

ANNUAL FINANCIAL REPORT

of the

Lone Star Groundwater Conservation District

For the Year Ended
December 31, 2020

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Lone Star Groundwater Conservation District

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Lone Star Groundwater Conservation District
655 Conroe Park North Drive
Conroe, Texas 77303

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Lone Star Groundwater Conservation District (the "District"), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Lone Star Groundwater Conservation District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by

management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lone Star Groundwater Conservation District's basic financial statements. The accompanying Other Supplementary Information section and the Texas Supplementary Information section, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, slightly slanted script.

BrooksWatson & Co.
Certified Public Accountants
Houston, Texas
June 7, 2021

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Lone Star Groundwater Conservation District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2020

As management of the Lone Star Groundwater Conservation District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2020.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities (net position) at December 31, 2020 by \$3,256,624.
- The District's total net position increased by \$915,274.
- At the end of the fiscal year unrestricted portion of net position was \$1,686,576.

OVERVIEW OF THE FINANCIAL STATEMENTS

Financial Statements

The District is designated as a special-purpose government engaged only in business-type activities consistent with GASB 34. Governments engaged only in business-type activities should present only the financial statements required for enterprise funds. As a result, the financial statements presented within this report consist of the enterprise fund financial statements (i.e., the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows). The District has one enterprise fund.

Enterprise Fund Types

Enterprise funds are used to account for activities that are similar to those often found in the private sector. For the District this covers all activities. The measurement focus is on determination of net income, financial position, and cash flows. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Enterprise fund types follow Generally Accepted Accounting Principles "GAAP" as prescribed by the Governmental Accounting Standards Board "GASB".

Lone Star Groundwater Conservation District

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2020

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found after the financial statements within this report.

Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain other supplementary information. A budgetary comparison schedule for the general fund has been included as a part of the other supplementary information. Additionally, Texas Supplementary Information (TSI) has been included to comply with state reporting requirements.

DISTRICT FINANCIAL ANALYSIS

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3,256,624 at the close of the most recent fiscal year. Current assets increased by \$1,165,632 primarily due to a surplus in revenues over expenses in the current year.

An important portion of the District's net position, assets, \$1,570,048, reflects its investments in capital assets (e.g., land, building, machinery, equipment, infrastructure, etc.), less any debt used to acquire those assets that is still outstanding. The District uses its capital assets, and a significant portion of its expenses, to develop, promote, and implement water conservation, augmentation, and management strategies to protect water resources for the benefit of the citizens of Montgomery County; consequently, these capital assets are not available for future spending. The District can choose to leverage or liquidate capital assets to generate future cash flows if determined necessary.

Lone Star Groundwater Conservation District

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2020

Statement of Net Position:

The following table reflects the condensed Statement of Net Position as of December 31:

	Business-Type Activities	
	2020	2019
Current and other assets	\$ 2,823,242	\$ 1,657,610
Capital assets, net	1,570,048	1,600,417
Total Assets	4,393,290	3,258,027
Accounts payable & accrued expenses	31,572	63,614
Unearned revenue	1,105,094	853,063
Total Liabilities	1,136,666	916,677
Net position:		
Net investment in capital assets	1,570,048	1,600,417
Unrestricted	1,686,576	740,933
Total Net Position	\$ 3,256,624	\$ 2,341,350

Lone Star Groundwater Conservation District

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2020

Statement of Revenues, Expenses, and Changes in Net Position:

The following table provides a summary of the District's changes in net position for the years ended December 31:

	Governmental Activities	
	2020	2019
Revenues		
Water use fees	\$ 2,632,960	\$ 2,443,840
Interest and other	21,397	68,837
Total Revenues	<u>2,654,357</u>	<u>2,512,677</u>
Expenses		
Programs	226,856	174,280
Personnel	578,339	561,314
Legal	272,789	419,768
Engineering & technical support	267,137	249,175
Education and public awareness	21,026	18,108
Other	308,253	261,156
Depreciation	64,683	50,665
Total Expenses	<u>1,739,083</u>	<u>1,734,466</u>
Change in Net Position	915,274	778,211
Beginning Net Position	<u>2,341,350</u>	<u>1,563,139</u>
Ending Net Position	<u>\$ 3,256,624</u>	<u>\$ 2,341,350</u>

Penalties and interest on water use fees increased due to nonrecurring late payment penalties charged to two customers during the year.

