

NORTH TEXAS GROUNDWATER
CONSERVATION DISTRICT

Annual Financial Report

Year Ended December 31, 2023

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Table of Contents
Year Ended December 31, 2023

	<u>Page Number</u>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet – Governmental Fund	10
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund	11
Notes to the Basic Financial Statements	12-19
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	20
Other Information:	
Comparative Balance Sheet – General Fund	21
Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	22
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 <i>Government Auditing Standards</i>	23-25

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INDEPENDENT AUDITORS' REPORT

Members of the Board
North Texas 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 North Texas 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 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 North Texas 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 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.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the comparative balance sheet and comparative statement of revenues, expenditures, and changes in fund balance but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 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
July 2, 2024

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis
Year Ended December 31, 2023

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, 2023. 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 \$4,366,945 (Total Net Position). Of this amount, \$4,262,233 is unrestricted and may be used to meet the District's ongoing obligations and responsibilities.
- The District's net position increased by \$799,766, from \$3,567,179 in the prior year to \$4,366,945 as of December 31, 2023.
- At December 31, 2023, the District had \$4,262,233 total fund balance in its General Fund, representing a \$824,802 or a 23.99% increase from the \$3,437,431 fund balance in the previous year. \$3,434,213 of the fund balance is unassigned, constituting approximately 429.92% of the \$798,803 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 required supplementary information and other 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 8 and 9 of this report.

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

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 10 and 11 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 12 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 and required supplementary information.

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, 2023, the North Texas Groundwater Conservation District's assets exceeded liabilities by \$4,366,945.

At December 31, 2023, \$4,481,266 in total assets were recorded. Of that amount, current and other assets (cash, investments, receivables, and prepaid expenses) represented 97.66% and capital assets constituted 2.34%.

Total liabilities at year end equaled \$114,321, none of which consisted of long-term debt.

Of the \$4,366,945 in total net position, 2.4% or \$104,712 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.

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

The unrestricted net position total of \$4,262,233 may be used to meet the District's ongoing obligations and responsibilities.

Governmental Activities: The following table provides a summary of the District's assets, liabilities, and net position for the years ended December 31, 2023 and 2022.

	Governmental Activities	
	2023	2022
Assets:		
Current Assets	\$ 4,376,554	\$ 3,608,981
Capital Assets (Net of Depreciation)	104,712	129,748
Total Assets	4,481,266	3,738,729
Liabilities:		
Current Liabilities	114,321	171,550
Total Liabilities	114,321	171,550
Net Position:		
Net Investment in Capital Assets	104,712	129,748
Unrestricted	4,262,233	3,437,431
Total Net Position	\$ 4,366,945	\$ 3,567,179

Governmental Activities: The following table provides a summary of the District's operations for the years ended December 31, 2023 and 2022.

	Governmental Activities	
	2023	2022
Revenues:		
Registration Fees, Forfeitures, and Other Fees	\$ 1,477,793	\$ 1,135,419
Interest Income	142,512	24,467
Bad Debt Recoveries	3,300	-
Total Revenues	1,623,605	1,159,886
Expenses:		
Administration	769,549	447,524
Legal	54,290	31,302
Total Expenses	823,839	478,826
Increase (Decrease) in Net Position	\$ 799,766	\$ 681,060

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, 2023, the District has \$4,262,233 total fund balance. This is 23.99% higher than the \$3,437,431 prior-year fund balance, primarily due to an increase in registration fees, forfeitures, and other fees in 2023. \$825,000 of the fund balance is committed for various purposes identified by the Board and \$3,434,213 of the fund balance is unassigned and \$3,020 of the fund balance is nonspendable.

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

General Fund Budgetary Highlights: There were no amendments to the originally adopted budget during the year. As presented on page 20, actual expenditures for the year ended December 31, 2023 were \$798,803, that being \$2,369 or 0.30% less than the \$801,172 budgeted for the year. Actual expenditures were under budget primarily due to fewer technician, administrative, and equipment costs than were budgeted.

