

NORTH TEXAS GROUNDWATER
CONSERVATION DISTRICT

Annual Financial Report

Year Ended December 31, 2020

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INDEPENDENT AUDITORS' REPORT

Members of the Board
North Texas Groundwater Conservation District
Denison, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Texas Groundwater Conservation District (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the North Texas Groundwater Conservation District as of December 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Members of the Board
North Texas Groundwater Conservation District
Denison, Texas

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and page 18 be presented to supplement the basic financial statements. Such information, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Texas Groundwater Conservation District's basic financial statements. The comparative balance sheet and comparative statement of revenues, expenditures, and changes in fund balance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative balance sheet and comparative statement of revenues, expenditures, and changes in fund balance have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2021, on our consideration of the District'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 District'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 District's internal control over financial reporting and compliance.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
August 3, 2021

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

Management's Discussion and Analysis

Year Ended December 31, 2020

As management of North Texas Groundwater Conservation District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2020. Please read this narrative in conjunction with the Independent Auditors' Report and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The assets of North Texas Groundwater Conservation District exceeded its liabilities at the close of the fiscal year by \$2,485,349 (Total Net Position). Of this amount, \$2,379,203 is unrestricted and may be used to meet the District's ongoing obligations and responsibilities.
- The District's net position increased by \$327,594, from \$2,157,755 in the prior year to \$2,485,349 as of December 31, 2020.
- At December 31, 2020, the District had \$2,379,203 total fund balance in its General Fund, representing a \$328,693 or a 16.03% increase from the \$2,050,510 fund balance in the previous year. \$1,551,758 of the fund balance is unassigned, constituting approximately 293.37% of the \$528,919 in non-debt service General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Net Position presents information on all of North Texas Groundwater Conservation District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Evaluation of the overall economic health of the District would extend to other nonfinancial factors such as the condition of District infrastructure in addition to the financial information provided in this report.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenues provided by the District's activities.

The purpose of the District is to help accomplish the objectives set forth in Article XVI, Section 59 of the Texas Constitution related to the conservation and development of water resources of the State of Texas. With many other governmental entities, the aforementioned government-wide financial statements normally identify and distinguish between either governmental activities supported by general revenues and fees or business-type activities which are typically self-supported by user fees and charges. Both government-wide financial statements consist of one governmental fund principally supported by groundwater usage fees. The District has no business-type activities.

The government-wide financial statements can be found on pages 7 and 8 of this report.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis
Year Ended December 31, 2020

Fund Financial Statements: A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Depending upon their reporting needs and requirements, governmental entities utilize three types of funds, including governmental funds, proprietary funds, and fiduciary funds. The North Texas Groundwater Conservation District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Since the District has no legitimate need or requirement to have either proprietary or fiduciary funds, all of its funds are maintained and reported as governmental funds.

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

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

The District maintains a single governmental fund, the General Fund. The General Fund is used to account for the acquisition and use of the District's spendable financial resources and the related liabilities.

The government fund financial statements can be found on pages 9 and 10 of this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. It can be found in the "Required Supplementary Information" section of this report.

Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 11 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain other information. Other information follows the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position: As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of December 31, 2020, the North Texas Groundwater Conservation District's assets exceeded liabilities by \$2,485,349.

At December 31, 2020, \$2,520,954 in total assets were recorded. Of that amount, current and other assets (cash, investments, receivables, and prepaid expenses) represented 95.79% and capital assets constituted 4.21%.

Total liabilities at year end equaled \$35,605, none of which consisted of long-term debt.

Of the \$2,485,349 in total net position, 4.27% or \$106,146 is in capital assets net of accumulated depreciation. The District uses these capital assets to carry out its responsibilities and to provide information and services to citizens and the consumers which support the District. Capital assets are non-liquid and cannot be used to satisfy District obligations. The unrestricted net position total of \$2,379,203 may be used to meet the District's ongoing obligations and responsibilities.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis
Year Ended December 31, 2020

Governmental Activities: The following table provides a summary of the District's assets, liabilities, and net position for the years ended December 31, 2020 and 2019.

