

CALLAHAN COUNTY, TEXAS

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S
REPORT

YEAR ENDED

SEPTEMBER 30, 2025



CALLAHAN COUNTY, TEXAS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable County Judge and
Members of the Commissioners Court of:
Callahan County, Texas

Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Callahan County, Texas (the County) as of and for the year ended September 30, 2025, and the related notes to the financial statement, which collectively comprise the County'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 modified cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of Callahan County, Texas as of September 30, 2025, and the respective changes in modified cash basis financial position for the year then ended on the basis of accounting described in Note 1.

Basis for Opinion

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 County, 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.

Emphasis of Matter—Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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 judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk 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 County'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County'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 our audit.

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2026, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Roberts & McGee, CPA, PLLC

Roberts & McGee, CPA, PLLC

Abilene, Texas
January 27, 2026

CALLAHAN COUNTY, TEXAS
Management's Discussion and Analysis
September 30, 2025

This section of Callahan County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year ended September 30, 2025. This discussion includes comparative data for the prior year. Please read it in conjunction with the basic financial statements and related notes, which follow this discussion.

Financial Highlights

- The County's total combined net position was \$30,190,921 at September 30, 2025. Of this amount, \$3,816,232 is invested in capital assets net of related debt, and \$1,526,198 is restricted for specific purposes. Unrestricted net position is \$24,848,491.
- During the year, the County's expenses were \$5,541,418 less than the \$16,289,636 generated in taxes and other revenues for governmental activities.
- The general fund reported an unassigned fund balance this year of \$8,762,442, which is an increase of \$2,967,186 over the prior year.

Government-Wide Financial Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities on the modified cash basis of accounting.

The two government-wide statements report the County's net position and how they have changed. Net position, the difference between the County's assets and liabilities, is one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the County, one needs to consider additional nonfinancial factors such as changes in the County's tax base.

The government-wide financial statements of the County include the governmental activities. Most of the County's basic services are included here, such as general administration, judicial, public safety, transportation, facilities, and health and welfare services. Property taxes and fees finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the County's most significant funds. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Commissioners' Court establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

CALLAHAN COUNTY, TEXAS
Management's Discussion and Analysis
September 30, 2025

The County has the following kinds of funds:

- Governmental funds – Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- Fiduciary funds – The County is the fiduciary for certain custodial funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All the County's fiduciary activities are Custodial Funds and are reported in a separate statement of fiduciary assets and liabilities – modified cash basis. We exclude these activities from the County's government-wide financial statements because the County cannot use these assets to finance its operation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Callahan County, Texas basic financial statements. The County's basic financial statements consist 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 ANALYSIS

As noted earlier, net position can serve over time as a useful indicator of a government's financial position. In the case of Callahan County, net position was \$30,190,921 at the close of the fiscal year ended September 30, 2025.

Net investments in capital assets (e.g. road and bridge infrastructure; buildings and other improvements; furniture, machinery and equipment; and land), less related debt, represents 12.64% of net position. The County uses these capital assets to provide services to the citizens, and consequently these assets are not available for future spending. Another 5.1% of the County's net position is subject to external restrictions. The remaining balance, \$24,848,491, is unrestricted and available to meet the government's ongoing obligations to citizens and creditors.

CALLAHAN COUNTY, TEXAS
Management's Discussion and Analysis
September 30, 2025

Callahan County's Net Position

	Governmental Activities	
	2025	2024 Restated
Assets		
Current Assets	\$ 14,829,547	\$ 10,680,758
Restricted Assets	10,980,586	12,508,998
Capital Assets	20,682,051	18,503,158
Net pension asset	838,328	447,782
Deferred outflows of resources	604,684	872,829
Total Assets and Deferred Outflows of Resources	47,935,196	43,013,525
Liabilities		
Debt Due Within One Year	949,654	1,109,722
Debt Due in More Than One Year	16,136,890	16,535,895
Deferred inflows of resources	657,731	718,405
Total Liabilities and Deferred Inflows of Resources	17,744,275	18,364,022
Net Position		
Net Investments in Capital Assets	3,816,232	857,541
Restricted	1,526,198	1,432,915
Unrestricted	24,848,491	22,359,047
Total Net position	\$ 30,190,921	\$ 24,649,503

The County's net position increased by \$5,541,418. Since the County presently engages in no business-type activities, governmental activities account for all of the changes in net position at the government-wide reporting level.

Governmental activities: Revenues for the County's governmental activities were \$16,289,636, up by \$366,778 from the prior year, while total expenses were \$10,748,218, down by \$535,341 compared to the prior year. The increase in net position of \$5,541,418 reflects an increase of 22% for the year ended September 30, 2025.

CALLAHAN COUNTY, TEXAS
Management's Discussion and Analysis
September 30, 2025

Callahan County's Changes in Net Position

	Governmental Activities	
	2025	2024 Restated
Program Revenues		
Charges for Services	\$ 1,834,729	\$ 2,228,740
Operating Grants and Contributions	887,502	920,598
Capital Grants and Contributions	88,421.00	1,121,198
General Revenues		
Property and Other Taxes	11,431,027	9,700,171
Investment Income	1,082,948	1,225,017
Gain on Sale of Equipment	501,817	92,243
Miscellaneous Income	463,192	634,891
Total Revenues	16,289,636	15,922,858
Expenses		
General Administration	2,235,109	3,157,200
Judicial	2,122,369	1,273,329
Financial Administration	511,628	606,683
Facilities Maintenance	170,066	468,196
Public Safety	2,046,760	1,962,142
Road and Bridge	2,728,728	2,892,008
Health and Welfare	206,382	226,454
Culture and Recreation	17,704	17,279
Extension Service	300,568	269,065
Interest on Long-term Debt	408,904	411,203
Total Expenses	10,748,218	11,283,559
Increase in Net Position	5,541,418	4,639,299
Net Position - Beginning of Year, restated	24,649,503	20,010,204
Net Position - End of Year	\$ 30,190,921	\$ 24,649,503

FINANCIAL ANALYSIS OF THE GOVERNMENTS FUNDS

As noted earlier, Callahan County uses fund accounting to demonstrate compliance with finance-related legal requirements.

CALLAHAN COUNTY, TEXAS
Management's Discussion and Analysis
September 30, 2025

Governmental funds. The general governmental functions are reported in the General Fund. The focus of Callahan County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing Callahan County's annual financing and budgeting requirements. In particular, unassigned fund balance may serve as useful measure of the County's net resources available for the spending at the end of the fiscal year.

The County's governmental funds reflect a combined fund balance of \$25,810,133 as of September 30, 2025, an increase of \$2,620,377 over the prior year. Of this amount, \$8,793,713 is in the facilities improvement fund. Approximately 33.95% of the combined fund balances for the governmental funds constitutes unassigned fund balance, which is available to meet the County's current and future operating needs. The remainder of the fund balance is assigned or restricted for enabling legislation, capital projects or debt service.

The General Fund is the principal operating fund of the County. At the end of the current fiscal year, the County spent \$6,461,191 on County services, collected revenues and other financing sources of \$9,428,377, netting to a surplus of \$2,967,186. The General Fund had fund balance of \$8,762,442 as of September 30, 2025.

In the Road and Bridge Funds, the County spent \$2,013,484 primarily on fuel, road repairs, and maintenance, \$1,128,663 in capital expenditures, and debt service payments of \$624,644. The County collected revenues and other financing sources of \$4,935,492, netting a \$1,168,701 surplus. Actual revenues and other financing sources were over budget by \$561,499 and actual expenditures were under budget by \$807,2202. The Road and Bridge Fund had a beginning fund balance of \$4,904,161 and ended the year with a balance of \$6,072,862. This fund balance is assigned.

In the Facilities Improvement Fund, the County spent \$1,981,223 primarily on courthouse restoration. The County collected revenues and other financing sources of \$1,070,093 netting a \$911,130 deficit of expenditures over revenues. The Facilities Improvement Fund had a beginning equity balance of \$9,704,843 and ended the year with a balance of \$8,793,713. This fund balance is restricted.

In the Debt Service Fund, the County spent \$707,425 in principal and interest payments on its debts. The County collected revenues of \$785,636 primarily from property taxes netting a \$78,211 increase of revenues over expenditures. The Debt Service Fund had a beginning equity balance of \$265,292 and ended the year with a balance of \$343,503. This fund balance is restricted.

In the ARPA Grant Fund, the County spent \$736,419 on ARPA grant expenditures. The County collected revenues and other financing sources of \$32,894 from interest on grants netting a decrease of revenues over expenditures of \$743,525. This fund balance is restricted.

