

ANNUAL FINANCIAL REPORT

of the

Lone Star Groundwater Conservation District

For the Year Ended
December 31, 2021

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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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Lone Star Groundwater Conservation District, as of and for the year ended December 31, 2021, 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.

In our opinion, the accompanying financial statements 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lone Star Groundwater Conservation 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 opinion.

Responsibilities of Management for the Financial Statements

Lone Star Groundwater Conservation District's 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 Lone Star Groundwater Conservation District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS, 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 Lone Star Groundwater Conservation 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 Lone Star Groundwater Conservation 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.

Emphasis of Matter

As discussed in Note 6. to the financial statements, the District restated its beginning net position within business-type activities, due to an accounting error in accrued expenses and program expenses in prior year. Our opinion is not modified with respect to this matter.

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

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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.

The Other Supplementary Information and Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information and Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



BrooksWatson & Co.
Certified Public Accountants
Houston, Texas
June 2, 2022

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, 2021

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, 2021.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities (net position) at December 31, 2021 by \$4,277,214.
- The District's total net position increased by \$1,086,678.
- At the end of the fiscal year unrestricted portion of net position was \$2,760,704.

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, 2021

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 \$4,277,214 at the close of the most recent fiscal year. Current assets increased by \$1,360,214 primarily due to a surplus in revenues over expenses in the current year.

An important portion of the District's net position, assets, \$1,516,510, 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, 2021

Statement of Net Position:

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

	Business-Type Activities	
	(as restated)	
	2021	2020
Current and other assets	\$ 4,183,456	\$ 2,823,242
Capital assets, net	1,516,510	1,570,048
Total Assets	5,699,966	4,393,290
Accounts payable & accrued expenses	55,785	97,660
Unearned revenue	1,366,967	1,105,094
Total Liabilities	1,422,752	1,202,754
Net position:		
Net investment in capital assets	1,516,510	1,570,048
Unrestricted	2,760,704	1,620,488
Total Net Position	\$ 4,277,214	\$ 3,190,536

Lone Star Groundwater Conservation District

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2021

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	
	2021	(as restated) 2020
Revenues		
Water use fees	\$ 2,818,778	\$ 2,632,960
Interest and other	63,708	21,397
Total Revenues	2,882,486	2,654,357
Expenses		
Programs	260,774	226,856
Personnel	586,781	578,339
Legal	277,593	272,789
Engineering & technical support	263,220	267,137
Education and public awareness	83,284	21,026
Other	259,284	374,341
Depreciation	64,872	64,683
Total Expenses	1,795,808	1,805,171
Change in Net Position	1,086,678	849,186
Beginning Net Position	3,190,536	2,341,350
Ending Net Position	\$ 4,277,214	\$ 3,190,536

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 decreased by \$9,363. In fiscal year 2020, the District incurred \$77,983 in elections expenses, which decreased to \$2,240 in the current year. The District also experienced a decrease of \$52,192 for bad debt expense due to a decrease in its allowance for doubtful accounts. During 2020, the District began a new subsidence study. The costs increased by \$33,919 in the current year for the study.

BUDGETARY HIGHLIGHTS

A budgeted increase in net position of \$794,228 was anticipated in 2021. The actual surplus of revenue over expenses of \$1,086,678 was due to less expenses than anticipated.

Lone Star Groundwater Conservation District

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2021

Actual revenues were lesser than final budgeted revenues by \$331,114 during the year. Actual expenses were under the final budget by \$623,564.

CAPITAL ASSETS

As of the end of the year, the District had invested \$1,516,510 in a variety of capital assets and infrastructure, net of accumulated depreciation.

During 2021, the District purchased nine computers for \$11,334.

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 \$3,213,600 and expenses of \$2,518,328 for the fiscal year ended December 31, 2021.