	Governmental Activities	
	2020	2019
Assets:		
Current Assets	\$ 2,414,808	\$ 2,127,046
Capital Assets (Net of Depreciation)	106,146	107,245
Total Assets	2,520,954	2,234,291
Liabilities:		
Current Liabilities	35,605	76,536
Total Liabilities	35,605	76,536
Net Position:		
Net Investment in Capital Assets	106,146	107,245
Unrestricted	2,379,203	2,050,510
Total Net Position	\$ 2,485,349	\$ 2,157,755

Governmental Activities: The following table provides a summary of the District's operations for the years ended December 31, 2020 and 2019.

	Governmental Activities	
	2020	2019
Revenues:		
Fees, Forfeitures, and Other Charges	\$ 820,063	\$ 763,208
Interest Income	25,549	41,707
Gain on Sale of Capital Asset	-	8,011
Bad Debt Recoveries	12,000	-
Total Revenues	857,612	812,926
Expenses:		
Administrative Services	496,883	476,562
Legal	33,135	81,379
Total Expenses	530,018	557,941
Increase (Decrease) in Net Position	\$ 327,594	\$ 254,985

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

At December 31, 2020, the District has \$2,379,203 total fund balance. This is 16.03% higher than the \$2,050,510 prior-year fund balance, primarily due to an increase in registration fees, forfeitures, and other fees in 2020. \$825,000 of the fund balance is committed for various purposes identified by the Board and \$1,551,758 of the fund balance is unassigned and \$2,445 of the fund balance is nonspendable.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis
Year Ended December 31, 2020

General Fund Budgetary Highlights: There were no amendments to the originally adopted budget during the year. Actual expenditures for the year ended December 31, 2020 were \$528,919, that being \$86,466 or 14.05% less than the \$615,385 budgeted for the year. Actual expenditures were under budget primarily due to fewer consultant, field technicians, and geologist costs than were budgeted.

Actual revenues for the year were \$857,612 or 108.42% of the budgeted revenues for the year, primarily due to higher than expected groundwater usage fee revenue and interest income.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The District's investment in capital assets for its governmental activities as of December 31, 2020 amounted to \$106,146 (net of accumulated depreciation). Asset additions consist of software completed during the year. The following tables portrays the District's mix of gross capital assets at December 31, 2020:

	<u>Capital Assets</u>
	<u>December 31,</u> <u>2020</u>
Vehicle	\$ 26,840
Equipment and Software	93,512
Total	<u>\$ 120,352</u>

Debt Administration: At the end of the year, the District had no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For fiscal year 2021 the District's latest adopted budget shows total anticipated expenditures of \$594,570, a \$65,651 increase from total actual expenditures of \$528,919 in fiscal year 2020. The majority of the increase is attributable to an expected increase in legal, equipment, and consulting costs. Rates assessed groundwater users are not expected to increase for fiscal year 2021.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations, and demonstrate the District's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact Drew Satterwhite, General Manager of the District, at 5100 Airport Drive, Denison, TX 75020, (855) 426-4433.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Statement of Net Position
December 31, 2020

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 2,125,729
Investments	88,118
Accounts Receivable, Net of Allowance for Uncollectibles of \$22,900	165,589
Other Receivables	32,927
Prepaid Expenses	2,445
Total Current Assets	2,414,808
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation:	
Vehicles, Equipment, and Computer Software	106,146
Total Noncurrent Assets	106,146
Total Assets	2,520,954
 LIABILITIES	
Current Liabilities	
Accounts Payable	4,755
Well Driller Deposits	30,850
Total Current Liabilities	35,605
Total Liabilities	35,605
 NET POSITION	
Net Investment in Capital Assets	106,146
Unrestricted	2,379,203
Total Net Position	\$ 2,485,349

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Statement of Activities
Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government				
Governmental Activities:				
Administration	\$ 496,883	\$ -	\$ -	\$ (496,883)
Legal	33,135	-	-	(33,135)
Total Governmental Activities	530,018	-	-	(530,018)
Total Primary Government	\$ 530,018	\$ -	\$ -	(530,018)
General Revenues:				
Groundwater Usage Fees				714,995
Registration Fees, Forfeitures, and Other Fees				74,217
Penalties and Late Charges				30,851
Interest Income				25,549
Bad Debt Recoveries				12,000
Total General Revenues				857,612
Change in Net Position				327,594
Net Position - Beginning (January 1)				2,157,755
Net Position - Ending (December 31)				\$ 2,485,349

