of cost over an asset's estimated service life, has been determined using the straight-line method over the following years:

Water production and distribution facilities	10-45
Waste water collection and treatment facilities	10-45
Drainage facilities	10-45
Improvements	10
Right to use leased assets	5

Deferred Outflows and Inflows of Resources

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

Leases

The District is a lessee for a noncancellable lease of a building. The District recognizes a lease liability and a right to use leased asset (lease asset) in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of \$ 5,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Leases - Continued

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Long-Term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are unearned and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

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

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Balance - Continued

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

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

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

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

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

As of December 31, 2025, nonspendable fund balances include \$ 6,202 for prepaid expenditures in the general fund. Restricted fund balances include \$ 1,091,670 for debt service and \$ 101,087 for capital projects. Unassigned fund balance includes \$ 611,446 in the general fund.

Net Position

Net position represents the differences between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Restricted net position, as presented in the government-wide Statement of Net Position, are reported when constraints placed on the use of net position are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation.

Use of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 2 - DEPOSITS AND INVESTMENTS

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a cash equivalent is one that, when purchased had a maturity date of three months or less. Cash and cash equivalents as reported on the government-wide Statement of Net Position at December 31, 2025 are as follows:

	<u>Total</u>
Cash and Cash Equivalents:	
Financial institution deposits:	
Demand deposits	\$ 173,977
Local Government Investment Pool:	
TexPool	<u>2,180,471</u>
Total cash and cash equivalents	<u>\$ 2,354,448</u>

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At December 31, 2025, the carrying amount of the District’s deposits totaled \$ 173,977, while the financial institution balances totaled \$ 192,158. Of the financial institution balances, \$ 192,158 of the checking accounts was FDIC insured.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds under written investment policy (the “investment policy”) that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The District’s deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Directors. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an “Investment Strategy Statement” that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification, and yield.

Additionally, the soundness of financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District’s investment policy and types of investments are governed by the Public Funds Investment Act (PFIA) and the Texas Commission on Environmental Quality (TCEQ). The District’s management believes it complied with the requirements of the PFIA and the District’s investment policy.

The District’s Administrator submits an investment report each quarter to the Board of Directors. The report details the investment positions of the District and the compliance of the investment portfolio’s as they relate to both the adopted investment strategy statements and Texas State law.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations, including letters of credit, of the U.S. or its agencies and instrumentalities.
2. Certificates of deposit issued by a depository institution that has its main or a branch office in the State and that are guaranteed by the Federal Deposit Insurance Corporation or the National Credit Union Share insurance Fund or its successor that are secured by the obligations in which the Association may invest under the Investment Act.
3. TexPool, an investment pool, provided that it complies with the Investment Act.
4. TexStar, an investment pool, provided that it complies with the Investment Act.

The District invests in TexPool to provide its liquidity needs. TexPool was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. TexPool is rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At December 31, 2025 TexPool had a weighted average maturity of 39 days. Although TexPool portfolios had a weighted average maturity of 39 days, the District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local Government Investment Pool:		
TexPool	\$ <u>2,180,471</u>	39
Total	\$ <u>2,180,471</u>	39

Credit Risk - As of December 31, 2025, TexPool (which represents 100.00% of the investment portfolio) is rated AAA by Standard and Poor's; therefore, the District is exposed to minimal credit risk.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities of the general fund, debt service fund and capital projects fund not exceed one year.

Fair Value - The District categorizes its fair value measurements within the fair value hierarchy established by GASB No 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). As of December 31, 2025, the District had no assets or liabilities within the fair value hierarchy established by GASB No. 72.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES, AND UNEARNED REVENUES

Receivables and Allowances

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Receivables:			
Property taxes	\$ 113,347	\$ 326,377	\$ 439,724
Due from other governments	186,712	528,797	715,509
Accounts	<u>1,330</u>	<u>-</u>	<u>1,330</u>
Gross receivables	301,389	855,174	1,152,166
Less: Allowance for Uncollectible:			
Property taxes	<u>(1,133)</u>	<u>(3,264)</u>	<u>(4,397)</u>
Net total receivable	\$ <u>300,256</u>	\$ <u>851,910</u>	\$ <u>1,152,166</u>

