

RED RIVER GROUNDWATER
CONSERVATION DISTRICT

Annual Financial Report

Year Ended December 31, 2023

RED RIVER GROUNDWATER CONSERVATION DISTRICT
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INDEPENDENT AUDITORS' REPORT

Members of the Board
Red River Groundwater Conservation District
Denison, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Red River Groundwater Conservation District (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise of the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Red River Groundwater Conservation District as of December 31, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Members of the Board
Red River Groundwater Conservation District
Denison, Texas

Auditors' 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 auditors' 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-7 and 19 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not 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.

Members of the Board
Red River Groundwater Conservation District
Denison, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2024, 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
April 30, 2024

RED RIVER GROUNDWATER CONSERVATION DISTRICT
 Management's Discussion and Analysis
 Year Ended December 31, 2023

The Red River Groundwater Conservation District (the District) is pleased to present its financial statements. This required supplementary information presents our discussion and analysis of the District's financial performance during the year ended December 31, 2023. Please read this section in conjunction with the basic financial statements which follow this section.

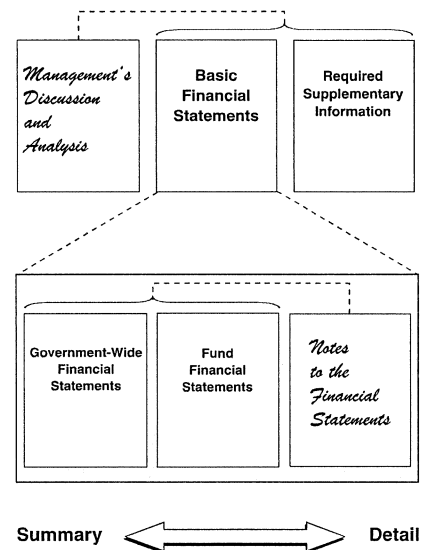
FINANCIAL HIGHLIGHTS

- The District's total net position was \$1,031,166 at December 31, 2023.
- During the year, the District's expenses were \$134,521 less than the \$430,707 generated from groundwater production fees and other revenues.
- The General Fund presents a year end fund balance of \$997,778 at December 31, 2023.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this Management's Discussion and Analysis, this report consists of government-wide financial statements, fund financial statements, and the notes to the financial statements. The first two statements are condensed and present a government-wide view of the District's finances. The government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the District.

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



Basic Financial Statements

- The Statement of Net Position focuses on resources available for future operations. In simple terms, the statement presents a snapshot of the assets of the District, the liabilities it owes, and the net difference. The net difference is further separated into amounts restricted for specific purposes, if any, and unrestricted amounts. The information presented in this statement is reported on the accrual basis of accounting.
- The Statement of Activities focuses on gross and net costs of the District's programs and the extent to which such programs rely on general revenues. The statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on individual funds, including assets, liabilities and equity. Separate revenues and expenditures analysis are presented for the major fund.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis (Continued)
Year Ended December 31, 2023

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's budgetary comparison schedule. Required supplementary information can be found on page 19 of this report.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. For the District, the total combined net position was \$1,031,166 at year end. A comparative condensed summary of the District's statements of net position is presented here:

Red River Groundwater Conservation District's Net Position			Table A-1
	<u>2023</u>	<u>2022</u>	<u>Total Percentage Change 2022-2023</u>
Assets:			
Cash and Cash Equivalents	\$ 301,778	\$ 657,223	-54.08%
Investments	664,170	138,500	379.55%
Receivables and Other Assets	93,473	91,333	2.34%
Capital Assets,			
Net of Accumulated Depreciation	<u>33,388</u>	<u>50,082</u>	-33.33%
Total Assets	<u>1,092,809</u>	<u>937,138</u>	16.61%
Liabilities:			
Current Liabilities	<u>61,643</u>	<u>40,493</u>	52.23%
Total Current Liabilities	<u>61,643</u>	<u>40,493</u>	52.23%
Net Position:			
Net Investment in Capital Assets	33,388	50,082	-33.33%
Unrestricted	<u>997,778</u>	<u>846,563</u>	17.86%
Total Net Position	<u>\$1,031,166</u>	<u>\$ 896,645</u>	15.00%

At year end, 27.61% of the District's total assets were held in cash and cash equivalents, with investments representing 60.78%, fees receivable and prepaid expenses representing 8.55%, and fixed assets representing 3.06%.