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Balance Sheet - Governmental Fund
December 31, 2020

	General Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 2,125,729
Investments	88,118
Accounts Receivable, Net of Allowance for Uncollectibles of \$22,900	165,589
Other Receivables	32,927
Prepaid Expenses	2,445
Total Current Assets	2,414,808
Total Assets	\$ 2,414,808
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 4,755
Well Driller Deposits	30,850
Total Current Liabilities	35,605
Total Liabilities	35,605
 FUND BALANCE	
Nonspendable	2,445
Committed	825,000
Unassigned	1,551,758
Total Fund Balance	2,379,203
Total Liabilities and Fund Balance	\$ 2,414,808
 Amounts reported for governmental activities in the statement of net position are different because:	
Fund Balance - Total Governmental Fund (above)	\$ 2,379,203
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$120,352 and the accumulated depreciation is \$14,206.	106,146
Net Position of Governmental Activities	\$ 2,485,349

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Statement of Revenues, Expenditures, and Changes
In Fund Balance - Governmental Fund
Year Ended December 31, 2020

	General Fund
REVENUES	
Groundwater Usage Fees	\$ 714,995
Registration Fees, Forfeitures, and Other Fees	74,217
Penalties and Late Charges	30,851
Interest Income	25,549
Bad Debt Recoveries	12,000
	857,612
EXPENDITURES	
Administration	491,614
Legal	33,135
Capital Outlay:	
Software	4,170
	528,919
Excess (Deficiency) of Revenues over Expenditures	328,693
Net Change in Fund Balance	328,693
Fund Balance - Beginning (January 1)	2,050,510
Fund Balance - Ending (December 31)	\$ 2,379,203
Amounts reported for governmental activities in the statement of activities are different because:	
Net Change in Fund Balance - Total Governmental Fund (above)	\$ 328,693
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$5,269) expense exceeded capital outlays (\$4,170) in the current year.	(1,099)
Change in Net Position of Governmental Activities	\$ 327,594

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements
December 31, 2020

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The North Texas Groundwater Conservation District (District), is a political subdivision of the State of Texas, created under the authority of Article XVI, Section 59, Texas Constitution, and operating pursuant to the provisions of the Texas Water Code, Chapter 36, and Senate Bill 2497, Acts of the 81st Texas Legislature, Regular Session, 2010. The District encompasses the North Texas counties of Collin, Cooke, and Denton. The Board of Directors (Board), a nine-member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities within the jurisdiction of the District. The Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Reporting Standards, since Board members are appointed, have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. The purpose of the District is to help accomplish the objectives set forth in Article XVI, Section 59 of the Texas Constitution related to the conservation and development of water resources of the State of Texas.

As required by accounting principles generally accepted in the United States of America, the basic financial statements of the reporting entity include those of the District (primary government) and its component units. There are no component units included in these basic financial statements.

B. Basis of Presentation – Basis of Accounting

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (1) fees and other charges paid by the recipients of goods or services offered by the programs and (2) 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 taxing entities allocations and investments, are presented as general revenues.

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

District accounts are organized on the basis of funds, each of which is considered a separate accounting entity. Governmental resources allocated to individual funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations or other appropriate requirements. The fund types and funds utilized by the District are described below.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2020

I. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Basis of Accounting (continued)

Governmental fund types include the following:

The *General Fund* is used to account for financial resources used for general operating. This is a budgeted fund and any unassigned fund balances are considered resources available for current operations. All revenues and expenditures not required to be accounted for in other funds are accounted for in this fund.

C. Measurement Focus – Basis of Accounting

Government-Wide Statements – These financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, if any, in which the District gives (or receives), value without directly receiving (or giving) equal value in exchange, are not recognized if not measurable and are disclosed. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Fund Financial Statements – These financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers revenues as available if they are collected within 90 days after year end. Expenditures are recorded when the related fund liability is incurred.

D. Receivable and Payable Balances

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

E. Financial Statement Amounts

Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of cash on hand, deposits in financial institutions, including time deposits, and certificates of deposit. Restricted assets and temporary investments are not included.