Deferred Inflows of Resources and Unearned Revenues

Governmental Funds

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

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Deferred Inflows of Resources</u>
Current property taxes collected (October 1, 2025 Levy)	\$ 265,417	\$ 751,698	\$ 1,017,115
Current property taxes receivable (October 1, 2025 Levy)	109,488	310,087	419,575
Delinquent property taxes receivable (October 1, 2024 and prior)	<u>2,346</u>	<u>11,542</u>	<u>13,888</u>
Total deferred inflows of resources	\$ <u>377,251</u>	\$ <u>1,073,327</u>	\$ <u>1,450,578</u>

As of December 31, 2025, there were \$ 7,754 unearned revenues reported in the governmental funds.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES, AND UNEARNED REVENUES - Continued

Governmental Activities

Governmental activities defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

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

<u>Governmental Activities</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Bond refunding costs (net of accumulated amortization)	\$ 127,741	\$ -
Current property taxes collected (October 1, 2025 Levy)	-	1,017,115
Current property taxes receivable (October 1, 2025 Levy)	<u>-</u>	<u>419,575</u>
	<u>\$ 127,741</u>	<u>\$ 1,436,690</u>

As of December 31, 2025, there were \$ 7,754 unearned revenues reported in the governmental activities.

NOTE 4 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfund receivables and payables at December 31, 2025 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>12-31-25</u>
Debt Service Fund	General Fund	\$ 14,493
Capital Projects Fund	General Fund	<u>71,769</u>
Total		<u>\$ 86,262</u>

Interfund receivables and payables represent short term borrowing primarily for cash flow purposes.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance 01-01-25</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance 12-31-25</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated/ Amortized:				
Land	\$ 1,204,554	\$ 33,000	\$ -	\$ 1,237,554
Construction in progress	<u>-</u>	<u>9,713</u>	<u>-</u>	<u>9,713</u>
Total capital assets, not being depreciated/amortized	<u>1,204,554</u>	<u>42,713</u>	<u>-</u>	<u>1,247,267</u>
Capital Assets, Being Depreciated/Amortized:				
Water production and distribution facilities	3,995,784	188,275	-	4,184,059
Wastewater collection and treatment facilities	6,615,692	9,004	-	6,624,696
Drainage facilities	2,825,957	-	-	2,825,957
Improvements	20,400	16,750	-	37,150
Right to use leased assets	<u>84,026</u>	<u>-</u>	<u>-</u>	<u>84,026</u>
Total capital assets, being depreciated/amortized	<u>13,541,859</u>	<u>214,029</u>	<u>-</u>	<u>13,755,888</u>
Less Accumulated Depreciation/ Amortization For:				
Waste production and distribution facilities	2,335,203	113,955	-	2,449,158
Wastewater collection and treatment facilities	3,939,988	118,359	-	4,058,347
Drainage facilities	1,709,292	64,377	-	1,773,669
Improvements	2,280	2,280	-	4,560
Right to use leased assets	<u>27,847</u>	<u>20,885</u>	<u>-</u>	<u>48,732</u>
Total accumulated depreciation/ amortization	<u>8,014,610</u>	<u>319,856</u>	<u>-</u>	<u>8,334,466</u>
Governmental activities capital assets, net	<u>\$ 6,731,803</u>	<u>\$ (63,114)</u>	<u>\$ -</u>	<u>\$ 6,668,689</u>

Depreciation/amortization expense of \$ 319,856 was charged to governmental activities in 2025.

The District had no existing contract commitments for construction as of December 31, 2025.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 6 - LONG-TERM DEBT

General Long-Term Debt

General long-term debt consists of general obligation bonds maturing serially.

The following is a summary of the District's general obligation bond debt at December 31, 2025:

	Interest Rates %	Series Dates			Bonds Outstanding 12/31/25
		Issued	Maturity	Callable	
General Obligation Bonds Series 2017 Refunding	2.00 - 4.00	2018	2029	N/A	\$ 2,530,000
General Obligation Bonds Series 2018	3.00 - 4.00	2018	2039	N/A	<u>2,705,000</u>
					<u>\$ 5,235,000</u>

General obligation bond transactions for the year ended December 31, 2025 are as follows:

Bonds outstanding, December 31, 2024	\$ 6,040,000
Maturities	<u>(805,000)</u>
Bonds outstanding, December 31, 2025	<u>\$ 5,235,000</u>

Presented below is a summary of general obligation bond requirements to maturity:

Year Ended December 31,	Principal	Interest	Total
2026	\$ 840,000	\$ 207,875	\$ 1,047,875
2027	880,000	175,025	1,055,025
2028	920,000	140,600	1,060,600
2029	525,000	103,800	628,800
2030	175,000	82,800	257,800
2031-2035	970,000	304,400	1,274,400
2036-2039	<u>925,000</u>	<u>94,200</u>	<u>1,019,200</u>
Total	<u>\$ 5,235,000</u>	<u>\$ 1,108,700</u>	<u>\$ 6,343,700</u>

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 6 - LONG-TERM DEBT - Continued

Changes in Outstanding Debt

Transactions for the year ended December 31, 2025 are summarized as follows:

	<u>Balance</u> <u>01-01-25</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12-31-25</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
General obligation bonds	\$ 6,040,000	\$ -	\$ (805,000)	\$ 5,235,000	\$ 840,000
Lease liability	62,729	-	(16,489)	46,240	16,946
Premium on bonds	<u>208,727</u>	-	<u>(43,262)</u>	<u>165,465</u>	<u>43,263</u>
Total governmental activities	<u>\$ 6,311,456</u>	<u>\$ -</u>	<u>\$ (864,751)</u>	<u>\$ 5,446,705</u>	<u>\$ 900,209</u>

NOTE 7 - LEASES

In 2023, the District entered a five year lease agreement for the lease of a building. Based on this agreement, the District is required to make monthly payments of \$ 1,500. There are no renewal options included in this lease agreement and the District will not purchase the building at the end of the lease term. An initial lease liability related to copiers was recorded in the amount of \$ 84,026 using a 2.736% discount rate. As of December 31, 2025, the lease liability was \$ 46,240 and the value of the right to use leased asset was \$ 84,026 with accumulated amortization of \$ 48,732.

The future principal and interest lease payments for governmental activities as of December 31, 2025 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2026	\$ 16,946	\$ 1,054	\$ 18,000
2027	17,416	584	18,000
2028	<u>11,878</u>	<u>122</u>	<u>12,000</u>
Totals	<u>\$ 46,240</u>	<u>\$ 1,760</u>	<u>\$ 48,000</u>

NOTE 8 - GROUNDWATER CONSERVATION DISTRICT

The District is within the boundaries of the Brazoria County Groundwater Conservation District (the Conservation District). The Conservation District regulates groundwater withdrawal. As of December 31, 2025, the Conservation District was billing the District \$ 0.03 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

VARNER CREEK UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended December 31, 2025

NOTE 9 - OPERATION OF REGIONAL FACILITIES

On December 10, 1975, the District entered into an agreement with the City of West Columbia (the "City") to share the costs of constructing and operating a wastewater treatment plant within the City. The City has oversight responsibilities and holds title for the benefit of the participants. Construction costs were shared based on pro rata share of capacity acquired. The District acquired 50 percent or 500,000 gallons per day of a total 1,000,000 gallons-per-day capacity.

On November 18, 1987, the District and the City agreed to expand the plant's capacity from 1,000,000 gallons per day to 1,600,000 gallons per day, and to extend the agreement for a 30-year period. The District's expanded capacity is 650,000 gallons per day or 40.625 percent ownership of total capacity.

The operating costs are shared based on the percentage of the plant's capacity used. During the current year, the District incurred operating costs of \$ 152,666 under the terms of this contract.

NOTE 10 - RISK POOL PARTICIPATION

The District is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of group liability, property and worker's compensation claims. The District pays annual premiums to the pool for the coverages stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Therefore, the District's exposure for claims is designated to be limited to their deductible.

NOTE 11 - EVALUATION OF SUBSEQUENT EVENTS

This District has evaluated subsequent events through April 15, 2026, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