Fund Budgetary Highlights

The County budget is prepared by the department heads and the County Judge and approved by the Commissioners' Court. The approved budget is used as a management control tool during the year, and appropriations are set at the expenditure type level. Budgetary transfers between expenditure types must be approved by the Commissioners' Court.

During the year, revenues and other financing sources in the General Fund were under the budgetary estimates by \$43,433, and expenditures were less than budgetary estimates by \$3,315,749.

CALLAHAN COUNTY, TEXAS
Management's Discussion and Analysis
September 30, 2025

CAPITAL ASSET AND LONG-TERM DEBT

Capital Assets. At the end of 2025, the County had invested \$20,682,051 in a broad range of capital assets, including land, equipment, buildings, vehicles, and infrastructure. Capital assets are documented in more detail in Note 3.

Callahan County's Capital Assets
(net of depreciation)

	Governmental Activities	
	2025	2024
		Restated
Construction in progress	\$ 15,907,737	\$ 13,744,807
Infrastructure	321,954	321,954
Buildings and improvements	6,743,516	6,743,516
Machinery and equipment	10,421,983	9,825,627
Right of use assets - leases and SBITA	795,954	839,868
Total at Historical Cost	34,191,144	31,475,772
Total Accumulated Depreciation and Amortization	(13,509,093)	(12,972,614)
Net Capital Assets	\$ 20,682,051	\$ 18,503,158

Current year additions to capital outlays amounted to \$3,429,014, and \$908,399 of capital assets were disposed of. Depreciation and amortization expense was \$1,250,121 for the year ended September 30, 2025.

LONG TERM DEBT Long-term debt consists of obligations under notes payable, bonds payable, long term lease liabilities and subscription based information technology arrangements (SBITA). During the year ended September 30, 2025, the net decrease in long-term debt was \$543,042 Long-term debt is documented in more detail in Note 7. A summary of outstanding debt at year end follows.

	Governmental Activities	
	2025	2024
Notes payable	\$ 1,889,786	\$ 1,908,028
Bonds payable	14,255,000	14,625,000
Premium on bonds	594,249	617,105
Long-term liabilities - leases and SBITA	126,784	258,738
	\$ 16,865,819	\$ 17,408,871

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Callahan County Commissioners' Court considered many factors when setting the fiscal year 2025-2026 budget, tax rates, and fees that will be charged for its activities. The key factors that affected the formulation of next year's budget and rates are discussed below.

- The tax rate established for 2025-2026 is \$.529005, compared to \$.551752 for 2024-2025.

Amounts available for appropriation in the General Fund budget for 2025-2026 are \$7,541,297, a decrease of approximately \$2,129,317 over the 2024-2025 original budget of \$9,667,614 Property taxes and increases in fines and fees for services will maintain the fund balance.

CALLAHAN COUNTY, TEXAS
Management's Discussion and Analysis
September 30, 2025

Requests for Information

This financial report is designed to provide a general overview of Callahan County's finances for all of those with an interest in the County's finances. Questions concerning this report or requests for additional financial information should be directed to the Callahan County Auditor's Office, at 100 W. Fourth Street, Suite 102, Baird, TX 79504.

BASIC FINANCIAL STATEMENTS

CALLAHAN COUNTY, TEXAS
Statement of Assets, Liabilities, and Net Position – Modified Cash Basis
September 30, 2025

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 14,829,547
Restricted cash and cash investments	10,980,586
Net pension asset	838,328
Capital assets, net:	
Construction in progress	15,907,737
Infrastructure, net	5,876
Buildings, net	1,335,091
Machinery and equipment, net	3,327,702
Right of use assets - leases and SBITA	<u>105,645</u>
 Total assets	 <u>47,330,512</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred outflows - pensions	586,364
Deferred outflows - OPEB	<u>18,320</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>47,935,196</u>
LIABILITIES	
Due within one year:	
Notes payable	459,999
Bonds payable	385,000
Long-term liabilities - leases and SBITA	104,655
Due in more than one year:	
Notes payable	1,429,787
Bonds payable	14,464,249
Long-term liabilities - leases and SBITA	22,129
OPEB liability	<u>220,725</u>
 Total liabilities	 <u>17,086,544</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred inflows-Pension	607,567
Deferred inflows-OPEB	<u>50,164</u>
 TOTAL DEFERRED INFLOWS OF RESOURCES	 <u>657,731</u>
NET POSITION	
Net investments in capital assets	3,816,232
Restricted for:	
Debt service	343,503
Enabling legislation	1,182,695
Unrestricted	<u>24,848,491</u>
 Total net position	 <u>\$ 30,190,921</u>

The accompanying notes are an integral part of these financial statements.

CALLAHAN COUNTY, TEXAS
Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
Governmental Funds
September 30, 2025

	General Fund	Road and Bridge Fund	Facilities Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 8,790,477	\$ 6,039,070	\$	\$	\$ 14,829,547
Restricted cash and cash investments			8,793,713	2,186,873	10,980,586
Due from other funds		33,792			33,792
Total assets	\$ 8,790,477	\$ 6,072,862	\$ 8,793,713	\$ 2,186,873	\$ 25,843,925
LIABILITIES					
Due to other funds	\$ 28,035	\$	\$ -	\$ 5,757	\$ 33,792
Total liabilities	28,035			5,757	33,792
FUND BALANCE					
Restricted for:					
Capital projects			8,793,713		8,793,713
Debt service				343,503	343,503
Enabling legislation				1,182,695	1,182,695
Special revenue				654,911	654,911
Assigned for:					
Road and Bridge		6,072,862			6,072,862
Unassigned	8,762,442			7	8,762,449
Total fund balance	8,762,442	6,072,862	8,793,713	2,181,116	25,810,133
Total liabilities and fund balances	\$ 8,790,477	\$ 6,072,862	\$ 8,793,713	\$ 2,186,873	\$ 25,843,925

The accompanying notes are an integral part of these financial statements.

CALLAHAN COUNTY, TEXAS
 Reconciliation of Statement of Assets, Liabilities and Fund Balance
 of Governmental Funds to the Statements of Assets, Liabilities and
 Net Position – Modified Cash Basis
 September 30, 2025

Total Fund Balances - Governmental Funds \$ 25,810,133

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of including capital assets is an increase in net position.

Capital Assets	\$ 34,191,144	
Accumulated Depreciation and Amortization	<u>(13,509,093)</u>	20,682,051

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The net effect of including long-term liabilities is a decrease in net position. (16,865,819)

Included on the government-wide financial statements is the recognition of the County's proportionate share of the net pension asset of \$838,328, a deferred inflow of resources of \$607,567 and deferred outflow of resources of \$586,364. The net effect is an increase net position. 817,125

Included on the government-wide financial statements is the recognition of the County's proportionate share of the OPEB liabilities of \$220,725 and a deferred inflow of resources of \$50,164 and deferred outflows of resources of \$18,320. The net effect is a decrease in net position. (252,569)

Net Position of Governmental Activities \$ 30,190,921

The accompanying notes are an integral part of these financial statements.

CALLAHAN COUNTY, TEXAS
Statement of Revenues, Expenditures and Changes in
Fund Balance – Modified Cash Basis – Governmental Funds
For the Year Ended September 30, 2025

	General Fund	Road and Bridge Fund	Facilities Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property taxes	\$ 7,585,027	\$ 2,685,576	\$	\$ 769,626	\$ 11,040,229
Other taxes	390,798				390,798
Licenses and permits	97,866	354,546		108,332	560,744
Intergovernmental revenue and grants	202,484	248,439	-	525,000	975,923
Fines and fees	1,273,985				1,273,985
Investment earnings	372,005	256,805	396,906	57,232	1,082,948
Other revenue	71,128	321,651	68,204	2,209	463,192
Total revenues	<u>9,993,293</u>	<u>3,867,017</u>	<u>465,110</u>	<u>1,462,399</u>	<u>15,787,819</u>
EXPENDITURES					
Current					
General government	1,923,972			88,653	2,012,625
Judicial	1,241,682			903,723	2,145,405
Financial administration	553,179				553,179
Facilities maintenance	227,928				227,928
Public safety	1,720,900			241,882	1,962,782
Road and bridge		2,013,484			2,013,484
Health and welfare	206,382				206,382
Culture and recreation	18,722				18,722
Extension service	302,592				302,592
Capital outlay	181,707	1,128,663	1,981,223	137,421	3,429,014
Debt service					
Debt principal	81,902	552,065		370,000	1,003,967
Debt interest	2,225	72,579		334,100	408,904
Total expenditures	<u>6,461,191</u>	<u>3,766,791</u>	<u>1,981,223</u>	<u>2,075,779</u>	<u>14,284,984</u>
(Deficit) surplus of revenues over expenditures	3,532,102	100,226	(1,516,113)	(613,380)	1,502,835
OTHER FINANCING SOURCES (USES)					
Proceeds from notes payable		615,725			615,725
Proceeds from sale of equipment	67	452,750		49,000	501,817
Transfers in	40,000		604,983		644,983
Transfers out	(604,983)		-	(40,000)	(644,983)
Total other financing (uses) sources	<u>(564,916)</u>	<u>1,068,475</u>	<u>604,983</u>	<u>9,000</u>	<u>1,117,542</u>
NET CHANGE IN FUND BALANCE	2,967,186	1,168,701	(911,130)	(604,380)	2,620,377
FUND BALANCE AT					
BEGINNING OF YEAR, RESTATED	<u>5,795,256</u>	<u>4,904,161</u>	<u>9,704,843</u>	<u>2,785,496</u>	<u>23,189,756</u>
FUND BALANCE AT END OF YEAR	<u>\$ 8,762,442</u>	<u>\$ 6,072,862</u>	<u>\$ 8,793,713</u>	<u>\$ 2,181,116</u>	<u>\$ 25,810,133</u>

The accompanying notes are an integral part of these financial statements.