The District's total expenses increased by \$4,617. Due to the District's capital intensive legal matters reaching resolution in 2019 and during 2020, there was a reduction of \$146,979 in legal expenses. During 2020, the District began a new subsidence study, which was the main cause for the District's program expenses to increase by \$52,576. The District's other expenses increased by \$47,069 primarily due to an increase in allowance for doubtful accounts receivable.

BUDGETARY HIGHLIGHTS

An increase in net position of \$107,307 was anticipated in 2020. The actual surplus of revenue over expenses of \$915,274 was due to greater than anticipated revenues and less expenses than anticipated.

Lone Star Groundwater Conservation District

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2020

Actual revenues were greater than final budgeted revenues by \$407,203 during the year. Actual expenses were under the final budget by \$400,764.

CAPITAL ASSETS

As of the end of the year, the District had invested \$1,570,048 in a variety of capital assets and infrastructure, net of accumulated depreciation.

During 2020, the District purchased a 2019 GMC Sierra 250 for \$34,314. When purchasing the vehicle, the District traded in its 2007 Chevrolet Silverado for a trade-in value of \$8,650.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The elected board of directors continues its commitment to managing the local groundwater resources while protecting property rights, and balancing conservation and development by using the best available science.

The District budgeted revenues of \$2,247,154 and expenses of \$2,215,292 for the fiscal year ended December 31, 2021. Budgeted revenues are relatively consistent with results for the current year ended December 31, 2020. Budgeted expenses increased for legal, program, and engineering fees relative to 2020.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the General Manager at 655 Conroe Park North Drive, Conroe, TX 77303.

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FINANCIAL STATEMENTS

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Lone Star Groundwater Conservation District

STATEMENT OF NET POSITION

December 31, 2020

<u>Assets</u>	<u>Business-Type</u>
<u>Current Assets</u>	<u>Activities</u>
Cash	\$ 2,163,266
Receivables, net	652,594
Prepaid expenses	7,382
Total Current Assets	\$ 2,823,242
Noncurrent Assets	
Capital assets, non-depreciable	260,187
Capital assets (net of accumulated depreciation)	1,309,861
Total Noncurrent Assets	1,570,048
Total Assets	\$ 4,393,290
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued expenses	\$ 31,572
Unearned revenue	1,105,094
Total Current Liabilities	1,136,666
Net Position	
Net investment in capital assets	1,570,048
Unrestricted	1,686,576
Net Position	\$ 3,256,624

See Notes to Financial Statements.

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Lone Star Groundwater Conservation District

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Year Ended December 31, 2020

	Business-Type Activities
Revenues	
Water use fees	\$ 2,561,696
Administrative use fees	11,465
Application fees	51,294
Penalty & interest on fees	7,443
Interest income	13,032
Export fees	922
Total Revenues	2,654,357
Expenses	
Programs	226,856
Personnel	578,339
Legal	272,789
Audit	8,750
Engineering	267,137
Education & public awareness	21,026
Board expenses	45,272
Elections expense	11,896
Rebate on water use fees	22,885
Manager expenses	8,006
Computer support	40,651
Office expenses	9,684
Supplies & other	9,294
Advertising & public notices	9,238
Travel and training staff	1,041
Membership dues	5,880
Building maintenance & utilities	68,222
Vehicle costs	3,449
Insurance	11,426
Miscellaneous	367
Bad debt	52,192
Depreciation	64,683
Total Expenses	1,739,083
Excess (Deficiency) of Revenues Over (Under) Expenses	915,274
Beginning Net Position	2,341,350
Ending Net Position	\$ 3,256,624

See Notes to Financial Statements.

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Lone Star Groundwater Conservation District

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2020

	Business-Type Activities
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,625,498
Payments to employees	(633,610)
Payments to suppliers	(1,048,210)
Net Cash Provided by / (Used) in Operating Activities	943,678
 <u>Cash Flows From Capital and Related Financing Activities</u>	
Purchases of capital assets	(34,314)
Net Cash Provided by / (Used) in Capital and Related Financing Activities	(34,314)
Net Increase / (Decrease) in Cash and Cash Equivalents	909,364
Beginning cash and cash equivalents	1,253,902
Ending Cash and Cash Equivalents	\$ 2,163,266
 <u>Reconciliation of Operating Income / (Loss) to Net Cash Provided by / (Used) in Operating Activities</u>	
Operating income	\$ 915,274
Adjustments to reconcile operating income to net cash provided:	
Depreciation	64,683
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(258,005)
Prepaid expenses	1,737
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(32,042)
Unearned revenue	252,031
Net Cash Provided by / (Used) in Operating Activities	\$ 943,678

See Notes to Financial Statements.