VARNER CREEK UTILITY DISTRICT

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

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Property taxes	\$ 361,560	\$ 378,000	\$ 312,151	\$ (65,849)
Water service	402,183	398,000	392,608	(5,392)
Sewer service	381,561	377,000	367,932	(9,068)
Garbage service	442,920	411,000	401,406	(9,594)
Tap connection and inspection fees	108,000	125,000	108,947	(16,053)
Investment income	48,000	48,000	41,220	(6,780)
Total revenues	1,744,224	1,737,000	1,624,264	(112,736)
Expenditures:				
Current:				
Purchased services	664,620	577,620	585,162	(7,542)
Professional fees	53,500	72,500	59,250	13,250
Contracted services	124,414	126,450	127,818	(1,368)
Utilities	46,000	46,000	38,561	7,439
Repairs and maintenance	758,595	817,535	686,484	131,051
Administrative	79,095	78,895	63,844	15,051
Capital outlay	-	-	59,754	(59,754)
Debt service:				
Principal	16,489	16,489	16,489	-
Interest and fiscal charges	1,511	1,511	1,511	-
Total expenditures	1,744,224	1,737,000	1,638,873	98,127
Net change in fund balance	-	-	(14,609)	(14,609)
Fund balance - beginning	632,257	632,257	632,257	-
Fund balance - ending	\$ 632,257	\$ 632,257	\$ 617,648	\$ (14,609)

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

VARNER CREEK UTILITY DISTRICT

TSI-1 - Services and Rates

For the Year Ended December 31, 2025

1. Services Provided by the District:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water	\$ 15.00	2,000	Y	\$ 4.55	2,000 to No Limit
Wastewater	\$ 15.00	2,000	Y	4.55 0.31	2,000-10,000 10,001 to No Limit
Regional Water Fee	\$ -0-				

Does the District employ winter averaging for wastewater usage? No

Total charges per 10,000 gallons usage (including fees): Water \$ 49.90 Wastewater \$ 49.90

b. Water and wastewater retail connections:

	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active EFSC</u>
Less than or equal to 3/4"	1,310	1,288	X 1.0	1,288
1"	25	24	X 2.5	60
1.5"	7	3	X 5.0	15
2"	5	4	X 8.0	32
3"	1	0	X 15.0	0
Total Water	1,348	1,319		1,319
Total Wastewater	1,336	1,336	X 1.0	1,336

VARNER CREEK UTILITY DISTRICT

*TSI-1 - Services and Rates - Continued
For the Year Ended December 31, 2025*

3. Total water consumption (in thousands) during the fiscal year:
Gallons pumped into the system: 82,957
Gallons billed to customers: 79,699
Water accountability ratio (gallons billed/gallons pumped): 96.07 %

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees: Yes _____ No X

If yes, date of the most recent Commission Order: _____

Does the District have Operation and Maintenance standby fees: Yes _____ No X

If yes, date of the most recent Commission Order: _____

5. Location of District:

County(ies) in which District is located. Brazoria _____

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

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

City(ies) in which District is located. _____

Is the District located within a city's extra territorial jurisdiction (ETJ)?
Entirely _____ Partly X Not at all _____

ETJ's in which District is located. West Columbia

Are Board members appointed by an office outside the District?
Yes _____ No X

If Yes, by whom? _____

VARNER CREEK UTILITY DISTRICT

TSI-2 - General Fund Expenditures

For the Year Ended December 31, 2025

Purchased services for resale	\$	585,162
Professional fees:		
Auditing		14,500
Legal		13,995
Engineering		30,755
Contracted services:		
Service account billing and collection		77,108
Bookkeeping		50,710
Utilities		38,561
Repairs and maintenance		686,484
Administrative:		
Water meter cell service		15,167
Payroll taxes		1,258
Director's fees		15,470
Office expenses		9,549
Insurance		15,866
Miscellaneous		6,534
Capital outlay		59,754
Debt Service:		
Principal		16,489
Interest and fiscal charges		<u>1,511</u>
Total expenditures	\$	<u>1,638,873</u>

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

VARNER CREEK UTILITY DISTRICT

TSI-3 - Schedule of Investments

December 31, 2025

	Identification or Certification Number	Interest Rate	Maturity Date	Balance at Year End	Accrued Interest Receivable at End of Year
<u>General Fund</u>					
TexPool	XXXXXX0010	3.815%	Demand	\$ 874,926	-
Total				<u>874,926</u>	-
<u>Debt Service Fund</u>					
TexPool	XXXXX0001	3.815%	Demand	1,297,162	-
Total				<u>1,297,162</u>	-
<u>Capital Projects Fund</u>					
TexPool	XXXXX0002	3.815%	Demand	8,383	-
Total				<u>8,383</u>	-
Total - All Funds				<u>\$ 2,180,471</u>	<u>\$ -</u>