Actual revenues for the year were \$1,623,605 or 161.28% of the budgeted revenues for the year, primarily due to higher than expected groundwater usage fee revenue, GMA 8 Fees, 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, 2023 amounted to \$104,712 (net of accumulated depreciation). Asset additions consist of two well watch controllers purchased during the year. The following table portrays the District's mix of gross capital assets at December 31, 2023:

<u>Capital Assets</u>	<u>December 31,</u> <u>2023</u>
Vehicle	\$ 73,159
Equipment and Software	127,354
Total	<u>\$ 200,513</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 2024 the District's latest adopted budget shows total anticipated expenditures of \$1,015,900, a \$217,097 increase from total actual expenditures of \$798,803 in fiscal year 2023. The majority of the increase is attributable to an expected increase in Field Technician salaries, equipment database, and legal fees. Rates assessed groundwater users are not expected to increase for fiscal year 2024.

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 Paul Sigle, 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, 2023

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 616,582
Investments	3,209,043
Accounts Receivable, Net of Allowance for Uncollectibles of \$34,513	335,832
Other Receivables	212,077
Prepaid Expenses	3,020
Total Current Assets	4,376,554
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation:	
Vehicles, Equipment, and Computer Software	104,712
Total Noncurrent Assets	104,712
Total Assets	4,481,266
 LIABILITIES	
Current Liabilities	
Accounts Payable	70,142
Well Driller Deposits	28,080
Unearned Revenue	16,099
Total Current Liabilities	114,321
Total Liabilities	114,321
 NET POSITION	
Net Investment in Capital Assets	104,712
Unrestricted	4,262,233
Total Net Position	\$ 4,366,945

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

NORTH TEXAS 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	\$ 769,549	\$ -	\$ -	\$ (769,549)
Legal	54,290	-	-	(54,290)
Total Governmental Activities	823,839	-	-	(823,839)
Total Primary Government	\$ 823,839	\$ -	\$ -	(823,839)
General Revenues:				
				1,020,753
				52,620
				337,924
				66,496
				142,512
				3,300
Total General Revenues				1,623,605
Change in Net Position				799,766
Net Position - Beginning (January 1)				3,567,179
Net Position - Ending (December 31)				\$ 4,366,945

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Balance Sheet - Governmental Fund
December 31, 2023

	General Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 616,582
Investments	3,209,043
Accounts Receivable, Net of Allowance for Uncollectibles of \$34,513	335,832
Other Receivables	212,077
Prepaid Expenses	3,020
Total Current Assets	4,376,554
Total Assets	\$ 4,376,554
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 70,142
Well Driller Deposits	28,080
Unearned Revenue	16,099
Total Current Liabilities	114,321
Total Liabilities	114,321
FUND BALANCE	
Nonspendable	3,020
Committed	825,000
Unassigned	3,434,213
Total Fund Balance	4,262,233
Total Liabilities and Fund Balance	\$ 4,376,554
Amounts reported for governmental activities in the statement of net position are different because:	
Fund Balance - Total Governmental Fund (above)	\$ 4,262,233
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$200,513 and the accumulated depreciation is \$95,801.	
	104,712
Net Position of Governmental Activities	\$ 4,366,945

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, 2023

	General Fund
REVENUES	
Groundwater Usage Fees	\$ 1,020,753
Registration Fees, Forfeitures, and Other Fees	52,620
GMA8 Fees	337,924
Penalties and Late Charges	66,496
Interest Income	142,512
Bad Debt Recoveries	3,300
Total Revenues	1,623,605
EXPENDITURES	
Current:	
Administration	738,308
Legal	54,290
Capital Outlay:	
Vehicle	6,205
Total Expenditures	798,803
Excess (Deficiency) of Revenues over Expenditures	824,802
Net Change in Fund Balance	824,802
Fund Balance - Beginning (January 1)	3,437,431
Fund Balance - Ending (December 31)	\$ 4,262,233
Amounts reported for governmental activities in the statement of activities are different because:	
Net Change in Fund Balance - Total Governmental Fund (above)	\$ 824,802
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 (\$31,241) exceeded capital outlays (\$6,205) in the current year.	(25,036)
Change in Net Position of Governmental Activities	\$ 799,766

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, 2023

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 ongoing 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, 2023

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. However, a significant portion (\$192,121) of the other receivables balances is comprised of GMA 8 fees receivable as of December 31, 2023.