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, 2021

<u>Assets</u>	<u>Business-Type</u>
<u>Current Assets</u>	<u>Activities</u>
Cash	\$ 3,964,792
Receivables, net	213,050
Prepaid expenses	5,614
Total Current Assets	\$ 4,183,456
Noncurrent Assets	
Capital assets, non-depreciable	260,187
Capital assets (net of accumulated depreciation)	1,256,323
Total Noncurrent Assets	1,516,510
Total Assets	\$ 5,699,966
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued expenses	\$ 55,785
Unearned revenue	1,366,967
Total Current Liabilities	1,422,752
Net Position	
Net investment in capital assets	1,516,510
Unrestricted	2,760,704
Net Position	\$ 4,277,214

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, 2021

	Business-Type Activities
Operating revenues	
Water use fees	\$ 2,682,161
Administrative use fees	16,007
Application fees	40,095
Overpumpage fees	80,515
Penalty & interest on fees	14,871
Total Operating revenues	2,833,649
Operating expenses	
Programs	260,774
Personnel	586,781
Legal	277,593
Audit	8,750
Engineering	263,220
Education & public awareness	83,284
Board expenses	65,364
Elections expense	2,240
Rebate on water use fees	8,420
Manager expenses	13,646
Computer support	39,811
Office expenses	4,807
Supplies & other	12,415
Advertising & public notices	8,712
Travel and training staff	2,573
Membership dues	4,792
Building maintenance & utilities	62,746
Vehicle costs	4,398
Insurance	12,676
Miscellaneous	7,934
Depreciation	64,872
Total Operating expenses	1,795,808
Operating income	1,037,841
Nonoperating revenues (expenses)	
Interest income	48,837
Total nonoperating revenues (expenses)	48,837
Change in net position	1,086,678
Beginning Net Position	3,190,536
Ending Net Position	\$ 4,277,214

See Notes to Financial Statements.

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Lone Star Groundwater Conservation District

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2021

	Business-Type Activities
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 3,575,483
Payments to employees	(673,156)
Payments to suppliers	(1,089,467)
Net Cash Provided by / (Used) in Operating Activities	1,812,860
<u>Cash Flows From Capital and Related Financing Activities</u>	
Purchases of capital assets	(11,334)
Net Cash Provided by / (Used) in Capital and Related Financing Activities	(11,334)
Net Increase / (Decrease) in Cash and Cash Equivalents	1,801,526
Beginning cash and cash equivalents	2,163,266
Ending Cash and Cash Equivalents	\$ 3,964,792
<u>Reconciliation of Operating Income / (Loss) to Net Cash Provided by / (Used) in Operating Activities</u>	
Operating income	\$ 1,086,678
Adjustments to reconcile operating income to net cash provided:	
Depreciation	64,872
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	439,544
Prepaid expenses	1,768
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(41,875)
Unearned revenue	261,873
Net Cash Provided by / (Used) in Operating Activities	\$ 1,812,860

See Notes to Financial Statements.

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Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2021

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 December 9, 2020. Four board members had terms that expired on December 1, 2022; two board members have terms that will expire on December 1, 2024.

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, 2021

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, 2021

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, 2021, the allowance for doubtful accounts was \$30,820.

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2021

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, 2021

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, 2021, the accrued vacation pay benefit balance was \$19,426.

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, 2021

10. *Unearned revenue*

Unearned revenue represents revenues billed but not earned as of December 31, 2021. This is comprised of revenue for well permits billed in the current year that relate to the annual or quarterly periods following December 31, 2021. The revenue is deferred and recognized in the permit year. As of December 31, 2021, unearned revenue was \$1,366,967.

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 2021 budget was adopted on August 11, 2020. 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: 1. depreciation - \$14,872, 2. miscellaneous - \$6,434, 3. insurance - \$1,588, and 4. manager expenses - \$446, for the year ended December 31, 2021.