CALLAHAN COUNTY, TEXAS
 Reconciliation of Statement of Revenues, Expenditures and
 Changes in Fund Balance of Governmental Funds to the Statement of
 Revenues, Expenses and Changes in Net Position – Modified Cash Basis
 For the Year Ended September 30, 2025

Total Net Change in Fund Balances - Governmental Funds	\$	2,620,377
<p>Current year capital outlays and debt principal payments are expenditures in the fund financial statements, but they are reflected as an increase in capital assets and a decrease in long-term liabilities in the government-wide financial statements. The net effect of removing the capital outlay of \$3,429,014 and debt principal payments of \$1,135,921 is to increase net position.</p>		
		4,564,935
<p>Depreciation and amortization is not recognized as an expenditure in governmental funds since it does not require the use of current financial resources. The net effect of recording the current year's depreciation and amortization is to decrease net position.</p>		
		(1,250,121)
<p>Amortization of premiums on bond issuance are a decrease to net position in the government-wide financial statements.</p>		
		22,856
<p>The issuance of notes payable is reported as other financing sources in the fund financial statements but is reflected as an increase in long-term debt in the government-wide financial statements.</p>		
		(615,725)
<p>The County's share of the unrecognized deferred inflows and outflows for the pension liability and the OPEB liability as of the measurement date must be amortized and the County's proportionate share of the pension expense and postemployment benefits must be recognized. The net effect is an increase in net position.</p>		
		199,096
Change in Net Position of Governmental Activities	\$	5,541,418

The accompanying notes are an integral part of these financial statements.

CALLAHAN COUNTY, TEXAS
Statement of Fiduciary Net Position
Custodial Funds – Modified Cash Basis
September 30, 2025

	<u>Custodial Funds</u>
ASSETS	
Cash and cash investments:	
District Clerk	\$ 919,639
County Clerk	46,875
County Attorney	6,707
Justice of Peace	63,977
Tax Assessor Collector	<u>854,113</u>
Total assets	<u>1,891,311</u>
 FIDUCIARY NET POSITION	
Restricted for individuals, organizations and other governments	<u>1,891,311</u>
Total net position	<u><u>\$ 1,891,311</u></u>

The accompanying notes are an integral part of these financial statements.

CALLAHAN COUNTY, TEXAS
Statement of Changes in Fiduciary Net Position
Custodial Funds – Modified Cash Basis
For the Year Ended September 30, 2025

	Custodial Funds
ADDITIONS	
Tax and fee collections for other governments	\$ 36,768,741
Bond collections	24,015
Restitution collections	213,525
Interest income	367
Other collections	14,500,321
Total Additions	51,506,969
 DEDUCTIONS	
Payments of tax and fees to others	36,689,875
Restitutions payments	214,921
Distribution of bond payments	50,949
Other deductions	13,906,969
Total Deductions	50,862,714
 Change in net position	 644,255
 Fiduciary Net Position - beginning	 1,247,056
Fiduciary Net Position - ending	\$ 1,891,311

The accompanying notes are an integral part of these financial statements.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The authority of county governments and their specific functions and responsibilities are created by and are dependent upon laws and legal regulations of the Texas State Constitution and Vernon's Annotated Civil Statutes (V.A.C.S.). Callahan County, Texas (the County) operates under a county judge/commissioners' court type of government as provided by state statute. The financial statements are presented on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP).

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the County's financial activities for the fiscal year ended September 30, 2025.

The County's major activities or functions include public safety, public health and welfare services, construction and maintenance of roads and bridges, and general administrative services. The Commissioners' Court has governance responsibilities over all activities related to the County. The County receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Because members of the Commissioners' Court are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters, the County is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14, "The Financial Reporting Entity". There are no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements. The statement of assets, liabilities and net position and the statement of revenues, expenses and changes in net position – modified cash basis include the financial activities of the overall government, except for fiduciary activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

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

The government reports the following major governmental funds:

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

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Road and Bridge Fund – This fund is a special revenue fund that is used to account for resources used by the County in connection with providing transportation services to its citizens.

Facilities Improvement Fund - This fund is a capital project fund that is used for the restoration of the County building and the expansion of the annex.

Additionally, the government reports the following nonmajor governmental fund types:

Debt Service Fund – The County uses this fund to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Fund – This fund accounts for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Special Revenue Funds – The County uses these funds to account for the proceeds of specific revenue sources, including grant funding (other than special assessments, expendable trusts, or major capital projects) that are restricted, committed, or assigned to expenditures for specified purposes.

The County reported the following fiduciary fund:

Custodial Funds – These funds are used to report funds of the County's offices and other resources held in a purely custodial capacity. Custodial funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. Fees are generated and retained by the fee offices until notification received to disburse funds to the proper individual or entity. Fees generated include fines, restitution, bail bond deposits, and inmate trust funds. Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a custodial capacity and are therefore not available to support County programs, these funds are not included in the government-wide statements.

Measurement Focus and Basis of Accounting

In the government-wide financial statements, activities are presented using the *economic resources* measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position and financial position. Capital assets, long-term liabilities and their associated activities are reported. Equity is classified as net position.

In the governmental fund financial statements, the *current financial resources* measurement focus is used, within the limitations of modified cash basis of accounting. Only current financial assets and liabilities are included on the funds balance sheets. The operating statements present sources and uses of available spendable financial resources for the current period. These funds use fund balances as their measure of available spendable financial resources at the end of the period.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The County prepares its financial statements (both government-wide financial statements as well as fund financial statements) on the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues and expenditures when they result from cash transaction, with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as taxes receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expense for goods or services received but not yet paid, and other accrued expenses and liabilities are not recorded in these financial statements.

If the County utilized the basis of accounting recognized as generally accepted accounting principles, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fiduciary fund financial statements and the governmental-wide financial statements would be presented using the accrual basis of accounting.

It is the County's policy to first use restricted net position prior to the use of unrestricted net position when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

Separate funds are established to account for revenues and expenditures pertaining to separate identifiable functions of the County. Governmental funds do not include funds held by County offices which are not yet remitted to the County Treasurer. County funds are amounts which have been received by the County Treasurer and which are subject to control by the Commissioners' Court. The remaining funds held by other County offices are reported as fiduciary fund types.

Cash and Cash Equivalents

Highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Property Taxes

Property taxes are levied on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

Legislation has been passed by the Texas Legislature that affects the methods of property assessment and tax collection in the County. This legislation, with certain exceptions, exempts intangible personal property, household goods and family-owned automobiles from taxation. In addition, this legislation creates a "Property Tax Code" and provides for the establishment of countywide Appraisal Districts and for the State Property Tax Board, which commenced operation in January 1980.

Callahan County Appraisal District appraises and assesses property values in the County. The Callahan County Tax Assessor-Collector collects the County's property taxes. The County Appraisal District is required under the Property Tax Code to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Beginning January 1, 1984, the value of property within the Appraisal District must be reappraised every three years.

The County may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the County continues to set tax rates on County property. However, if the effective tax rates for bonds and other contractual obligations and adjustments for new improvements, exceed the rate for the previous year by more than 8%, qualified voters of the County may petition for an election to determine whether to limit the tax rate to no more than 8% above the effective tax rate of the previous year.

The County is permitted by Article 8, Section 9 of the State of Texas Constitution to levy taxes up to \$0.80 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The tax rate assessed for the year ended September 30, 2025 by the County was \$0.551752 per \$100 valuation, which includes tax rates for maintenance and operations of \$0.37360, debt service rate of \$0.039552, and roads and bridges of \$0.138600.