The District's liabilities consist of accounts payable for items or services received during the year, but not paid out in cash until after year end, as well as deposits to be refunded to drillers.

Unrestricted net position represents amounts available for future spending.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
 Management's Discussion and Analysis (Continued)
 Year Ended December 31, 2023

CHANGES IN NET POSITION

The District's total revenues were \$369,219 generated from Groundwater Production Fees assessed upon residents of the District and \$61,488 of other revenues.

The total cost of all services was \$296,186 for third party administration of the program and legal services.

A condensed summary of the District's statements of activities and changes in net position for the years ended December 31, 2023 and 2022 is presented here:

Changes in Red River Groundwater Conservation District's Net Position			Table A-2
	<u>2023</u>	<u>2022</u>	<u>Total Percentage Change 2022-2023</u>
General Revenues:			
Groundwater Production Fees	\$ 369,219	\$ 393,619	-6.20%
Registration and Other Fees	35,103	37,944	-7.49%
Interest Income	<u>26,385</u>	<u>2,109</u>	1,151.07%
 Total Revenues	 <u>430,707</u>	 <u>433,672</u>	 -0.68%
 Expenses:			
Administration	274,397	248,799	10.29%
Legal	<u>21,789</u>	<u>14,198</u>	53.47%
 Total Expenses	 <u>296,186</u>	 <u>262,997</u>	 12.62%
 Increase (Decrease) in Net Position	 <u>\$ 134,521</u>	 <u>\$ 170,675</u>	 -21.18%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The governmental funds of the District, as presented on page 11, reported revenues of \$430,707 during the year, with total expenditures of \$279,492.

BUDGETARY HIGHLIGHTS

The District's Board of Directors adopted a final operating budget for the 2023 fiscal year, based on anticipated receipts and expenditures (unaudited), prior to year end. The budget encompasses all the activities of the District, which would normally include both revenues and expenditures. Total revenues were \$83,407 above final budgeted amounts. Total expenditures were below final budgeted amounts by \$83,823.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis (Continued)
Year Ended December 31, 2023

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital Assets amounted to \$107,506, net of accumulated depreciation of \$74,118 as of December 31, 2023. This investment in capital assets includes a vehicle and computer software.

A summary of capital asset activity is shown in Note I. E of the financial statements.

Debt

As of December 31, 2023, the District has not entered into any debt agreements. The District has no outstanding long-term debt at year end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District adopted the next year's budget to provide for the developing nature of the services provided by the District, which remains consistent with current year budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Paul Sigle, General Manager for the District.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Statement of Net Position
December 31, 2023

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 301,778
Investments	664,170
Accounts Receivable, Net of Allowance for Uncollectibles of \$1,530	91,506
Prepaid Expenses	1,967
Total Current Assets	1,059,421
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation: Vehicles and Computer Software	33,388
Total Noncurrent Assets	33,388
Total Assets	1,092,809
 LIABILITIES	
Current Liabilities	
Accounts Payable	38,800
Driller Deposits	13,100
Unearned Revenue	9,743
Total Current Liabilities	61,643
Total Liabilities	61,643
 NET POSITION	
Net Investment in Capital Assets	33,388
Unrestricted	997,778
Total Net Position	\$ 1,031,166

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

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Statement of Activities
Year Ended December 31, 2023