NOTE 4 - DETAILED NOTES

A. Deposits and Investments

As of December 31, 2021, the District had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturity (years)</u>
External investment pools	46,769	0.10
	<u>\$ 46,769</u>	

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, 2021

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, 2021, 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, 2021, 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, 2021, 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, 2021

B. Receivables

The following comprise the receivable balances at year end:

Type	Total
Permit receivables	\$ 243,870
Allowance for doubtful accounts	(30,820)
Total	\$ 213,050

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	339,183	11,334	-	350,517
Total capital assets being depreciated	1,932,736	11,334	-	1,944,070
Less accumulated depreciation				
Building	(384,260)	(38,976)	-	(423,236)
Furniture, vehicles & equipment	(238,615)	(25,896)	-	(264,511)
Total accumulated depreciation	(622,875)	(64,872)	-	(687,747)
Net capital assets being depreciated	1,309,861	(53,538)	-	1,256,323
Total capital assets	\$ 1,570,048	\$ (53,538)	\$ -	\$ 1,516,510

Depreciation expense was \$64,782 for the year ended December 31, 2021.

Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2021

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, 2021 were \$27,797.

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, 2021

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 – RESTATEMENT

The District has restated its beginning net position due to a difference in accrued expenses and program expenses applicable to the prior year. The restatement of beginning net position is as follows:

	Business Type Activities
Prior year ending net position	\$ 3,256,623
Increase in accrued expenses	(66,087)
Restated net position	<u>\$ 3,190,536</u>

NOTE 7 – SUBSEQUENT EVENTS

No material subsequent events warranting disclosure were noted.

The District evaluated subsequent events through June 2, 2022, 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, 2021

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Water use fees	\$ 2,184,054	\$ 3,102,500	\$ 2,682,161	\$ (420,339)
Administrative use fees	12,550	12,550	16,007	3,457
Application fees	34,450	32,950	40,095	7,145
Overpumpage fees	5,500	50,000	80,515	30,515
Penalty & interest on fees	5,000	10,000	14,871	4,871
Interest income	5,000	5,000	48,837	43,837
Export fees	600	600	-	(600)
Total Revenues	<u>2,247,154</u>	<u>3,213,600</u>	<u>2,882,486</u>	<u>(331,114)</u>
Expenses				
Programs	321,150	327,550	260,774	66,776
Personnel	645,284	645,284	586,781	58,503
Legal	372,000	380,000	277,593	102,407
Litigation / engineering & technical support	58,000	58,500	-	58,500
Audit	8,750	8,750	8,750	-
Engineering	310,000	370,000	263,220	106,780
Education & public awareness	81,000	173,500	83,284	90,216
Board expenses	63,820	77,500	65,364	12,136
Elections expense	100,000	100,000	2,240	97,760
Rebate on water use fees	30,000	30,000	8,420	21,580
Manager expenses	13,200	13,200	13,646	(446) *
Computer support	35,500	50,000	39,811	10,189
Office expenses	9,500	9,500	4,807	4,693
Supplies & other	14,500	14,500	12,415	2,085
Advertising & public notices	10,000	10,000	8,712	1,288

Lone Star Groundwater Conservation District

BUDGETARY COMPARISON - PROPRIETARY FUND (Page 2 of 2)

For the Year ended December 31, 2021

	Original Budget Amounts	Final Budget Amounts	Actual	Variance with Final Budget Positive (Negative)
Expenses (continued)				
Travel and training staff	3,000	3,000	2,573	427
Membership dues	4,500	6,000	4,792	1,208
Building maintenance & utilities	67,000	72,000	62,746	9,254
Vehicle costs	5,500	7,500	4,398	3,102
Insurance	11,088	11,088	12,676	(1,588) *
Miscellaneous	1,500	1,500	7,934	(6,434) *
Bad debt	-	-	-	-
Depreciation	50,000	50,000	64,872	(14,872) *
Total Expenses	\$ 2,215,292	\$ 2,419,372	\$ 1,795,808	\$ 623,564
Revenues over (under) expenses	\$ 31,862	\$ 794,228	\$ 1,086,678	\$ 292,450
Beginning Net Position			3,190,536	
Ending Net Position			\$ 4,277,214	