Capital Assets

Capital assets are reported in the government-wide statement of net position. All capital assets are valued at historical cost. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend asset life are not capitalized.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2020

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Capital Assets (continued)

Assets capitalized have an original cost of more than \$500 and useful life in excess of one year. Depreciation has been provided over the estimated useful life using the straight-line method of depreciation. The estimated useful life of the vehicle and equipment is seven years and computer software is five years. Development in progress is not depreciated. Depreciation expense of \$5,269 was charged to Administration in the Statement of Activities for the year ended December 31, 2020.

	Balance 12/31/19	Additions	Retirements	Balance 12/31/20
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Software Development in Progress	\$ 79,300	\$ 4,170	\$ (83,470)	\$ -
Total Capital Assets Not Being Depreciated	<u>79,300</u>	<u>4,170</u>	<u>(83,470)</u>	<u>-</u>
Capital Assets being Depreciated:				
Vehicle	26,840	-	-	26,840
Equipment	10,042	-	-	93,512
Computer Software	-	83,470	-	83,470
Total Capital Assets Being Depreciated	<u>36,882</u>	<u>83,470</u>	<u>-</u>	<u>120,352</u>
Less Accumulated Depreciation for:				
Vehicle	(1,278)	(3,834)	-	(5,112)
Equipment	(7,659)	(1,435)	-	(9,094)
Computer Software	-	-	-	-
Total Accumulated Depreciation	<u>(8,937)</u>	<u>(5,269)</u>	<u>-</u>	<u>(14,206)</u>
Capital Assets Being Depreciated, Net	<u>27,945</u>	<u>78,201</u>	<u>-</u>	<u>106,146</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 107,245</u>	<u>\$ 82,371</u>	<u>\$ (83,470)</u>	<u>\$ 106,146</u>

Fund Balance

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned, or unassigned.

Nonspendable fund balance – represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal or a permanent fund). The District has classified prepaid items as being nonspendable as these items are not expected to be converted to cash.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2020

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Fund Balance (continued)

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers. The District does not have any restricted fund balances by enabling legislation.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the Board. Committed resources cannot be used for any other purpose unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally. The District had \$825,000 of fund balances at December 31, 2020 committed for the following purposes: geodatabase upgrades, permanent well monitoring equipment, downhole well camera, well pulling program, legal, well plugging program, and monitoring well maintenance/closure funds.

Assigned fund balance – represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated authority. The District has no assigned fund balances at December 31, 2020.

Unassigned fund balances – represents all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

In circumstances where an expenditure is to be made for the purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance. The District has adopted a fund balance policy that expresses an intent to maintain a level of unassigned fund balance equal to a minimum of 33% of total General Fund expenditures.

The following schedule provides information about the specific fund balance classification by fund:

	General
Nonspendable	\$ 2,445
Committed	825,000
Unassigned	1,551,758
Total	\$ 2,379,203

II. Stewardship, Compliance, and Accountability

By its nature as a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

An annual budget is legally adopted for the General Fund on a basis consistent with accounting principles generally accepted in the United States of America. Prior to the beginning of each fiscal year, the Board of Directors is presented with a proposed budget for the year beginning on the following January 1. The budget includes proposed expenditures and the means of financing them.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2020

II. Stewardship, Compliance, and Accountability (Continued)

The budget is legally enacted through passage of a resolution. Revisions to the budget that alter General Fund expenditures must be approved by the Board of Directors. The fund level is the legal level of budgetary control.

For the year ended December 31, 2020, the District's expenditures exceeded appropriations in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Administrative – General Manager	\$ 7,961
Field Technicians	1,196
Accounting and Auditing	3,856
Software Maintenance	2,943
Bad Debt Expense	7,400
Insurance	996
Telephone	<u>357</u>
 Total Expenditures Exceeding Appropriations	 \$ <u>24,709</u>

III. Deposits, Securities, and Investments

District funds may be invested in obligations of the United States Government, fully insured or collateralized certificates of deposit from any bank doing business in the State of Texas, and certain Texas Local Government Investment Pools.

The District maintains deposits in Independent Bank, McKinney, Texas that at times may exceed the insured amount of \$250,000 provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The District was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance or collateralized at year-end.

The District maintains one certificate of deposit as of December 31, 2020. The District was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance or collateralized at year-end.