The County's taxes on real property are a lien against such property until paid. The County may foreclose real property upon which it has a lien for unpaid taxes. Although the County makes little effort to collect delinquent taxes through foreclosure proceedings, delinquent taxes on property not otherwise collected are generally paid when there is a sale or transfer on property.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of management's estimates. Actual results could differ from those estimates.

Budgetary Policies

The County follows these procedures in establishing budgetary data reflected in the financial statements: Public hearings are conducted at the Callahan County Courthouse to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through adoption of an order by the Commissioners' Court. Any amendments, which alter expenditures of any department, must be approved by the Commissioners' Court. Budgets for the various funds are adopted on a basis consist with the modified cash basis of accounting. The budgeted amounts presented in these statements are as originally adopted and as amended by the Commissioners' Court during the year ended September 30, 2025. All appropriations lapse at year end.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. A capitalization threshold of \$5,000 is used by the County. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	3-22 years
Infrastructure	20-45 years
Machinery and equipment	3-20 years

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Right to use lease assets and subscription based information technology arrangement assets (SBITA assets) are recognized at the lease commencement date and represent the County's right to use an underlying asset for the lease term. Right to use SBITA and leased assets are measured at the initial value of the lease liability and SBITA liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Right to use leased assets and SBITA assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period for the equipment leases range from 3 years.

Pensions

The fiduciary net position of the Texas County & District Retirement System (TCDRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension asset, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TCERS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

The fiduciary net position of the TMRS Group Term Life Program (GTLT) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities and additions to/deductions from GTLP's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Lease Liability and SBITA

Lease liabilities and SBITA liabilities represent the County's obligation to make lease payments arising from the lease and the SBITA. Lease liabilities and SBITA are recognized at the commencement date based on the present value of future payments expected to be made during the term. The present value of payments are discounted based on a borrowing rate determined by the U.S. Treasury risk-free rate or an implicit interest rate.

Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has deferred outflows of resources for the differences between projected and actual earnings for its pension plan and contributions made to the pension plan after the measurement date, but before the end of the fiscal year. Deferred outflows are also recorded related to the County's OPEB liability

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has deferred inflows of resources for the differences in actual and projected earnings and changes in assumptions related to the valuation of the net pension liability and the OPEB liability.

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

Three general valuation techniques may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different classification of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

Nonspendable fund balance category is associated with inventories, prepaid expenditures, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted fund balance category includes amounts that can be spent for only the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. At September 30, 2025, the restricted fund balance is composed of the following:

Nonmajor Governmental Funds	
Historical Commission	\$ 9,682
Historical Commission CD	17,114
Bad Check Processing	1,587
Records Management - CC	129,642
Callahan Co. Seizure Acct.	2,587
Callahan Co. Clerk Record Archives	27,740
Callahan Co. Management and Preservation	167
Callahan Co. Law Library	39,345
Callahan Co. Vital Statistics Fees	676
Courthouse Security	110,496
Co. & District Clerk Court Technology	36,145
District Clerk Records Management	51,461
Sheriff's Dept. Forfeiture	17,874
Co. Atty. Forfeiture Fund	3,308
Co. Attorney's Pre-Trial	6,451
District Clerk Records Technology	20,259
C. Health Care Saving	3,718
Callahan Co. Library Fund	1,008
Election Fund	15,048
Callahan Co. Escrow Fund	650,000
Callahan Co. Language AC	5,313
Callahan CO Dispute Resolution	14,746
Callahan Co Court Facility	18,328
Grant Funds	654,911
Debt Service Fund	343,503
Capital Project Fund	<u>8,793,713</u>
Total restricted fund balance	<u>\$ 10,974,822</u>

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Commissioners' Court (The County's highest level of decision-making authority).

Assigned fund balance classification is intended to be used by the County for specific purposes but does not meet the criteria to be classified as restricted or committed. This includes amounts constrained for a specific purpose by the Commissioners' Court or by the County Treasurer who has been delegated by official action the authority to assign amounts. At September 30, 2025, the assigned fund balance for the road and bridge fund totaled is \$6,072,862.

Unassigned fund balance is the residual classification for the County's general fund and includes all spendable amounts not contained in the other classifications.

Order of Fund Balance Spending Policy

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:

- 1) Restricted; 2) Committed; 3) Assigned; and 4) Unassigned.

NOTE 2: DEPOSITS AND INVESTMENTS

The funds of the County must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the County's agent bank in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in: (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 2: DEPOSITS AND INVESTMENTS – continued

The County’s investments consist of the following at September 30, 2025:

	Fair Value	Maturity	Quality Rating
Texpool	\$ 16,398,533	<60 days - Weighted Avg.	AAAm
Texpool Prime	6,514,332	<60 days - Weighted Avg.	AAAm
Certificate of Deposit	17,114	NA	NA
	<u>\$ 22,929,979</u>		

Local government investment pools operate in a manner consistent with SEC’s Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is approximately the same as the value of the shares in each pool. The pools manage their exposure to declines in fair values by limiting the weighted average maturity of their investment portfolios to 60 days, and they seek to maintain a constant dollar objective.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the County has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the County’s deposits may not be returned to it. The County was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2025 were covered by depository insurance or by pledged collateral held by the County’s agent bank in the County’s name.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the County will not be able recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form.

Interest Rate Risk – In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. The weighted average days to maturity for the operating fund portfolio shall be less than 270 days and the maximum allowable maturity shall be no longer than two years. General Fund balances at the end of the fiscal year shall have a maximum allowable maturity not to exceed three years. County funds that are considered “bond proceeds” for arbitrage purposes shall have a maximum maturity not to exceed one year. Special revenue funds are legally restricted to expenditures for a particular purpose under the direction of a certain department. They may be invested in compliance with this Policy and all applicable laws, subject to cash flow requirements with maximum maturity not to exceed three years. Custodial funds are to be invested not to exceed ninety days. Registry funds maturity are not to exceed court order limits.

Other Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County invests only in issues permitted by state law. To minimize credit risk, TexPool’s investment policy allows the portfolio’s investment manager to only invest in obligations of the U.S. Government, its agencies; repurchase agreements; and no-load AAA money market mutual funds registered with the SEC, TexPool is rated AAA by Standard & Poor’s. It is the County’s policy to diversify its portfolio to eliminate the risk of loss resulting from the concentration of assets in a specific maturity, a specific issuer, or a specific class of investments.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 3: CAPITAL ASSETS

The changes in capital assets for the year ended September 30, 2025 are as follows:

	Balance October 1, 2024	Additions	Retirements	Balance September 30, 2025
Governmental Activities:				
Nondpreciable assets				
Construction in progress	\$ 13,744,807	\$ 2,162,930	\$ -	\$ 15,907,737
Total nondepreciable assets	<u>13,744,807</u>	<u>2,162,930</u>	<u>-</u>	<u>15,907,737</u>
Depreciable assets				
Infrastructure	321,954			321,954
Buildings and improvements	6,743,516			6,743,516
Machinery and equipment	9,825,627	1,266,084	(669,728)	10,421,983
Right of use assets - Leases & SBITA	<u>839,868</u>		<u>(43,914)</u>	<u>795,954</u>
Total depreciable assets	<u>17,730,965</u>	<u>1,266,084</u>	<u>(713,642)</u>	<u>18,283,407</u>
Less accumulated depreciation and amortization				
Infrastructure	(314,694)	(1,384)		(316,078)
Buildings and improvements	(5,148,972)	(259,453)		(5,408,425)
Machinery and equipment	(6,893,870)	(870,139)	669,728	(7,094,281)
Right of use assets - Leases & SBITA	<u>(615,078)</u>	<u>(119,145)</u>	<u>43,914</u>	<u>(690,309)</u>
Total accumulated depreciation and amortization	<u>(12,972,614)</u>	<u>(1,250,121)</u>	<u>713,642</u>	<u>(13,509,093)</u>
Governmental activities capital assets	\$ <u>18,503,158</u>	\$ <u>2,178,893</u>	\$ <u>-</u>	\$ <u>20,682,051</u>

Depreciation and amortization expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General administration	\$ 393,346
Public safety	87,738
Road and bridge	<u>769,037</u>
	\$ <u>1,250,121</u>

NOTE 4: RISK MANAGEMENT

A. Compensation

During the year ended September 30, 2025, employees of the County were covered by a worker's compensation plan administered by the Texas Association of Counties. The County paid contributions of \$30,321 for the year ended September 30, 2025.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 4: RISK MANAGEMENT – continued

B. Health Care

During the year ended September 30, 2025, employees of the County were covered by a health insurance plan (the Plan). The County paid monthly premiums of \$926 per employee totaling \$718,154 for the year ended September 30, 2025. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Code and was documented by contractual agreement.