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	\$ 274,397	\$ -	\$ -	\$ (274,397)
Legal	21,789	-	-	(21,789)
Total Governmental Activities	296,186	-	-	(296,186)
Total Primary Government	\$ 296,186	\$ -	\$ -	(296,186)
General Revenues:				
				369,219
				35,103
				26,385
Total General Revenues				430,707
Change in Net Position				134,521
Net Position - Beginning (January 1)				896,645
Net Position - Ending (December 31)				\$ 1,031,166

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

RED RIVER GROUNDWATER CONSERVATION DISTRICT
 Balance Sheet - Governmental Fund
 December 31, 2023

	<u>General Fund</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 301,778
Investments	664,170
Accounts Receivable, Net of Allowance for Uncollectibles of \$1,530	91,506
Prepaid Expenses	<u>1,967</u>
Total Current Assets	<u>1,059,421</u>
Total Assets	<u><u>\$ 1,059,421</u></u>
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 38,800
Driller Deposits	13,100
Unearned Revenue	<u>9,743</u>
Total Current Liabilities	<u>61,643</u>
Total Liabilities	<u>61,643</u>
 FUND BALANCE	
Nonspendable	1,967
Unassigned	<u>995,811</u>
Total Fund Balance	<u>997,778</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,059,421</u></u>
 Amounts reported for governmental activities in the statement of net position are different because:	
Fund Balance - Total Governmental Fund (above)	\$ 997,778
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$107,506 and the accumulated depreciation is \$74,118.	<u>33,388</u>
Net Position of Governmental Activities	<u><u>\$ 1,031,166</u></u>

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

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Governmental Fund
Year Ended December 31, 2023

	<u>General Fund</u>
REVENUES	
Groundwater Production Fees	\$ 369,219
Registration and Other Fees	35,103
Interest Income	<u>26,385</u>
Total Revenues	<u>430,707</u>
EXPENDITURES	
Current	
Administration	257,703
Legal	<u>21,789</u>
Total Expenditures	<u>279,492</u>
Excess (Deficiency) of Revenues over Expenditures	<u>151,215</u>
Net Change in Fund Balance	151,215
Fund Balance - Beginning (January 1)	<u>846,563</u>
Fund Balance - Ending (December 31)	<u><u>\$ 997,778</u></u>
Amounts reported for governmental activities in the statement of activities are different because:	
Net Change in Fund Balance - Total Governmental Fund (above)	\$ 151,215
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 expense (\$16,694) exceeds capital outlays (\$-) in the current year.	<u>(16,694)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 134,521</u></u>

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

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to Basic Financial Statements
December 31, 2023

I. Summary of Significant Accounting Policies

The basic financial statements of the Red River Groundwater Conservation District (the 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 Red River Groundwater Conservation District (the 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 Red River counties of Grayson and Fannin. The Board of Directors (Board), a seven-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.

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.

The 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.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to Basic Financial Statements (Continued)
December 31, 2023

I. Summary of Significant Accounting Policies (Continued)

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

Government 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, 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 60 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. The total accounts receivable balance is expected to be collected within one year.

E. Financial Statement Amounts

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on hand and deposits in financial institutions, including time deposits, with original maturities of three months or less from the date of acquisition. Restricted assets and temporary investments are not included.

Investments

Investments classified in the financial statements consist of funds held in certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost plus interest earned, which approximates fair value.

In accordance with generally accepted accounting principles, inputs to valuation techniques used to measure fair value are prioritized according to a fair value hierarchy, as follows:

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to Basic Financial Statements (Continued)
December 31, 2023

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Investments (continued)

Level I - Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level II - Fair values are based on generally indirect information such as quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active.

Level III - Fair values are based on inputs other than quoted prices included within Level I that are unobservable and include the District's own assumptions about pricing.

This fair value hierarchy gives the highest priority to Level I inputs and the lowest priority to Level III inputs. The District's investments are classified in Level II of the hierarchy.

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.

Assets capitalized have an original cost of more than \$5,000 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 computer software is five years. Development in progress is not depreciated. Depreciation expense of \$16,694 was charged to Administration in the Statement of Activities for the year ended December 31, 2023.