As of December 31, 2020, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Texas Short-Term Asset Reserve Program (TexSTAR)	\$ 88,118	42 days

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2020

III. Deposits, Securities, and Investments (Continued)

The public funds investment pools in Texas are established under authority of the Interlocal Cooperation Act, chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the Act), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the Pool and other persons who do not have a business relationship with the Pool and are qualified to advise the Pool; 2) maintain a continuous rating of no lower than AAA or AAAm or an equivalent rating by at least one nationally recognized rating service; 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the values of its shares.

TexSTAR has a credit rating of AAAm from Standard & Poor's Financial Services. Local government investment pools in this rating category meet the highest standard for extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. The pool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state.

Investments in TexSTAR are not insured or guaranteed by the FDIC or any other governmental agency. The Pool is measured at amortized cost, and is not required to be reported by levels.

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

Custodial Credit Risk

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

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

Credit Risk

Investments are exposed to the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk.

Interest Rate Risk

Interest rate risks refers to the risk that changes in interest rates will adversely affect the fair value of an investment.

IV. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2020, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the last year, and there were no settlements exceeding insurance coverage in the past year.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2020

V. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

VI. Related Party Transactions

The District and Greater Texoma Utility Authority (GTUA) have common management. The District rents office space and receives administrative services from GTUA. Total amounts paid by the District to GTUA amounted to \$396,187. No amounts were payable to GTUA at December 31, 2020.

VII. Concentrations

One vendor (GTUA) comprised approximately 75% of governmental fund expenditures for the year ended December 31, 2020.

Two customers comprised approximately 22% of accounts receivable for the year ended December 31, 2020.

VIII. Commitments

At December 31, 2020, the District had outstanding contract commitments totaling approximately \$3,400 related to the GMA 8 groundwater planning effort agreement.

IX. Subsequent Events

Subsequent events have been evaluated through August 3, 2021, the date the financial statements were available to be issued.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
 Budgetary Comparison Schedule - General Fund
 Year Ended December 31, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
REVENUES				
Groundwater Usage Fees	\$ 700,000	\$ 700,000	\$ 714,995	\$ 14,995
Registration Fees, Forfeitures, and Other Fees	21,000	21,000	28,554	7,554
GMA8 Fees	50,000	50,000	45,663	(4,337)
Penalties and Late Charges	-	-	30,851	30,851
Interest Income	20,000	20,000	25,549	5,549
Bad Debt Recoveries	-	-	12,000	12,000
Total Revenues	791,000	791,000	857,612	66,612
EXPENDITURES				
Administrative - General Manager	62,000	62,000	69,961	(7,961)
Administrative - Secretarial & Clerical	65,000	65,000	62,470	2,530
Administrative - Project Coordinator	20,000	20,000	13,137	6,863
Field Technicians	125,000	125,000	126,196	(1,196)
Consultants	45,000	45,000	27,419	17,581
Field Permitting/Geologist	70,000	70,000	67,258	2,742
Accounting and Auditing	35,535	35,535	39,391	(3,856)
Legal	67,000	67,000	33,135	33,865
Capital Outlay	23,000	23,000	4,170	18,830
Software Maintenance	5,000	5,000	7,943	(2,943)
Bad Debt Expense	-	-	7,400	(7,400)
Direct Costs Reimbursed	7,000	7,000	4,119	2,881
Insurance	3,950	3,950	4,946	(996)
Vehicle Costs	6,500	6,500	3,447	3,053
Office Rent	2,400	2,400	2,400	-
Telephone	2,700	2,700	3,057	(357)
GMA8 Costs	55,000	55,000	45,279	9,721
Legal Notices	2,000	2,000	689	1,311
Dues and Subscriptions	3,000	3,000	2,158	842
Meetings and Conferences	8,000	8,000	2,241	5,759
Injection Well Monitoring	5,200	5,200	856	4,344
Small Equipment	2,000	2,000	1,202	798
Bank Fees	100	100	45	55
Total Expenditures	615,385	615,385	528,919	86,466
Net Change in Fund Balance	175,615	175,615	328,693	153,078
Fund Balance - Beginning (January 1)	2,050,510	2,050,510	2,050,510	-
Fund Balance - Ending (December 31)	\$ 2,226,125	\$ 2,226,125	\$ 2,379,203	\$ 153,078

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Comparative Balance Sheet - General Fund
December 31, 2020 and 2019