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 with an original maturity of three months or less. Restricted assets and temporary investments are not included.

Investments

Investments classified in the financial statements consist of funds held in an external investment pool and certificates of deposit whose original maturity term exceeds three months. Investments in certificates of deposit are carried at cost plus interest earned, which approximates fair value. Investments in TexStar are carried at amortized cost, which generally approximates the market 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:

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the 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 in certificates of deposit 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. Costs 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 \$2,500 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. Depreciation expense of \$31,241 was charged to Administration in the Statement of Activities for the year ended December 31, 2023.

	Balance 12/31/22	Additions	Retirements	Balance 12/31/23
Governmental Activities:				
Capital Assets Not Being Depreciated	\$ -	\$ -	\$ -	\$ -
Capital Assets being Depreciated:				
Vehicles	73,159	-	-	73,159
Equipment	37,679	6,205	-	43,884
Computer Software	83,470	-	-	83,470
Total Capital Assets Being Depreciated	194,308	6,205	-	200,513
Less Accumulated Depreciation for:				
Vehicle	(15,537)	(10,451)	-	(25,988)
Equipment	(15,635)	(4,096)	-	(19,731)
Computer Software	(33,388)	(16,694)	-	(50,082)
Total Accumulated Depreciation	(64,560)	(31,241)	-	(95,801)
Capital Assets Being Depreciated, Net	129,748	(25,036)	-	104,712
Governmental Activities				
Capital Assets, Net	\$ 129,748	\$ (25,036)	\$ -	\$ 104,712

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the 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 the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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 in 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 had \$825,000 of fund balances at December 31, 2023 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, 2023.

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

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds. 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.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2023

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (Continued)

Net Position/Fund Balance (continued)

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

	General
Nonspendable	\$ 3,020
Committed	825,000
Unassigned	3,434,213
Total	\$ 4,262,233

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.

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.

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, 2023, the District's expenditures exceeded appropriations in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Capital Outlay	\$ 6,205
Bad Debt Expense	13,213
Direct Costs	54
Insurance	247
Telephone	703
GMA8 Costs	179,664
Dues and Subscriptions	2

The over-expenditures were funded by available fund balance.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2023

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). At December 31, 2023, the carrying amount of deposits was \$616,582 and the bank balance was \$804,629. As of December 31, 2023, \$250,000 was insured by FDIC and \$554,629 was collateralized with securities held by the pledging financial institution.

The District maintains certificates of deposit in Bank OZK, McKinney, Texas and East West Bank, Plano, 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 certificates of deposit were \$2,566,306 and the bank balances were \$2,567,999. As of December 31, 2023, \$660,965 was covered by FDIC insurance and \$1,907,034 was collateralized by a FHLB Letter of Credit. The certificates of deposit will mature 2024.

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

Investment Type	Fair Value	Weighted Average Maturity (Days)
Texas Short-Term Asset Reserve Program (TexSTAR)	\$ 642,737	44 days
Certificates of Deposit	2,566,306	N/A
Total Investments	\$ 3,209,043	

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; and 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, which generally approximates the market value, 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:

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2023

III. Deposits, Securities, and Investments (Continued)

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 the certificates of deposit and externally pooled accounts as described on the previous page.

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.

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.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2023

VI. Related Party Transactions

The District and Greater Texoma Utility Authority (GTUA) have common management. The District rents office space at \$200 per month and receives administrative services from GTUA. Total amounts paid by the District to GTUA amounted to \$297,651, which includes \$2,400 for office rent expense. \$19,100 was payable to GTUA at December 31, 2023.

VII. Concentrations

One vendor (GTUA) comprised approximately 71% of governmental fund expenditures, excluding those related to GMA 8, for the year ended December 31, 2023.

One customer comprised approximately 10% of accounts receivable for the year ended December 31, 2023.