C. Risk of Loss

The County has obtained insurance coverage for general liability and property coverage through the purchase of commercial insurance. The County does not bear the risk of loss under these policies, with the exception of any deductibles required. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 5: PENSION PLAN

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit plan in the statewide Texas County and District Retirement System (TCDRS). The Commissioners are responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of nearly 800 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (ACFR) on a calendar year basis. The ACFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Benefits Provided

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members employed by the County can retire at age 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 contributions in the plan to receive any employer-financed benefit.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer 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. There are no automatic post-employment benefit changes, including automatic COLA's. Ad hoc post-employment benefit changes, including ad hoc COLA's, can be granted by the County Commissioners within certain guidelines.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 5: PENSION PLAN – continued

Membership

County membership in the TCDRS plan at December 31, 2024 consisted of the following:

Inactive Employees Receiving Benefits	51
Inactive Employees Not Yet Receiving Benefits	80
Total	<u>131</u>
 Active Employee Accounts	 73

Contributions

The County has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

Contribution Rates and Amounts

	<u>3 Months Ended</u>	<u>9 Months Ended</u>
	<u>December 31, 2024</u>	<u>September 30, 2025</u>
Member	6.0%	6.0%
Employers	4.53%	4.53%
 Member Contributions	\$ 54,702	\$ 188,656
Employer Contributions	41,300	142,435

Actuarial Assumptions

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

Valuation Date	December 31, 2024
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	16.2years
Asset Valuation Method	5 year smoothed market
Discount rate	7.60%
Long-term expected Investment Rate of Return*	7.50%
Salary Increases*	4.70%, average
Payroll Growth Rate	3.00%

**Includes Inflation of 2.50%*

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 5: PENSION PLAN – continued

The demographic assumptions were developed from an actuarial 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.

Refer to the most recent ACFR issued by TCDRS for a complete discussion of all assumptions.

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. There was no change in the discount rate since the previous year.

In order to determine the discount rate to be used, we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. This alternative method reflects the funding requirements under our 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) Any increased cost due to the adoption of a cost-of-living adjustment 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 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. 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 7.5%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

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 2024 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. The actuary relies on the expertise of Cliffwater in this assessment.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 5: PENSION PLAN – continued

Best estimates of geometric real rates of return for each major asset class included in the target asset allocation are summarized below:

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expected minus inflation)
US Equities	Dow Jones US Total Stock Market Index	13.00%	5.35%
Gobal Equities	MSCI World (net) Index	4.00%	5.15%
International Equities – Developed	MSCI Work (net) Index Ex USA	6.00%	4.75%
International Equities – Emerging	MSCI EM Standard (net) index	0.00%	4.75%
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	2.55%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.70%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.85%
Distressed Debt	Cambridge Associates Distressed Securities Index	4.00%	6.80%
REIT Equities	67% FTSE NAREIT Equity REIT's Index + 33% FRSE EPRA/NAREIT Global Rate Estate Index	2.00%	3.95%
Master Limited Partnerships	Alerian MLP Index	2.00%	4.95%
Commodities	Bloomberg Commodities Index	2.00%	1.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	6.00%	5.75%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	25.00%	8.15%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	3.60%
Cash Equivalents	90-Day U.S. Treasury	2.00%	1.10%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At September 30, 2025, the County has a net pension asset of \$838,328 for its proportionate share of the TCDRS' net pension liability measured at December 31, 2024. For the year ended September 30, 2025, the County recorded pension benefit of \$46,996.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability (asset) during the measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability (asset) during the measurement period.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 5: PENSION PLAN – continued

Changes in the net pension asset for the year ended December 31, 2024 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a)-(b)
Changes in Net Pension Liability			
Balance at December 31, 2023	\$ 8,320,799	\$ 8,768,581	\$ (447,782)
Changes for the year:			
Service Cost	254,961		254,961
Interest on total pension liability	633,232		633,232
Effect of plan changes	-		-
Effect of economic/demographic gains or losses	(69,026)		(69,026)
Effect of assumptions changes or inputs			-
Refunds of contributions	(70,366)	(70,366)	-
Benefit payments	(426,257)	(426,257)	-
Administrative expenses		(5,161)	5,161
Member contributions		188,656	(188,656)
Net investment income		890,298	(890,298)
Employer contributions		142,435	(142,435)
Other		(6,516)	6,516
Balance as of December 31, 2023	\$ 8,643,343	\$ 9,481,670	\$ (838,327)

Discount Rate Sensitivity Analysis

The following presents the net pension liability/(asset) of the County, calculated using the discount rate of 7.60%, as well as what the County's net pension liability(asset) 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 in Discount Rate (6.60%)	Discount Rate (7.60%)	1% Increase in Discount Rate (8.60%)
Total Pension Liability	\$ 9,522,133	\$ 8,643,344	\$ 7,882,544
Fiduciary Net Position	(9,481,671)	(9,481,671)	(9,481,672)
Net Pension Liability/ (Asset)	\$ 40,462	\$ (838,327)	\$ (1,599,128)

At December 31, 2024, the County has deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Recourses	Deferred Inflows of Recourses
Differences between expected and actual economic experience	\$ 464,273	\$ 561,551
Changes in actuarial assumptions		-
Differences between projected and actual investment earnings	17,559	46,016
Contributions subsequent to the measurement date	104,532	
Total	\$ 586,364	\$ 607,567

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 5: PENSION PLAN – continued

\$104,532 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset for the year ended September 30, 2025. The net amounts of the employer’s balances of deferred outflows and inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized as pension expense as follows:

Year Ended December 31:		
2025	\$	(84,556)
2026		107,026
2027		(102,104)
2028		(46,101)
Thereafter		
	\$	<u>(125,735)</u>

NOTE 6: OTHER POST EMPLOYMENT BENEFIT LIABILITY – TCDRS GROUP TERM LIFE

The County participates in the multiple-employer defined benefit group-term life insurance plan operated by the Texas County & District Retirement System known as the Group Term Life (GTL) program. The GTL program is treated as an unfunded trust, because the GTL trust covers both actives and retirees and is not segregated.

The GTL program does not qualify as an OPEB Trust in accordance with paragraph 4 of GASB Statement Number 75 because the assets of the GTL fund can be used to pay active GTL benefits which are not part of the OPEB plan. For GASB 75 purposes, this OPEB plan is not a cost sharing plan, so the annual benefit payments are treated as being equal to the employer’s actual retiree GTL contributions for the year.

The GTL plan provides a \$5,000 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the retirees GTL program. The OPEB benefit is a fixed \$5,000 lump sum benefit. No future increases are assumed in the \$5,000 benefit.

Employees covered by benefit terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the GTL:

Inactive employees or beneficiaries currently receiving benefits	43
Inactive employees entitled to but not yet receiving benefits	19
Active employees	73

OPEB Liability

The County’s total OPEB liability related to the TCDRS GTL program, measured as of December 31, 2024 was \$220,725, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The OPEB liability related to the County’s GTL program were determined using the Entry Age Normal actuarial cost method. The actuarially determined contributions rates were calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions were reported.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 6: OTHER POST EMPLOYMENT BENEFIT LIABILITY – TCDRS GROUP TERM LIFE – continued

The significant actuarial methods and assumptions are as follows:

Amortization Method	Straight-Line amortization over Expected Working Life
Investment Rate of Return	4.08% - 20 Year Bond GO Index published by bondbuyer.com as of December 26, 2024
Mortality: Depositing Members	135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% 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 Healthy Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Healthy Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Disabled retirees	160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

The actuarial assumptions used in the December 31, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2017 to December 31, 2020.

Changes in OPEB Liability	Total OPEB Liability (a)
Balance as December 31, 2023	\$ 236,746
Changes for the year:	
Service cost	8,739
Interest on total OPEB liability	7,860
Change of benefit terms	
Difference between expected and actual experience	2,443
Changes in assumptions or other inputs	(26,259)
Benefit payments	(8,804)
Other changes	
Net Changes	<u>(16,021)</u>
Balance as of December 31, 2024	<u><u>\$ 220,725</u></u>

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 6: OTHER POST EMPLOYMENT BENEFIT LIABILITY – TCDRS GROUP TERM LIFE – continued

Sensitivity of the OPEB Liability to changes in the discount rate

The following presents the OPEB liability of the County, calculated using the discount rate of 4.08%, as well as what the County’s OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.08%) or 1-percentage-point higher (5.08%) than the current rate:

	1% Decrease in Discount Rate (3.08%)	Discount Rate (4.08%)	1% Increase in Discount Rate (5.08%)
County's OPEB Liability	\$ 253,423	\$ 220,725	\$ 194,406

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended September 30, 2025, the County recognized OPEB expense of \$2,159.