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Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

NOTE 1 – CREATION OF DISTRICT

The Lone Star Groundwater Conservation District (District) was created by the 77th Legislature under the authority of Section 59, Article XVI, of the Texas Constitution and in accordance with Chapter 36 of the Texas Water Code to conserve, protect, and enhance the groundwater resources of Montgomery County, Texas.

The District was formed in 2001 and is governed by a board of nine directors that were appointed by various local government agencies. This changed to a seven-member elected board, as a result of House Bill 1982. This elected board was sworn in on November 16, 2018. Two board members had terms that expired on December 1, 2020; four board members have terms that will expire on December 1, 2022.

The mission of the District is to manage and protect the groundwater resources of Montgomery County, Texas and to work with others to ensure a sustainable, adequate, high quality and cost effective water supply for current and future needs.

The District is not a taxing authority. Operations of the District are funded by charges to water well users in the jurisdictions serviced by the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements and accounting policies of the District are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

The District has adopted Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. In accordance with this statement, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District is governed by a Board of Directors consisting of seven individuals who are elected. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is considered to be the primary

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2020

government as well as the reporting entity. There are no other organizations which meet the criteria for inclusion herein as part of the financial reporting entity.

B. Basis of presentation – financial statements

Since the District is not a taxing authority and earns all revenue through fees, no governmental funds exist for the District. The District is designated as a special-purpose government engaged only in business-type activities consistent with GASB 34. Governments engaged only in business-type activities should present only the financial statements required for enterprise funds. As a result, the financial statements presented within this report consist of the enterprise fund financial statements (i.e., the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows). The District has one enterprise fund.

C. Basis of presentation – fund financial statements

Enterprise Fund Types

Enterprise funds are used to account for activities that are similar to those often found in the private sector. For the District this covers all activities. The measurement focus is on determination of net income, financial position, and cash flows. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for fees. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Enterprise fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB).

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The accrual basis of accounting is used for the enterprise fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2020

E. Assets, liabilities, and net position

1. *Deposits and Investments*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the District reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools
- SEC registered, no load money market mutual funds

2. *Fair Value*

The District has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. *Receivables*

All trade receivables are shown net of any allowance for uncollectible amounts. The District estimates the allowance for doubtful accounts based on collections after the balance sheet date. As of December 31, 2020, the allowance for doubtful accounts was \$75,097.

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2020

4. *Capital Assets*

Capital assets, which include property, plant, equipment, are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	40 years
Furniture, vehicles, and equipment	5 to 7 years

5. *Prepaid expenses*

Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenses) are recognized as expenses when utilized.

6. *Deferred outflows/inflows of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

7. *Net position flow assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2020

order to calculate the amounts to report as restricted – net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. *Compensated absences*

The liability for compensated absences reported in the proprietary fund statements consist of unpaid, accumulated vacation and compensatory time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

The District’s personnel policy grants its eligible employees vacation pay benefits in varying amounts to specified maximums depending on tenure with the District. District employees may carry forward into the subsequent year, with management approval, earned but unused vacation pay benefits up to specified maximums. Upon separation with the District, employees will be paid for their accrued and unused vacation pay benefits. At December 31, 2020, the accrued vacation pay benefit balance was \$11,413.

The District’s personnel policy permits its eligible employees to accrue up to 160 hours of sick leave per year. Unused, accumulated sick leave may be carried forward into the subsequent year with management approval. Upon separation with the District, employees will not be paid for unused, accumulated sick leave.

9. *Estimates*

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2020

10. *Unearned revenue*

Unearned revenue represents revenues billed but not earned as of December 31, 2020. This is comprised of revenue for well permits billed in the current year that relate to the annual or quarterly periods following December 31, 2020. The revenue is deferred and recognized in the permit year. As of December 31, 2020, unearned revenue was \$1,105,094.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The annual budget is adopted by the Board of Directors prior to the beginning of the year. The fiscal year 2020 budget was adopted on August 13, 2019. Management may not amend the budget without approval of the Board.