VARNER CREEK UTILITY DISTRICT

TSI-4 - Taxes Levied and Receivable

December 31, 2025

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>		
Taxes Receivable, Beginning of Year	\$ 91,325	\$ 316,499		
2025 Original Tax Levy, net of current year adjustments	374,905	1,061,785		
Adjustments (prior years)	<u>(305)</u>	<u>(1,116)</u>		
Total to be accounted for	<u>465,925</u>	<u>1,377,168</u>		
Tax Collections:				
Current year	265,417	751,698		
Prior years	<u>87,161</u>	<u>299,093</u>		
Total collections	<u>352,578</u>	<u>1,050,791</u>		
Taxes Receivable, End of Year	\$ <u>113,347</u>	\$ <u>326,377</u>		
Taxes Receivable, By Years				
2025	\$ 109,488	\$ 310,087		
Prior years	3,859	16,290		
Less allowance for uncollectibles	<u>(1,133)</u>	<u>(3,264)</u>		
Taxes Receivable (Net), End of Year	\$ <u>112,214</u>	\$ <u>323,113</u>		
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Property Valuations:				
Land	\$ 68,998,807	\$ 77,609,248	\$ 77,082,932	\$ 68,621,547
Improvements	326,902,462	338,668,732	300,504,661	220,050,583
Personal property & minerals	9,331,830	7,005,720	5,794,890	4,397,170
Exemptions & adjustments	<u>(23,506,683)</u>	<u>(44,947,657)</u>	<u>(46,047,802)</u>	<u>(17,816,219)</u>
Total Property Valuations	\$ <u>381,726,416</u>	\$ <u>378,336,043</u>	\$ <u>337,334,681</u>	\$ <u>275,253,081</u>
Tax Rates Per \$100 Valuation:				
Debt service tax rates	0.269014	0.281662	0.302678	0.380000
Maintenance tax rates	0.094986	0.082338	0.087322	0.100000
Other district tax rates	<u>None</u>	<u>None</u>	<u>None</u>	<u>None</u>
Total Tax Rates Per \$100 Valuation	\$ <u>0.364000</u>	\$ <u>0.364000</u>	\$ <u>0.390000</u>	\$ <u>0.480000</u>
Original Tax Levy:	\$ <u>1,436,690</u>	\$ <u>1,370,593</u>	\$ <u>1,313,255</u>	\$ <u>1,321,238</u>
Percent of Taxes Collected to Taxes Levied*	70.80%	99.44%	99.84%	99.80%

* Calculated as taxes collected in current and previous years divided by tax levy.

THIS PAGE LEFT BLANK INTENTIONALLY.

VARNER CREEK UTILITY DISTRICT

*TSI-5 - Schedule of Long-Term Debt Service Requirements by Years
December 31, 2025*

Due During Fiscal Years Ending December 31,	Series 2017 Refunding			Series 2018		
	Principal Due August 15	Interest Due February 15, August 15	Total	Principal Due August 15	Interest Due February 15, August 15	Total
2026	\$ 690,000	\$ 101,200	\$ 791,200	\$ 150,000	\$ 106,675	\$ 256,675
2027	725,000	73,600	798,600	155,000	101,425	256,425
2028	760,000	44,600	804,600	160,000	96,000	256,000
2029	355,000	14,200	369,200	170,000	89,600	259,600
2030	-	-	-	175,000	82,800	257,800
2031	-	-	-	180,000	75,800	255,800
2032	-	-	-	185,000	68,600	253,600
2033	-	-	-	195,000	61,200	256,200
2034	-	-	-	200,000	53,400	253,400
2035	-	-	-	210,000	45,400	255,400
2036	-	-	-	220,000	37,000	257,000
2037	-	-	-	225,000	28,200	253,200
2038	-	-	-	235,000	19,200	254,200
2039	-	-	-	245,000	9,800	254,800
Totals	<u>\$ 2,530,000</u>	<u>\$ 233,600</u>	<u>\$ 2,763,600</u>	<u>\$ 2,705,000</u>	<u>\$ 875,100</u>	<u>\$ 3,580,100</u>