VIII. Commitments

At December 31, 2023, the District has outstanding contract commitments totaling \$20,575 related to the GMA 8 groundwater planning efforts.

IX. Subsequent Events

Subsequent events have been evaluated through July 2, 2024, the date the financial statements were available to be issued.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
 Budgetary Comparison Schedule - General Fund
 Year Ended December 31, 2023

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Groundwater Usage Fees	\$ 751,000	\$ 751,000	\$ 1,020,753	\$ 269,753
Registration Fees, Forfeitures, and Other Fees	40,000	40,000	52,620	12,620
GMA8 Fees	176,700	176,700	337,924	161,224
Penalties and Late Charges	-	-	66,496	66,496
Interest Income	39,000	39,000	142,512	103,512
Bad Debt Recoveries	-	-	3,300	3,300
Total Revenues	1,006,700	1,006,700	1,623,605	616,905
EXPENDITURES				
Administrative - General Manager	66,000	66,000	45,197	20,803
Administrative - Secretarial & Clerical	64,500	64,500	43,989	20,511
Administrative - Project Coordinator	11,000	11,000	1,229	9,771
Field Technicians	182,000	182,000	101,371	80,629
Consultants	27,000	27,000	21,275	5,725
Field Permitting/Geologist	73,000	73,000	53,909	19,091
Accounting and Auditing	43,960	43,960	33,581	10,379
Legal	55,000	55,000	54,290	710
Capital Outlay	-	-	6,205	(6,205)
Software Maintenance	3,000	3,000	2,776	224
Bad Debt Expense	-	-	13,213	(13,213)
Direct Costs	5,600	5,600	5,654	(54)
Insurance	6,424	6,424	6,671	(247)
Vehicle Costs	10,700	10,700	4,599	6,101
Office Rent	2,400	2,400	2,400	-
Telephone	3,000	3,000	3,703	(703)
GMA8 Costs	202,000	202,000	381,664	(179,664)
Legal Notices	2,000	2,000	943	1,057
Dues and Subscriptions	7,388	7,388	7,390	(2)
Meetings and Conferences	8,000	8,000	5,992	2,008
Injection Well Monitoring and Testing	6,100	6,100	665	5,435
Small Equipment	2,000	2,000	757	1,243
Equipment Database	15,000	15,000	-	15,000
Bank Fees	5,100	5,100	1,330	3,770
Total Expenditures	801,172	801,172	798,803	2,369
Net Change in Fund Balance	205,528	205,528	824,802	619,274
Fund Balance - Beginning (January 1)	3,437,431	3,437,431	3,437,431	-
Fund Balance - Ending (December 31)	\$ 3,642,959	\$ 3,642,959	\$ 4,262,233	\$ 619,274

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Comparative Balance Sheet - General Fund
December 31, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 616,582	\$ 1,023,805
Investments	3,209,043	2,311,060
Accounts Receivable, Net of Allowance for Uncollectibles	335,832	240,351
Other Receivables	212,077	30,662
Prepaid Expenses	3,020	3,103
Total Current Assets	4,376,554	3,608,981
Total Assets	\$ 4,376,554	\$ 3,608,981
 LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 70,142	\$ 123,879
Well Driller Deposits	28,080	34,050
Unearned Revenues	16,099	13,621
Total Current Liabilities	114,321	171,550
Total Liabilities	114,321	171,550
 FUND BALANCE		
Nonspendable	3,020	3,103
Committed	825,000	825,000
Unassigned	3,434,213	2,609,328
Total Fund Balance	4,262,233	3,437,431
Total Liabilities and Fund Balance	\$ 4,376,554	\$ 3,608,981

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Comparative Statement of Revenues, Expenditures, and Changes
In Fund Balance - General Fund
Year Ended December 31, 2023 and 2022