	<u>Balance 12/31/22</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/23</u>
Governmental Activities:				
Total Capital Assets Not Being Depreciated	\$ -	\$ -	\$ -	\$ -
Capital Assets being Depreciated:				
Vehicle	24,036	-	-	24,036
Computer Software	83,470	-	-	83,470
Total Capital Assets Being Depreciated	<u>107,506</u>	<u>-</u>	<u>-</u>	<u>107,506</u>
Less Accumulated Depreciation for:				
Vehicle	(24,036)	-	-	(24,036)
Computer Software	(33,388)	(16,694)	-	(50,082)
Total Accumulated Depreciation	<u>(57,424)</u>	<u>(16,694)</u>	<u>-</u>	<u>(74,118)</u>
Governmental Activities Capital Assets, Net	<u>\$ 50,082</u>	<u>\$ (16,694)</u>	<u>\$ -</u>	<u>\$ 33,388</u>

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to Basic Financial Statements (Continued)
December 31, 2023

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Net Position/Fund Balance

Net Position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

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.

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 has no committed fund balances at December 31, 2023.

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, 2023.

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 policy that sets a minimum fund balance equal to twenty-five percent (25%) of the total general fund expenditures.

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

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to Basic Financial Statements (Continued)
December 31, 2023

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Net Position/Fund Balance (continued)

	General
Nonspendable	\$ 1,967
Unassigned	995,811
Total	\$ 997,778

F. Recent Accounting Pronouncements Adopted

In May 2020, the GASB issued Statement No. 96 Subscription-Based Information Technology Arrangements (SBITAs). The objective of this statement is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for SBITAs, improving the comparability of financial statements among governments that have entered into SBITAs, and enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. Per review of the agreements identified by the District as potential SBITAs, the SBITAs were determined to either not meet the definition of a SBITA or were immaterial to the financial statements.

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.

For the year ended December 31, 2023, the District's expenditures did not exceed appropriations at any legal level of control.

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. At December 31, 2023, the District has only invested in certificates of deposit.

As of December 31, 2023, the District maintains deposits in First United, Sherman, Texas, that at times may exceed the insured amount provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The District has not experienced any losses related to amounts in excess of FDIC limits and it is management's opinion that there is no significant exposure to credit risk. At December 31, 2023, the carrying amount of all deposits was \$301,778 and the bank balance was \$301,934. As of December 31, 2023, \$250,000 was insured by FDIC and \$51,934 was collateralized by a FHLB Letter of Credit.

The District maintains certificates of deposit in East West Bank, Plano, Texas and Bank OZK, McKinney, Texas, that at times may exceed the insured amount of \$250,000 provided by the U.S. Federal Deposit Insurance Corporation (FDIC). At December 31, 2023, the carrying amount of the certificates of deposits was \$664,170 and the bank balances were \$664,521. As of December 31, 2023, \$392,296 was insured by FDIC and \$272,225 was collateralized by a FHLB Letter of Credit. The certificates of deposit will mature in 2024.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to Basic Financial Statements (Continued)
December 31, 2023

III. Deposits, Securities, and Investments (Continued)

As of December 31, 2023, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Certificates of Deposit	\$664,170	N/A

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.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment balance consists of only certificates of deposit as described above.

Interest Rate Risk

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

Foreign Currency Risk

Foreign currency risk refers to the risk that exchange rates will adversely affect the fair value of an investment. At December 31, 2023, the District was not exposed to foreign currency risk.

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, 2023, 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.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to Basic Financial Statements (Continued)
December 31, 2023

V. Estimates

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

VI. Related Party Transaction

The District and Greater Texoma Utility Authority (GTUA) have common management. The District rents office space and receives administrative services from GTUA. Total amounts incurred by the District to GTUA amounted to \$182,040. The amount payable to GTUA at December 31, 2023 was \$11,306.