At September 30, 2025, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Recourses	Deferred Inflows of Recourses
Differences between expected and actual economic experience	\$ 3,743	\$ 4,863
Changes in actuarial assumptions	8,704	45,301
Differences between projected and actual investment earnings		
Contributions subsequent to the measurement date	5,873	
Total	<u>\$ 18,320</u>	<u>\$ 50,164</u>

The deferred outflows balance includes contributions subsequent to the measurement date of \$5,873. This amount will be recognized as a reduction of the OPEB liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	
2025	\$ (14,734)
2026	(14,735)
2027	(3,484)
2028	(4,764)
Thereafter	
	<u>\$ (37,717)</u>

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 7: LONG-TERM OBLIGATIONS

Current requirements for indebtedness of the County are accounted for in the Debt Service, General, and Road and Bridge Funds. A summary of changes in long-term obligations at September 30, 2025 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Notes Payable	\$ 1,908,028	\$ 615,725	\$ (633,967)	\$ 1,889,786	\$ 459,999
GO Refunding Bonds	14,625,000		(370,000)	14,255,000	385,000
Premium on Bonds	617,105		(22,856)	594,249	-
Long term lease liabilities	43,894		(19,165)	24,729	14,169
Long term SBITA liabilities	214,844		(112,789)	102,055	90,486
Total Governmental Activities					
Long-term Liabilities	\$ <u>17,408,871</u>	\$ <u>615,725</u>	\$ <u>(1,158,777)</u>	\$ <u>16,865,819</u>	\$ <u>949,654</u>

At September 30, 2025, the County had notes payable totaling \$1,889,786 with interest rates ranging from 2.50% and 4.99% and are secured by equipment. Based on the required payments the future maturities are as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 459,999	\$ 88,727	\$ 548,726
2027	321,041	78,931	399,972
2028	478,480	65,409	543,889
2029	168,235	36,326	204,561
2030	462,031	23,528	485,559
	\$ <u>1,889,786</u>	\$ <u>292,921</u>	\$ <u>2,182,707</u>

The County issued a Certificate of Obligation, Series 2015 at par on November 16, 2015 for \$1,500,000. Proceeds from the issuance of Certificate of Obligation, Series 2015 were used for building improvements and updates for the courthouse. On March 9, 2021, these bonds were refunded with the 2021 Series.

The County issued a General Obligation Refunding and Improvement Bonds, Series 2021 on March 9, 2021 for \$15,490,000. Proceeds from the issuance of General Obligation Refunding and Improvement Bonds, Series 2021 were used for building improvements and updates for the courthouse. At September 30, 2025, the County had bonds payable totaling \$14,255,000 with an interest rate of 2.00% to 4.00%.

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 7: LONG-TERM OBLIGATIONS

Based on the required payment, the future maturities are as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 385,000	\$ 319,000	\$ 704,000
2027	400,000	303,300	703,300
2028	415,000	287,000	702,000
2029	430,000	270,100	700,100
2030	450,000	252,500	702,500
2031-2035	2,450,000	1,097,000	3,547,000
2036-2040	2,710,000	893,300	3,603,300
2041-2045	3,000,000	553,900	3,553,900
2046-2050	3,310,000	238,700	3,548,700
2051	705,000	7,050	712,050
	<u>\$ 14,255,000</u>	<u>\$ 4,221,850</u>	<u>\$ 18,476,850</u>

Lease and Subscription based IT Arrangement (SBITA) agreements under GASB 87 and 96 are summarized as follows:

Description	Date	Payment Terms	Payment Amount	Imputed Interest Rate	Total Lease Liability	Balance at September 30, 2025
DC of Baird - DPS and Driver's License	8/1/2024	18 months	\$ 550	6.00%	\$ 9,945	\$ 2,709
Copier Jail	4/1/2023	18 months	672	0.50%	11,539	3,155
Copiers JPs	10/1/2021	60 months	228	0.50%	11,787	2,648
Postage Machine - Tax Office	4/30/2021	15 quarterly	945	5.00%	16,628	1,855
Postage Machine - TOB	5/12/2024	15 quarterly	1,145	6.00%	19,659	14,363
Total Lease Liabilities						<u>24,730</u>
Indigent Health Care Software	11/1/2019	72 months	1,059	0.46%	64,819	1,054
Local Government Solutions Software	1/1/2018	108 months	2,695	2.90%	298,316	57,016
Tips Datto	6/28/2023	36 months	4,980	4.56%	167,277	43,984
Total SBITA						<u>102,054</u>
Total Liabilities for Leased Assets and SBITA						<u>\$ 126,784</u>

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending September 30	Leases			SBITA		
	Principal	Interest	Total	Principal	Interest	Total
2026	\$ 14,169	\$ 1,019	\$ 15,188	\$ 90,486	\$ 1,897	\$ 92,383
2027	4,037	543	4,580	11,568	56	11,624
2028	4,284	296	4,580	-	-	-
2029	2,240	51	2,291	-	-	-
2030	-	-	-	-	-	-
	<u>\$ 24,730</u>	<u>\$ 1,909</u>	<u>\$ 26,639</u>	<u>\$102,054</u>	<u>\$ 1,953</u>	<u>\$104,007</u>

CALLAHAN COUNTY, TEXAS

Notes to Financial Statements

September 30, 2025

NOTE 8: COMMITMENTS AND CONTINGENCIES

Commitments

A grant award of \$4,684,891 was made to Callahan County, Texas by the Texas Historical Commission on June 17, 2020 for the preservation of the Callahan County Courthouse through the Texas Historical Courthouse Preservation Program. The estimated cost of the total project is approximately \$11.5 million, with the remaining costs of the project to be funded by the County with local funds and a bond issuance that was approved by the voters of Callahan County on November 3, 2020.

The County issued General Obligation Refunding and Improvement Bonds, Series 2021 in the amount of \$15,490,000 to provide financing for the Courthouse restoration and to restore, expand, and improve the County Annex Building, the Calvo Building, and the Historic 1877 Jail Building. The Bonds were funded on March 10, 2021. As part of this restoration project, the County has signed contracts with architects and contractors, and has purchased buildings and entered into leases for temporary operations while the project is in progress.

Contingencies

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

NOTE 9: PRIOR PERIOD ADJUSTMENT

During the fiscal year ending September 30, 2025 the County noted invalid liabilities which overstated fund balance and net position by \$35,000. Additionally, the County determined during the year that certain long-term liabilities and assets should be included in the modified cash basis of accounting governmental activities. The created the following changes to beginning net position.

	General Fund	Non-major Governmental Funds	Governmental Activities
Ending Fund Balance / Net Position			
as of September 30, 2024	\$ 5,810,616	\$ 2,805,136	\$ 24,352,991
Invalid assets	(15,360)	(19,640)	(35,000)
Net Pension related balances			624,296
OPEB related balances			(258,836)
ROU Leases and SBITA			224,790
Lease liabilities and SBITA			(258,738)
Beginning Fund Balance / Net Position			
as of October 1, 2024	\$ 5,795,256	\$ 2,785,496	\$ 24,649,503

SUPPLEMENTARY INFORMATION

CALLAHAN COUNTY, TEXAS
General Fund
Budgetary Comparison Schedule – Modified Cash
For the Year Ended September 30, 2025

	Budget		Actual	Variance From Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 7,285,152	\$ 7,314,110	\$ 7,585,027	\$ 270,917
Other taxes	382,500	382,500	390,798	8,298
Licenses and permits	98,397	98,397	97,866	(531)
Intergovernmental revenue and grants	133,900	169,392	202,484	33,092
Fines	1,180,735	1,207,710	1,273,985	66,275
Investment earnings	275,000	275,000	372,005	97,005
Other revenue	8,800	23,701	71,128	47,427
Total revenues	9,364,484	9,470,810	9,993,293	522,483
EXPENDITURES				
Current:				
General government	2,424,469	2,482,499	1,923,972	558,527
Judicial	1,321,308	1,362,639	1,241,682	120,957
Financial administration	682,815	684,715	553,179	131,536
Facilities maintenance	1,017,102	1,018,806	227,928	790,878
Public safety	2,054,241	2,056,459	1,720,900	335,559
Health and welfare	549,017	549,017	206,382	342,635
Culture and recreation	23,770	23,770	18,722	5,048
Extension service	340,704	342,245	302,592	39,653
Capital outlay	1,136,948	1,136,548	181,707	954,841
Debt service				
Debt principal	115,904	115,904	81,902	34,002
Debt interest	4,338	4,338	2,225	2,113
Total expenditures	9,670,616	9,776,940	6,461,191	3,315,749
Surplus (deficit) of revenues over expenditures	(306,132)	(306,130)	3,532,102	3,838,232
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of equipment	1,000	1,000	67	(933)
Transfer to other funds			(564,983)	(564,983)
Total other financing sources (uses)	1,000	1,000	(564,916)	(565,916)
CHANGE IN FUND BALANCE	(305,132)	(305,130)	2,967,186	3,272,316
FUND BALANCE AT BEGINNING OF YEAR	5,795,256	5,795,256	5,795,256	-
FUND BALANCE AT END OF YEAR	\$ 5,490,124	\$ 5,490,126	\$ 8,762,442	\$ 3,272,316