The District has adopted a non-appropriated budget in accordance with Title 30 of the Texas Administrative Code, Section 293.97. The budget is prepared using the modified accrual method of accounting. The budgetary comparison schedule is presented as other supplementary information to the basic financial statements.

The legal level of control is the expense function for the District. Expenses exceeded budget for bad debt, depreciation, computer support, membership dues, insurance, and office expenses by \$52,192, \$14,683, \$4,151, \$1,380, \$338, and \$184, respectively, for the year ended December 31, 2020.

NOTE 4 - DETAILED NOTES

A. Deposits and Investments

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturity (years)</u>
Money market funds	\$ 2,094,298	-
External investment pools	46,755	0.11
	<u>\$ 2,141,053</u>	
Portfolio weighted average maturity		0.002

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed two years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2020

Credit risk. The District's investment policy limits investments in money market mutual funds rated as to investment quality not less than AAA by Standard & Poor's. As of December 31, 2020, the District's investment in TexPool was rated AAAM by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of December 31, 2020, the District's insurance plus pledged collateral covered all deposits.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the District's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. At December 31, 2020, the carrying value for the position in TexPool recorded by the District approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2020

B. Receivables

The following comprise the receivable balances at year end:

Type	Total
Permit receivables	\$ 727,691
Allowance for doubtful accounts	(75,097)
Total	\$ 652,594

C. Capital Assets

A summary of changes in capital assets for the year ended is as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 260,187	\$ -	\$ -	\$ 260,187
Total capital assets not being depreciated	260,187	-	-	260,187
Capital assets, being depreciated:				
Building	1,593,553	-	-	1,593,553
Furniture, vehicles & equipment	349,605	34,314	(44,736)	339,183
Total capital assets being depreciated	1,943,158	34,314	(44,736)	1,932,736
Less accumulated depreciation				
Building	(345,284)	(38,976)	-	(384,260)
Furniture, vehicles & equipment	(257,644)	(25,707)	44,736	(238,615)
Total accumulated depreciation	(602,928)	(64,683)	44,736	(622,875)
Net capital assets being depreciated	1,340,230	(30,369)	-	1,309,861
Total capital assets	\$ 1,600,417	\$ (30,369)	\$ -	\$ 1,570,048

Depreciation expense was \$64,683 for the year ended December 31, 2020.

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2020

NOTE 5 – OTHER INFORMATION

A. The 401(a) - Money Purchase Plan (401a Plan)

The 401a Plan is an employer-sponsored deferred contribution plan established by the District to provide benefits at retirement for its employees. Participation in the 401a Plan is mandatory. 401a Plan participants are required to contribute 3% of their gross wages per year, not to exceed federal maximums. The District will match the employee's 3% contributions at a 2:1 ratio to a maximum of 6%. Any employee contribution greater than 3% will not be matched. Employer matching contributions vest according to the 401a Plan policy.

Unvested employer contributions will be used to pay administrative expenses of the 401a Plan, with any remainder being applied to reduce employer contributions. 401a Plan provisions and contribution requirements are established and may be amended by the District.

The assets of the 401a Plan are administered by ICMA Retirement Corporation. The District does not exercise any control over these assets.

District contributions to the 401a Plan for the year ended December 31, 2020 were \$27,613.

B. The 457 – Defined Contribution Plan (457 Plan)

The District also offers a defined contribution pension 457 Plan to its employees. Plans of deferred compensation described in Internal Revenue Code (IRC) section 457 are available to employees of certain state and local governments and non-governmental entities that are tax-exempt under IRC 501. As the District is a local government entity and is tax-exempt, the 457 Plan is a governmental eligible 457(b) plan. Plans eligible under 457(b) allow employees of sponsoring organizations to defer income taxation on retirement savings into future years. Employee participation in the District 457 Plan is optional. Employees contribute based on federal limits and guidelines. There is no District match. The Plan's assets are administered by ICMA Retirement Corporation. The District does not exercise any control over the plan assets.

In addition to its retirement plans, the District also makes contributions into the Social Security system. Effective January 1, 2000, the Internal Revenue Service determined that members of Boards of Directors are considered to be "employees" for federal payroll tax purposes only.

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2020

C. 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; and natural disasters for which the District carries insurance coverage. There have been no significant reductions in coverage from the prior year.