Annual Requirements for All Series

Principal Due August 15	Interest Due February 15, August 15	Total
\$ 840,000	\$ 207,875	\$ 1,047,875
880,000	175,025	1,055,025
920,000	140,600	1,060,600
525,000	103,800	628,800
175,000	82,800	257,800
180,000	75,800	255,800
185,000	68,600	253,600
195,000	61,200	256,200
200,000	53,400	253,400
210,000	45,400	255,400
220,000	37,000	257,000
225,000	28,200	253,200
235,000	19,200	254,200
<u>245,000</u>	<u>9,800</u>	<u>254,800</u>
<u>\$ 5,235,000</u>	<u>\$ 1,108,700</u>	<u>\$ 6,343,700</u>

VARNER CREEK UTILITY DISTRICT
TSI-6 - Changes in Long-Term Bonded Debt
For the Year Ended December 31, 2025

	Bonds Issued		
	Series 2017 Refunding	Series 2018	Totals
Interest rates	2.00% to 4.00%	3.00% to 4.00%	
Dates interest payable	February 15/ August 15	February 15/ August 15	
Maturity Dates	August 15, 2019/2029	August 15, 2020/2029	
Bonds outstanding beginning of year	\$ 3,190,000	\$ 2,850,000	\$ 6,040,000
Bonds sold during year	-	-	-
Retirements, principal	<u>660,000</u>	<u>145,000</u>	<u>805,000</u>
Bonds outstanding end of current year	\$ <u>2,530,000</u>	\$ <u>2,705,000</u>	\$ <u>5,235,000</u>
Interest paid during current year	\$ <u>127,600</u>	\$ <u>111,025</u>	\$ <u>238,625</u>

Paying agents name and address:

Series 2017 Refunding - The Bank of New York Trust Company, N.A., Dallas, Texas
 Series 2018 - The Bank of New York Trust Company, N.A., Dallas, Texas

THIS PAGE LEFT BLANK INTENTIONALLY.

VARNER CREEK UTILITY DISTRICT

TSI-7a - Comparative Schedule of Revenues and Expenditures - General Fund
For the Five Years Ended December 31,

	Amounts				
	2025	2024	2023	2022	2021
Revenues:					
Property taxes	\$ 312,151	\$ 304,075	\$ 290,479	\$ 204,588	\$ 185,079
Water service	392,608	371,721	408,712	374,127	312,150
Sewer service	367,932	349,232	364,898	339,770	298,595
Garbage service	401,406	-	-	-	-
Standby fees	-	-	695	5,043	3,991
Tap connection and inspection fees	108,947	121,800	84,850	190,900	127,360
Investment income	41,220	51,903	37,513	9,142	286
Miscellaneous	-	6,500	-	-	675
Total revenues	1,624,264	1,205,231	1,187,147	1,123,570	928,136
Expenditures:					
Current:					
Purchased services	585,162	250,257	263,961	203,648	188,456
Professional fees	59,250	25,099	32,421	28,638	24,206
Contracted services	127,818	96,750	92,314	97,191	86,076
Utilities	38,561	33,940	30,037	29,151	25,967
Repairs and maintenance	686,484	683,818	575,831	657,221	522,381
Administrative	63,844	79,042	77,652	37,865	32,155
Capital outlay	59,754	-	120,926	-	77,951
Debt Service:					
Principal	16,489	16,045	5,252	-	-
Interest and fiscal charges	1,511	1,955	748	-	-
Total expenditures	1,638,873	1,186,906	1,199,142	1,053,714	957,192
Excess (deficiency) of revenues over expenditures	\$ (14,609)	\$ 18,325	\$ (11,995)	\$ 69,856	\$ (29,056)
	(0.9%)	1.5%	(1.0%)	6.2%	(3.1%)

Percentages				
2025	2024	2023	2022	2021
19.2%	25.3%	24.5%	18.3%	20.0%
24.2%	30.8%	34.4%	33.3%	33.6%
22.7%	29.0%	30.7%	30.2%	32.2%
24.7%	0.0%	0.0%	0.0%	0.0%
0.0%	0.0%	0.1%	0.4%	0.4%
6.7%	10.1%	7.1%	17.0%	13.7%
2.5%	4.3%	3.2%	0.8%	0.0%
0.0%	0.5%	0.0%	0.0%	0.1%
100.0%	100.0%	100.0%	100.0%	100.0%
36.0%	20.8%	22.2%	18.1%	20.3%
3.6%	2.1%	2.7%	2.5%	2.6%
7.9%	8.0%	7.8%	8.7%	9.3%
2.4%	2.8%	2.5%	2.6%	2.8%
42.3%	56.7%	48.5%	58.5%	56.3%
3.9%	6.6%	6.5%	3.4%	3.5%
3.7%	0.0%	10.2%	0.0%	8.4%
1.0%	1.3%	0.4%	0.0%	0.0%
0.1%	0.2%	0.1%	0.0%	0.0%
100.9%	98.5%	100.9%	93.8%	103.2%
(0.9%)	1.5%	(0.9%)	6.2%	(3.2%)