CALLAHAN COUNTY, TEXAS
Road and Bridge Fund
Budgetary Comparison Schedule – Modified Cash
For the Year Ended September 30, 2025

	Budget		Actual	Variance From Final Budget
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 2,551,988	\$ 2,551,988	\$ 2,685,576	\$ 133,588
Licenses and permits	387,000	387,000	354,546	(32,454)
Intergovernmental revenue and grants	232,000	232,000	248,439	16,439
Investment earnings	195,000	195,000	256,805	61,805
Other revenue	3,800	645,255	321,651	(323,604)
Total revenues	<u>3,369,788</u>	<u>4,011,243</u>	<u>3,867,017</u>	<u>(144,226)</u>
EXPENDITURES				
Current:				
Road and bridge	3,157,752	3,595,681	2,013,484	1,582,197
Capital outlay	235,000	578,776	1,128,663	(549,887)
Debt service:				
Debt principal	319,977	319,977	552,065	(232,088)
Debt interest	57,059	79,559	72,579	6,980
Total expenditures	<u>3,769,788</u>	<u>4,573,993</u>	<u>3,766,791</u>	<u>807,202</u>
Deficit revenues over expenditures	(400,000)	(562,750)	100,226	662,976
OTHER FINANCING SOURCES				
Proceeds from notes payable			615,725	615,725
Proceeds from sale of equipment		162,750	452,750	290,000
Transfers from other funds	200,000	200,000		(200,000)
Total other financing sources	<u>200,000</u>	<u>362,750</u>	<u>1,068,475</u>	<u>705,725</u>
CHANGE IN FUND BALANCE	(200,000)	(200,000)	1,168,701	1,368,701
FUND BALANCE AT BEGINNING OF YEAR	<u>4,904,161</u>	<u>4,904,161</u>	<u>4,904,161</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 4,704,161</u>	<u>\$ 4,704,161</u>	<u>\$ 6,072,862</u>	<u>\$ 1,368,701</u>

CALLAHAN COUNTY, TEXAS
Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios
Texas County and District Retirement System
For the Year Ended September 30, 2025

	Year Ended December 31, 2024	Year Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021	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
Total Pension Liability										
Service cost	\$ 254,961	\$ 228,537	\$ 192,405	\$ 171,281	\$ 169,747	\$ 136,923	\$ 137,061	\$ 142,294	\$ 148,440	\$ 141,113
Interest on total pension liability	633,232	601,240	561,749	543,794	530,002	505,642	490,251	468,564	439,466	435,613
Effect of plan changes	-	-	140,627	-	-	-	-	-	-	(7,103)
Effect of assumption changes or inputs	-	-	-	(73,213)	329,481	-	-	80,811	-	67,597
Effect of economic/demographic (gains) or losses	(69,025)	52,679	54,248	(7,875)	(27,685)	25,329	(61,056)	(73,396)	26,026	(249,415)
Benefit payments/refunds of contributions	(496,623)	(479,568)	(452,012)	(386,903)	(394,770)	(404,970)	(348,314)	(342,430)	(306,689)	(321,391)
Net change in total pension liability	322,545	402,888	497,017	247,084	606,775	262,924	217,942	275,843	307,243	66,414
Total pension liability, beginning	8,320,799	7,917,911	7,420,894	7,173,810	6,567,035	6,304,112	6,086,170	5,810,327	5,503,084	5,436,670
Total pension liability, ending (a)	\$ 8,643,344	\$ 8,320,799	\$ 7,917,911	\$ 7,420,894	\$ 7,173,810	\$ 6,567,036	\$ 6,304,112	\$ 6,086,170	\$ 5,810,327	\$ 5,503,084
Fiduciary Net Position										
Employer contributions	\$ 142,435	\$ 122,347	\$ 122,281	\$ 92,993	\$ 97,902	\$ 94,875	\$ 92,987	\$ 94,429	\$ 111,321	\$ 107,026
Member contributions	188,656	160,982	148,219	128,859	121,838	119,841	107,500	104,534	106,283	94,296
Investment income net of investment expenses	890,298	887,045	(500,006)	1,599,144	706,768	994,037	(119,539)	823,051	393,730	73,242
Benefit payments/refunds of contributions	(496,623)	(479,568)	(452,012)	(386,903)	(394,770)	(404,970)	(348,314)	(342,430)	(306,689)	(321,391)
Administrative expenses	(5,161)	(4,579)	(4,740)	(4,757)	(5,390)	(5,216)	(4,861)	(4,208)	(4,271)	(3,894)
Other	(6,515)	(6,630)	(18,207)	(2,649)	(4,501)	(5,560)	(3,768)	(1,964)	39,463	(150,296)
Net change in fiduciary net position	713,090	679,597	(704,465)	1,426,687	521,847	793,007	(275,995)	673,412	339,837	(201,017)
Fiduciary net position, beginning	8,768,581	8,088,984	8,793,449	7,366,762	6,844,915	6,051,909	6,327,904	5,654,491	5,314,652	5,515,669
Fiduciary net position, ending (b)	\$ 9,481,671	\$ 8,768,581	\$ 8,088,984	\$ 8,793,449	\$ 7,366,762	\$ 6,844,916	\$ 6,051,909	\$ 6,327,903	\$ 5,654,489	\$ 5,314,652
Net pension liability / (asset), ending = (a) - (b)	\$ (838,327)	\$ (447,782)	\$ (171,073)	\$ (1,372,555)	\$ (192,952)	\$ (277,880)	\$ 252,203	\$ (241,733)	\$ 155,838	\$ 188,432
Fiduciary net position as a percentage of total pension liability	109.70%	105.38%	102.16%	118.50%	102.69%	104.23%	96.00%	103.97%	97.32%	96.58%
Pensionable covered payroll	\$ 3,144,260	\$ 2,683,037	\$ 2,470,316	\$ 2,147,643	\$ 2,030,633	\$ 1,997,343	\$ 1,791,661	\$ 1,742,236	\$ 1,684,130	\$ 1,571,601
Net pension liability as a percentage of covered payroll	-26.66%	-16.69%	-6.93%	-63.91%	-9.50%	-13.91%	14.08%	-13.87%	9.25%	11.99%

CALLAHAN COUNTY, TEXAS
Schedule of Employer Contributions
Texas County and District Retirement System
For the Year Ended September 30, 2025

Year Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
2016	\$ 107,026	\$ 107,026	-	\$ 1,546,161	6.92%
2017	94,429	94,429	-	1,684,130	5.61%
2018	96,572	96,572	-	1,330,455	7.26%
2019	92,161	92,161	-	1,897,515	4.86%
2020	95,449	95,449	-	1,988,410	4.80%
2021	94,803	94,803	-	2,121,109	4.47%
2022	108,551	108,551	-	2,271,818	4.78%
2023	127,003	127,003	-	2,714,320	4.68%
2024	142,360	142,360	-	3,136,618	4.54%
2025	145,832	145,832	-	3,260,743	4.47%

CALLAHAN COUNTY, TEXAS
Notes to the Schedule of Employer Contributions
For the Year Ended September 30, 2025

Note A: Net Pension Liability - Texas County & District Retirement System

Assumptions

The following methods and assumptions were used to determine contribution rates:

Valuation date

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

Actuarial cost method

Entry age (level percentage of pay)

Amortization method

Level percentage of payroll, closed

Remaining amortization period

16.2 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 age 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 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 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 assumption 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: No changes in plan provisions were reflected in the Schedule.
2019: No changes in plan provisions were reflected in the Schedule.
2020: No changes in plan provisions were reflected in the Schedule.
2021: No changes in plan provisions were reflected in the Schedule.
2022: No changes in plan provisions were reflected in the Schedule.
2023: Employer contributions reflect that a 5% flat COLA was adopted
2024: No changes in plan provisions were reflected in the Schedule.