	2020	2019
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,125,729	\$ 1,820,803
Investments	88,118	87,700
Accounts Receivable, Net of Allowance for Uncollectibles	165,589	180,663
Other Receivables	32,927	35,497
Prepaid Expenses	2,445	2,383
Total Current Assets	2,414,808	2,127,046
Total Assets	\$ 2,414,808	\$ 2,127,046
 LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 4,755	\$ 44,186
Well Driller Deposits	30,850	32,350
Total Current Liabilities	35,605	76,536
Total Liabilities	35,605	76,536
 FUND BALANCE		
Nonspendable	2,445	2,383
Committed	825,000	825,000
Unassigned	1,551,758	1,223,127
Total Fund Balance	2,379,203	2,050,510
Total Liabilities and Fund Balance	\$ 2,414,808	\$ 2,127,046

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Comparative Statement of Revenues, Expenditures, and Changes
In Fund Balance - General Fund
Year Ended December 31, 2020 and 2019

	2020	2019
REVENUES		
Groundwater Usage Fees	\$ 714,995	\$ 713,307
Registration Fees, Forfeitures, and Other Fees	74,217	35,709
Penalties and Late Charges	30,851	14,192
Interest Income	25,549	41,707
Bad Debt Recoveries	12,000	-
	857,612	804,915
EXPENDITURES		
Administrative - General Manager	69,961	61,984
Administrative - Secretarial & Clerical	62,470	51,796
Administrative - Project Coordinator	13,137	13,952
Field Technicians	126,196	118,950
Consultants	27,419	52,754
Field Permitting/Geologist	67,258	60,421
Accounting and Auditing	39,391	37,980
Legal	33,135	81,379
Capital Outlay	4,170	26,840
Software Maintenance	7,943	9,108
Bad Debt Expense	7,400	12,000
Direct Costs Reimbursed	4,119	6,250
Insurance	4,946	4,962
Vehicle Costs	3,447	5,270
Office Rent	2,400	2,400
Telephone	3,057	3,504
GMA8 Costs	45,279	18,359
Legal Notices	689	1,102
Dues and Subscriptions	2,158	2,436
Meetings and Conferences	2,241	5,574
Injection Well Monitoring	856	2,672
Small Equipment	1,202	2,340
Bank Fees	45	35
	528,919	582,068
Excess (Deficiency) of Revenues over Expenditures	328,693	222,847
OTHER FINANCING SOURCES (USES)		
Proceeds from Sale of Capital Asset	-	8,011
Total Other Financing Sources (Uses)	-	8,011
Net Change in Fund Balance	328,693	230,858
Fund Balance - Beginning (January 1)	2,050,510	1,819,652
Fund Balance - Ending (December 31)	\$ 2,379,203	\$ 2,050,510

McClanahan and Holmes, LLP
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Independent Auditors' 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

Members of the Board
North Texas Groundwater Conservation District
Denison, Texas

We have audited, in accordance with the 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 and the major fund of the North Texas Groundwater Conservation District (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 3, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies.

Members of the Board
North Texas Groundwater Conservation District
Denison, Texas

We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

Financial Accounting and Reporting:

The District does not prepare the financial statements nor control the period-end financial reporting process, including controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles; controls over procedures used to analyze transactions comprising general ledger activity; controls over initiating, authorizing, recording, and processing journal entries into the general ledger; and controls over recording recurring and nonrecurring adjustments to the financial statements.

Views of Responsible Official: The District's management agrees with the finding and plans to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Segregation of Duties:

A critical element in any internal control structure is the characteristic known as segregation of duties. Assigning different personnel the responsibility of authorizing transactions, recording transactions, and maintaining custody of assets achieves this internal control structure attribute. Due to the District's small number of personnel, there is limited segregation of duties in substantially all areas of the accounting system. To the extent possible, every effort should be made to utilize a "best practices" approach when considering controls over cash transactions and preparation of accounting records. We encourage the board to closely monitor its financial activities which may help offset the weaknesses associated with limited segregation of duties.

Views of Responsible Official: The District's management agrees with the finding and the Board of Directors will maintain close oversight of the District's operations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 financial statements. 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*.

The District's Response to Findings

The District's response to the findings is described previously. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
August 3, 2021