VARNER CREEK UTILITY DISTRICT

*TSI-7b - Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Five Years Ended December 31,*

	Amounts				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenues:					
Property taxes	\$ 1,069,939	\$ 1,111,312	\$ 1,113,607	\$ 1,051,271	\$ 1,048,631
Investment income	<u>67,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,137,741</u>	<u>1,111,312</u>	<u>1,113,607</u>	<u>1,051,271</u>	<u>1,048,631</u>
Expenditures:					
Current:					
Contracted services	9,552	7,234	8,271	7,935	7,743
Administrative	-	-	1,500	3,500	3,670
Debt Service:					
Principal	805,000	765,000	740,000	710,000	685,000
Interest and fiscal charges	<u>245,750</u>	<u>272,975</u>	<u>293,525</u>	<u>312,825</u>	<u>333,375</u>
Total expenditures	<u>1,060,302</u>	<u>1,045,209</u>	<u>1,043,296</u>	<u>1,034,260</u>	<u>1,029,788</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 77,439</u>	<u>\$ 66,103</u>	<u>\$ 70,311</u>	<u>\$ 17,011</u>	<u>\$ 18,843</u>

Percentages				
2025	2024	2023	2022	2021
\$ 94.0%	\$ 100.0%	\$ 100.0%	\$ 100.0%	\$ 100.0%
6.0%	0.0%	0.0%	0.0%	0.0%
100.0%	100.0%	100.0%	100.0%	100.0%
0.8%	0.7%	0.7%	0.8%	0.7%
0.0%	0.0%	0.1%	0.3%	0.3%
70.8%	68.8%	66.5%	67.5%	65.4%
21.6%	24.6%	26.4%	29.8%	31.8%
93.2%	94.1%	93.7%	98.4%	98.2%
6.8%	5.9%	6.3%	1.6%	1.8%

VARNER CREEK UTILITY DISTRICT

*TSI-8 - Board Members, Key Personnel, and Consultants
December 31, 2025*

Complete District Mailing Address: PO Box 265
West Columbia, Texas 77486

District Business Telephone Number: (979) 345-6008

Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): 04/02/2026

Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200

<u>Name & Addresses</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees 12-31-25</u>	<u>Expense Reimbursements 12-31-25</u>	<u>Title at Year End</u>	<u>Resident of District?</u>
<i>Board Members:</i>					
Jim Stubbs 242 Canterbury Drive West Columbia, TX 77486	10/23-present	\$ 3,094	-	Vice President	Yes
Keith Barker 9 Canterbury Lane West Columbia, TX 77486	02/22-present	3,536	-	President	Yes
Becky Carroll 235 South Amherst Drive West Columbia, TX 77486	10/13-06/25	1,547	-	-	Yes
Mark Hopkins 143 Laurel Valley West Columbia, TX 77486	07/24-present	3,094	-	Director	Yes
Jody Tielke 1 Evergreen West Columbia, TX 77486	11/24-present	3,094	-	Secretary	Yes
Amy Neal 11 N. Ridgewood Ct. West Columbia, TX 77486	06/25-present	1,105	-	Treasurer	Yes

VARNER CREEK UTILITY DISTRICT

*TSI-8 - Board Members, Key Personnel, and Consultants - Continued
December 31, 2025*

<u>Name</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees 12-31-25</u>	<u>Expense Reimbursements 12-31-25</u>	<u>Title at Year End</u>	<u>Resident of District?</u>
<i>Consultants:</i>					
KM&L, LLC	02/09	\$ 14,500	\$ -	Auditor	No
Baker & Lawson, Inc.	08/02	30,755	-	Engineers	No
1st Capital Business	02/07	125,732	-	Administrator	Yes
Brazoria County Appraisal District		9,552	-	Tax Appraisers	No
Bracewell Law, LLP	02/12	13,995	-	Attorney	No
Ryder & Co.	12/03	660,701	-	Operator	No

THIS PAGE LEFT BLANK INTENTIONALLY