CALLAHAN COUNTY, TEXAS
Schedule of Changes in OPEB Liability and Related Ratios
For the Year Ended September 30, 2025

	Year Ended December 31, 2024	Year Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Total OPEB Liability							
Service cost	\$ 8,739	\$ 7,642	\$ 11,699	\$ 11,047	\$ 10,298	\$ 6,989	\$ 7,795
Interest on total OPEB liability	7,860	8,397	5,703	5,632	6,373	7,271	6,631
Effect of plan changes	-	-	-	-	-	-	-
Effect of assumption changes or inputs	(26,259)	14,508	(60,735)	6,169	24,910	41,372	(18,134)
Effect of economic/demographic (gains) or losses	2,443	(8,105)	4,474	(4,999)	(3,286)	2,452	(5,116)
Benefit payments/refunds of contributions	(8,804)	(7,513)	(8,893)	(5,799)	(6,092)	(6,192)	(5,375)
Net change in total OPEB liability	(16,021)	14,929	(47,752)	12,050	32,203	51,892	(14,199)
Total OPEB liability, beginning	236,746	221,817	269,569	257,519	225,316	173,424	187,623
Total OPEB liability, ending (a)	<u>\$ 220,725</u>	<u>\$ 236,746</u>	<u>\$ 221,817</u>	<u>\$ 269,569</u>	<u>\$ 257,519</u>	<u>\$ 225,316</u>	<u>\$ 173,424</u>
Plan Fiduciary Net Position (b)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB liability / (asset), ending = (a) - (b)	<u>\$ 220,725</u>	<u>\$ 236,746</u>	<u>\$ 221,817</u>	<u>\$ 269,569</u>	<u>\$ 257,519</u>	<u>\$ 225,316</u>	<u>\$ 173,424</u>
Fiduciary net position as a percentage of total OPEB liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Covered Employee Payroll	\$ 3,144,260	\$ 2,683,037	\$ 2,470,316	\$ 2,147,643	\$ 2,030,633	\$ 1,997,343	\$ 1,791,661
Net OPEB liability as a percentage of covered payroll	7.02%	8.82%	8.98%	12.55%	12.68%	11.28%	9.68%

CALLAHAN COUNTY, TEXAS
Combining Statement of Assets, Liabilities, and Fund Balance – Modified Cash Basis
Nonmajor Governmental Funds
September 30, 2025

	<u>Capital</u>	<u>Debt</u>	<u>Grant</u>	<u>ARPA</u>	<u>Restricted</u>	<u>Total</u>
	<u>Improvement</u>	<u>Service</u>	<u>Fund</u>	<u>Grant</u>	<u>Fund</u>	<u>Nonmajor</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Governmental</u>
						<u>Funds</u>
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash investments	<u>7</u>	<u>343,503</u>	<u>194,633</u>	<u>466,035</u>	<u>1,182,695</u>	<u>2,186,873</u>
Total assets	<u>\$ 7</u>	<u>\$ 343,503</u>	<u>\$ 194,633</u>	<u>\$ 466,035</u>	<u>\$ 1,182,695</u>	<u>\$ 2,186,873</u>
LIABILITIES						
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,757</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>5,757</u>	<u>-</u>	<u>-</u>	<u>5,757</u>
FUND BALANCE						
Restricted for:						
Debt service		343,503				343,503
Enabling legislation					1,182,695	1,182,695
Special revenue			188,876	466,035		654,911
Unassigned	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>
Total fund balance	<u>7</u>	<u>343,503</u>	<u>188,876</u>	<u>466,035</u>	<u>1,182,695</u>	<u>2,181,116</u>
Total liabilities and fund balance	<u>\$ 7</u>	<u>\$ 343,503</u>	<u>\$ 194,633</u>	<u>\$ 466,035</u>	<u>\$ 1,182,695</u>	<u>\$ 2,186,873</u>

CALLAHAN COUNTY, TEXAS
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance – Modified Cash Basis
Nonmajor Governmental Funds
For the Year Ended September 30, 2025

	Capital Improvement Fund	Debt Service Fund	Grant Fund	ARPA Grant Fund	Restricted Fund	Total Nonmajor Governmental Funds
REVENUES						
Taxes:						
Property taxes	\$	\$ 769,626	\$	\$	\$	\$ 769,626
Licenses and permits					108,332	108,332
Intergovernmental revenue and grants			525,000			525,000
Investment earnings		16,010	7,360	32,894	968	57,232
Other revenue			168		2,041	2,209
Total revenues	<u>-</u>	<u>785,636</u>	<u>532,528</u>	<u>32,894</u>	<u>111,341</u>	<u>1,462,399</u>
EXPENDITURES						
Current						
General government		3,325			85,328	88,653
Judicial			122,079	736,419	45,225	903,723
Public safety			241,166		716	241,882
Road and bridge						-
Capital outlay			137,421			137,421
Debt service						
Debt principal		370,000				370,000
Debt interest		334,100				334,100
Total expenditures	<u>-</u>	<u>707,425</u>	<u>500,666</u>	<u>736,419</u>	<u>131,269</u>	<u>2,075,779</u>
(Deficit) surplus of revenues over expenditures	-	78,211	31,862	(703,525)	(19,928)	(613,380)
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of equipment			49,000			49,000
Transfers out			-	(40,000)		(40,000)
Total other financing (uses) sources	<u>-</u>	<u>-</u>	<u>49,000</u>	<u>(40,000)</u>	<u>-</u>	<u>9,000</u>
NET CHANGE IN FUND BALANCE	-	78,211	80,862	(743,525)	(19,928)	(604,380)
FUND BALANCE AT BEGINNING OF YEAR, RESTATED	<u>7</u>	<u>265,292</u>	<u>108,014</u>	<u>1,209,560</u>	<u>1,202,623</u>	<u>2,785,496</u>
FUND BALANCE AT END OF YEAR	<u>\$ 7</u>	<u>\$ 343,503</u>	<u>\$ 188,876</u>	<u>\$ 466,035</u>	<u>\$ 1,182,695</u>	<u>\$ 2,181,116</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable County Judge and
Members of the Commissioners Court of
Callahan County, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Callahan County, Texas as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 27, 2026.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Callahan County, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Callahan County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as items 2025-01 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Callahan County, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Callahan County, Texas' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Callahan County, Texas' response to the findings identified in our audit and described in the accompanying schedule of Findings. Callahan County, Texas' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roberts & McGee, CPA, PLLC
Roberts & McGee, CPA PLLC

Abilene, Texas
January 27, 2026

CALLAHAN COUNTY, TEXAS
Schedule of Findings
For the Year Ended September 30, 2025

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the financial statements:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes 2025-01
Significant Deficiency(ies) identified	None Reported
Noncompliance material to the financial statements noted:	None

Section II - Findings Related to the Financial Statements

Material Weakness 2025-01

Condition

During our review of the county commissioners court minutes, we identified that the County purchased heavy equipment during the fiscal year ended September 30, 2025 for \$615,725 using a five-year financing agreement. The transaction was not recorded in the governmental funds since there was no cash transaction. The proceeds from the issuance of debt and the corresponding capital outlay for the value of the equipment was not recorded in the County records as of September 30, 2025

Criteria

Under the modified accrual accounting for governmental funds, proceeds from the issuance of long-term debt are to be reported as "Other Financing Sources" and purchases of equipment should be included in "Capital outlay." This is in line with the modified cash basis and the current financial resources, recording cash inflows when they are measurable and available.

Cause

The County's internal controls over financial reporting did not include a review process for new notes payable or the reconciliation of capital outlay expense accounts to the additions in the fixed asset schedule to ensure compliance with GAAP.

Effect

The proceeds from the issuance of long-term debt and related capital outlay were understated by \$615,725 in the governmental funds. The failure to record these proceeds and capital outlay would have led to an understatement of the debt service requirements in the notes to the financial statements, reducing the transparency of the County's financial position.

Recommendation

We recommend that the Entity:

1. **Establish** a control procedure wherein all purchase contracts are reviewed by the County Auditor and recorded as debt proceeds and capital outlay for the value of the equipment being purchased.
2. **Implement** a quarterly reconciliation of all equipment acquisitions to verify proper recording of liabilities.

Views of Responsible Officials

Management agrees with the finding and will implemented a review of all long-term debt to verify that the proceeds and capital outlay have been recorded in the fund financial statements.

CALLAHAN COUNTY, TEXAS
Schedule Status of Prior Findings
For the Year Ended September 30, 2025

None