NOTE 6 – SUBSEQUENT EVENTS

No material subsequent events warranting disclosure were noted.

The District evaluated subsequent events through June 7, 2021, the date the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

Lone Star Groundwater Conservation District

BUDGETARY COMPARISON - PROPRIETARY FUND (Page 1 of 2)

For the Year ended December 31, 2020

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Positive (Negative)
Revenues				
Water use fees	\$ 2,786,491	\$ 2,184,054	\$ 2,561,696	\$ 377,642
Administrative use fees	12,550	12,550	11,465	(1,085)
Application fees	34,450	34,450	51,294	16,844
Overpumpage fees	5,500	5,500	8,505	3,005
Penalty & interest on fees	5,000	5,000	7,443	2,443
Interest income	5,000	5,000	13,032	8,032
Export fees	600	600	922	322
Total Revenues	2,849,591	2,247,154	2,654,357	407,203
Expenses				
Programs	225,400	311,150	226,856	84,294
Personnel	699,014	595,284	578,339	16,945
Legal	370,000	340,000	272,789	67,211
Litigation / engineering & technical support	83,000	44,000	-	44,000
Audit	8,750	8,750	8,750	-
Engineering	260,000	360,000	267,137	92,863
Education & public awareness	70,750	65,750	21,026	44,724
Board expenses	74,820	60,825	45,272	15,553
Elections expense	100,000	100,000	11,896	88,104
Rebate on water use fees	30,000	30,000	22,885	7,115
Manager expenses	13,200	9,000	8,006	994
Computer support	32,500	36,500	40,651	(4,151) *
Office expenses	9,500	9,500	9,684	(184) *
Supplies & other	14,000	11,500	9,294	2,206
Advertising & public notices	10,000	10,000	9,238	762

Lone Star Groundwater Conservation District

BUDGETARY COMPARISON - PROPRIETARY FUND (Page 2 of 2)

For the Year ended December 31, 2020

	Original Budget Amounts	Final Budget Amounts	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Expenses (continued)				
Travel and training staff	3,000	3,000	1,041	1,959
Membership dues	4,500	4,500	5,880	(1,380) *
Building maintenance & utilities	62,000	72,000	68,222	3,778
Vehicle costs	5,500	5,500	3,449	2,051
Insurance	10,812	11,088	11,426	(338) *
Miscellaneous	1,500	1,500	367	1,133 *
Bad debt	-	-	52,192	(52,192) *
Depreciation	50,000	50,000	64,683	(14,683) *
Total Expenses	<u>\$ 2,138,246</u>	<u>\$ 2,139,847</u>	<u>\$ 1,739,083</u>	<u>\$ 400,764</u>
Revenues over (under) expenses	<u>\$ 711,345</u>	<u>\$ 107,307</u>	<u>\$ 915,274</u>	<u>\$ 807,967</u>
Beginning Net Position			<u>2,341,350</u>	
Ending Net Position			<u><u>\$ 3,256,624</u></u>	

Notes to Other Supplementary Information:

1 Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

* Expenses exceeded budget at the legal level of control.

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TEXAS SUPPLEMENTARY INFORMATION

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Lone Star Groundwater Conservation District

SERVICE TYPE

For the Year Ended December 31, 2020

1. **Services provided by the District:**

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

Lone Star Groundwater Conservation District
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
Last Five Years

	Amounts				
	2020	2019	2018	2017	2016
Revenues					
Application fees	\$ 51,294	\$ 41,175	\$ 26,400	\$ 27,542	\$ 33,400
Export fees	922	846	821	2,625	597
Water use fees	2,573,161	2,402,665	2,402,540	1,717,353	1,400,845
Interest income	13,032	4,083	4,098	4,602	3,542
Overpumpage fee	8,505	-	10,656	5,714	30,748
Miscellaneous	-	-	-	-	50
Penalty & interest	7,443	63,908	7,781	6,225	7,085
Total Revenues	2,654,357	2,512,677	2,452,296	1,764,061	1,476,267
Total Expenses	1,739,083	1,734,466	1,961,976	2,842,500	2,254,888
Revenues Over (Under)					
Expenditures	\$ 915,274	\$ 778,211	\$ 490,320	\$ (1,078,439)	\$ (778,621)