	2023	2022
REVENUES		
Groundwater Usage Fees	\$ 1,020,753	\$ 1,061,373
Registration Fees, Forfeitures, and Other Fees	52,620	47,596
GMA8 Fees	337,924	2,195
Penalties and Late Charges	66,496	24,255
Interest Income	142,512	24,467
Bad Debt Recoveries	3,300	-
	1,623,605	1,159,886
EXPENDITURES		
Administrative - General Manager	45,197	62,134
Administrative - Secretarial & Clerical	43,989	59,889
Administrative - Project Coordinator	1,229	1,572
Field Technicians	101,371	136,129
Consultants	21,275	11,470
Field Permitting/Geologist	53,909	60,488
Accounting and Auditing	33,581	35,370
Legal	54,290	31,302
Capital Outlay	6,205	46,319
Software Maintenance	2,776	2,467
Bad Debt Expense	13,213	3,300
Direct Costs	5,654	4,563
Insurance	6,671	5,804
Vehicle Costs	4,599	7,958
Office Rent	2,400	2,400
Telephone	3,703	3,991
GMA8 Costs	381,664	665
Legal Notices	943	2,794
Dues and Subscriptions	7,390	7,396
Meetings and Conferences	5,992	6,976
Injection Well Monitoring	665	1,437
Small Equipment	757	2,326
Bank Fees	1,330	947
	798,803	497,697
Excess (Deficiency) of Revenues over Expenditures	824,802	662,189
Net Change in Fund Balance	824,802	662,189
Fund Balance - Beginning (January 1)	3,437,431	2,775,242
Fund Balance - Ending (December 31)	\$ 4,262,233	\$ 3,437,431

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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, 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 July 2, 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 were not 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
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 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.

Investment Act Annual Requirements:

The Public Funds Investment Act (Chapter 2256, Texas Government Code) requires the investment policy to be reviewed and approved annually. The District's investment policy was not reviewed and approved annually. As a result, the District lacks the requirements to be in compliance with the Texas Public Funds Investment Act. We recommend the District review the investment policy annually.

Views of Responsible Official: The District's management agrees with the finding and the Board of Directors will review the investment policy annually.

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.

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

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
July 2, 2024

NORTH TEXAS GROUNDWATER
CONSERVATION DISTRICT

Communication with Those
Charged With Governance

December 31, 2023

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Communication with Those Charged
With Governance

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

We have audited the financial statements of the governmental activities and the major fund of the North Texas 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. 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 and 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.

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. Management has corrected all such misstatements. 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 July 2, 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" on 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.

We were not engaged to report on the Comparative Balance Sheet – General Fund and the Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund, which accompany the financial statements but are not RSI. Such information has 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 it.

Members of the Board
North Texas Groundwater Conservation District
Denison, Texas
Page 3

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
July 2, 2024

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
Misstatements Corrected by Management
December 31, 2023

Appendix A

Description	Debit	Credit
Adjusting Journal Entries JE # 1		
Capital Outlay	\$ 6,205.13	\$ -
Injection Well Monitoring	-	6,205.13
Total	<u>\$ 6,205.13</u>	<u>\$ 6,205.13</u>
Adjusting Journal Entries JE # 2		
Accounts Receivable	\$ 16,099.27	\$ -
Unearned Revenue	-	16,099.27
Total	<u>\$ 16,099.27</u>	<u>\$ 16,099.27</u>
Adjusting Journal Entries JE # 3		
A/R GMA8 Members	\$ 55,987.68	\$ -
GMA8	-	55,987.68
Total	<u>\$ 55,987.68</u>	<u>\$ 55,987.68</u>
Adjusting Journal Entries JE # 4		
Production Fees	\$ 16,553.56	\$ -
Accounts Receivable	-	16,553.56
Total	<u>\$ 16,553.56</u>	<u>\$ 16,553.56</u>
Adjusting Journal Entries JE # 5		
A/R Well Application Fees	\$ 11,680.40	\$ -
Well Drillers Deposits	-	11,680.40
Total	<u>\$ 11,680.40</u>	<u>\$ 11,680.40</u>
Adjusting Journal Entries JE # 6		
Bad Debt Expense	\$ 13,213.00	\$ -
Allowance for Uncollectible Accounts	-	9,913.00
Bad Debt Expense	-	3,300.00
Total	<u>\$ 13,213.00</u>	<u>\$ 13,213.00</u>