VII. Concentrations

One customer individually comprised approximately 28% of gross accounts receivable at December 31, 2023. This customer individually comprised approximately 27% of revenue for the year ended December 31, 2023. One vendor (GTUA) comprised approximately 65% of expenditures for the year ended December 31, 2023.

VIII. Commitments

At December 31, 2023, the District has outstanding contract commitments totaling \$23,577 related to the GMA 8 groundwater planning effort agreement.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
 General Fund
 Budgetary Comparison Schedule
 Year Ended December 31, 2023

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Groundwater Production Fees	\$ 327,000	\$ 327,000	\$ 369,219	\$ 42,219
Registration and Other Fees	12,300	12,300	35,103	22,803
Interest Income	8,000	8,000	26,385	18,385
Total Revenues	<u>347,300</u>	<u>347,300</u>	<u>430,707</u>	<u>83,407</u>
EXPENDITURES				
Administration	333,315	333,315	257,703	75,612
Legal	30,000	30,000	21,789	8,211
Total Expenditures	<u>363,315</u>	<u>363,315</u>	<u>279,492</u>	<u>83,823</u>
Net Change in Fund Balance	(16,015)	(16,015)	151,215	167,230
Fund Balance - Beginning (January 1)	<u>846,563</u>	<u>846,563</u>	<u>846,563</u>	<u>-</u>
Fund Balance - Ending (December 31)	<u><u>\$ 830,548</u></u>	<u><u>\$ 830,548</u></u>	<u><u>\$ 997,778</u></u>	<u><u>\$ 167,230</u></u>

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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
Red River 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 Red River Groundwater Conservation District (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 30, 2024.

Report on 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 identified certain deficiencies in internal control that we consider to be significant deficiencies.

Members of the Board
Red River 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 control the period-end financial reporting process, including controls over the application of accounting principles that are in conformity with generally accepted accounting principles and controls over procedures used to analyze transactions comprising general ledger activity.

Views of Responsible Official: The District's management agrees with the finding and plans to maintain close oversight of the accounting and reporting process.

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.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described previously. The District's 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 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
April 30, 2024

RED RIVER GROUNDWATER
CONSERVATION DISTRICT

Communication with Those
Charged With Governance

December 31, 2023

McClanahan and Holmes, LLP

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Communication with Those Charged With Governance

Members of the Board
Red River Groundwater Conservation District
Denison, Texas

We have audited the financial statements of the governmental activities and the major fund of the Red River Groundwater Conservation District (the District) for the year ended December 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 5, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note I to the financial statements. As described in Note I to the financial statements, the District changed accounting policies related to Subscription-Based Information Technology Arrangements by adopting Statement of Government Accounting Standards (GASB Statement) No. 96, *Subscription-Based Information Technology Arrangements*, in 2023. Adoption of GASB Statement No. 96 had no material effect on the District's financial statements for fiscal year 2023. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of allowance for doubtful accounts. Allowance for doubtful accounts is based on historical consumption, accounts receivable, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation expense. Depreciation expense is calculated on a straight-line basis, over the estimated useful lives of the District's assets. We evaluated the key factors and assumptions used to develop the depreciation method used and the estimates of useful lives of the assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Members of the Board
Red River Groundwater Conservation District
Denison, Texas
Page 2

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Appendix A summarizes misstatements detected as a result of audit procedures that were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 30, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" or certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and the budgetary comparison schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board Members and management of the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
April 30, 2024

RED RIVER GROUNDWATER CONSERVATION DISTRICT
 Misstatements Corrected by Management
 December 31, 2023

Appendix A

Description	Debit	Credit
Accounts Receivable	\$ 9,742.94	\$ -
Allowance For Uncollectable Accounts	2,990.00	-
A/R Well Application Fees	8,500.00	-
Unearned Revenue	-	9,742.94
GW Production	-	2,990.00
Deposits to be Refunded	-	8,500.00
	<u>\$ 21,232.94</u>	<u>\$ 21,232.94</u>