Percent of Total Fund Revenues

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
1.9 %	1.6 %	1.1 %	1.6 %	2.3 %
0.0 %	0.0 %	0.0 %	0.1 %	0.0 %
96.9 %	95.6 %	98.0 %	97.4 %	94.9 %
0.5 %	0.2 %	0.2 %	0.3 %	0.2 %
0.3 %	0.0 %	0.4 %	0.3 %	2.1 %
0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
0.3 %	2.5 %	0.3 %	0.4 %	0.5 %
<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
<u>65.5 %</u>	<u>69.0 %</u>	<u>80.0 %</u>	<u>161.1 %</u>	<u>152.7 %</u>
<u>34.5 %</u>	<u>31.0 %</u>	<u>20.0 %</u>	<u>(61.1) %</u>	<u>(52.7) %</u>

Lone Star Groundwater Conservation District

PROPRIETARY FUND EXPENDITURES

For the Years Ended December 31, 2020 and 2019

	2020	2019
<u>Current</u>		
Personnel Services (including benefits)	\$ 578,339	\$ 561,314
Professional Fees:		
Auditing	8,750	8,000
Legal	272,789	419,768
Consulting - engineering	267,137	249,175
	548,676	676,943
 Administrative programs		
Directors' fees & payroll taxes	42,527	46,290
Office supplies & Postage	9,294	10,505
Insurance	11,426	11,538
	63,247	68,333
 Community programs		
Hydrogeological modeling	664	550
Subsidence & other	56,042	9,330
USGS - joint funding agreement	170,150	164,400
	226,856	174,280
 Other Expenditures		
Building expense	68,222	54,987
Depreciation	64,683	50,665
Education & public awareness	21,026	18,108
Travel/training for staff & board	9,047	14,599
Computer support	40,651	37,812
Advertising	9,238	5,837
Membership dues & subscriptions	5,880	3,368
User fees rebates	22,885	23,447
Elections expense	11,896	50
Miscellaneous & other expenses	12,796	12,449
Bad debt	52,192	25,626
Field & technical	3,449	6,648
	321,965	253,596
Total Expenditures	\$ 1,739,083	\$ 1,734,466

Lone Star Groundwater Conservation District

CASH AND TEMPORARY INVESTMENTS

December 31, 2020

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Balance</u>
Checking - operating	1049725	0.00%	N/A	\$ 22,213
Checking - money market	1026172	0.20%	N/A	2,094,298
TexPool	788420	0.09%	N/A	<u>46,755</u>
	Total			<u><u>\$ 2,163,266</u></u>

Lone Star Groundwater Conservation District

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

For the Year Ending December 31, 2020

District's Mailing Address:

655 Conroe Park North Drive
Conroe, Texas 77303

District's Business Telephone Number:

(936) 494-3436

<u>Board Members</u>	<u>Term Expires</u>	<u>Fees</u>	<u>Expenses</u>	<u>Title</u>
Henry H. Hardman	12/1/2024	\$ 6,750	\$ -	President
Stuart Traylor	12/1/2024	\$ 5,000	\$ -	Vice President
Larry Rogers	12/1/2022	\$ 7,500	\$ -	Secretary
James B. Spigener	12/1/2022	\$ 7,750	\$ -	Treasurer
Jon Bouche	12/1/2022	\$ 8,000	\$ -	Director
Jonathan Prykryl	12/1/2022	\$ 4,500	\$ -	Director
Janice Thigpen	12/1/2022	\$ -	\$ -	Director
		\$ 39,500	\$ -	

<u>Name and Address</u>		<u>Amount</u>	<u>Title</u>
<u>Key Administrative Personnel</u>			
Samantha Reiter	Salary	\$ 110,000	General Manager
	Expenses	\$ 1,506	
	Cell phone	\$ 600	
	Auto allowance	6,000	
<u>Consultants</u>			
Stacey Reese Law PLLC		\$ 254,038	Legal
Fancher Legal, PLLC		\$ 15,801	Legal
Department of Interior - USGS		\$ 170,150	Research & development
MCB Technologies		\$ 17,097	IT Consultant
WSP USA		\$ 146,652	Engineering
Thornhill Group, Inc.		\$ 89,438	Engineering
LRE Water, LLC		\$ 85,737	Engineering
Halff Associates (Dallas), Inc		\$ 11,353	Engineering
BrooksWatson & Co., PLLC		\$ 8,750	Auditor

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