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, 2021

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				
	2021	2020	2019	2018	2017
Revenues					
Application fees	\$ 40,095	\$ 51,294	\$ 41,175	\$ 26,400	\$ 27,542
Export fees	-	922	846	821	2,625
Water use fees	2,698,168	2,573,161	2,402,665	2,402,540	1,717,353
Interest income	48,837	13,032	4,083	4,098	4,602
Overpumpage fee	80,515	8,505	-	10,656	5,714
Penalty & interest	14,871	7,443	63,908	7,781	6,225
Total Revenues	2,882,486	2,654,357	2,512,677	2,452,296	1,764,061
Total Expenses	1,795,808	1,805,170	1,734,466	1,961,976	2,842,500
Revenues Over (Under)					
Expenditures	\$ 1,086,678	\$ 849,187	\$ 778,211	\$ 490,320	\$ (1,078,439)

Percent of Total Fund Revenues

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
1.4 %	1.9 %	1.6 %	1.1 %	1.6 %
0.0 %	0.0 %	0.0 %	0.0 %	0.1 %
93.6 %	96.9 %	95.6 %	98.0 %	97.4 %
1.7 %	0.5 %	0.2 %	0.2 %	0.3 %
2.8 %	0.0 %	%	0.4 %	0.3 %
0.5 %	0.3 %	2.5 %	0.3 %	0.4 %
<u>100.0 %</u>	<u>99.7 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
<u>62.3 %</u>	<u>68.0 %</u>	<u>69.0 %</u>	<u>80.0 %</u>	<u>161.1 %</u>
<u><u>37.7 %</u></u>	<u><u>32.0 %</u></u>	<u><u>31.0 %</u></u>	<u><u>20.0 %</u></u>	<u><u>(61.1) %</u></u>

Lone Star Groundwater Conservation District

PROPRIETARY FUND EXPENDITURES

For the Years Ended December 31, 2021 and 2020

	2021	(as restated) 2020
<u>Current</u>		
Personnel Services (including benefits)	\$ 586,781	\$ 578,339
Professional Fees:		
Auditing	8,750	8,750
Legal	277,593	272,789
Consulting - engineering	263,220	267,137
	549,563	548,676
 Administrative programs		
Directors' fees & payroll taxes	58,186	42,527
Office supplies & Postage	12,415	9,294
Insurance	12,676	11,426
	83,277	63,247
 Community programs		
Hydrogeological modeling	613	664
Subsidence & other	108,611	56,042
USGS - joint funding agreement	151,550	170,150
	260,774	226,856
 Other Expenditures		
Building expense	62,746	68,222
Depreciation	64,872	64,683
Education & public awareness	83,284	21,026
Travel/training for staff & board	16,219	9,047
Computer support	39,811	40,651
Advertising	8,712	9,238
Membership dues & subscriptions	4,792	5,880
User fees rebates	8,420	22,885
Elections expense	2,240	77,983
Miscellaneous & other expenses	19,920	12,796
Bad debt	-	52,192
Field & technical	4,397	3,449
	315,413	388,052
Total Expenditures	\$ 1,795,808	\$ 1,805,170

Lone Star Groundwater Conservation District

CASH AND TEMPORARY INVESTMENTS

December 31, 2021

<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	\$ 6,790
Checking - money market	1026172	0.10%	N/A	3,911,233
TexPool	788420	0.028%	N/A	<u>46,769</u>
	Total			<u><u>\$ 3,964,792</u></u>

Lone Star Groundwater Conservation District

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

For the Year Ending December 31, 2021

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	\$ 9,000	\$ -	President
Stuart Traylor	12/1/2024	\$ 5,750	\$ -	Vice President
Larry Rogers	12/1/2022	\$ 8,000	\$ -	Secretary
James B. Spigener	12/1/2022	\$ 9,000	\$ -	Treasurer
Jon Bouche	12/1/2022	\$ 6,500	\$ -	Director
Jonathan Prykryl	12/1/2022	\$ 8,750	\$ -	Director
Janice Thigpen	12/1/2022	\$ 7,000	\$ -	Director
		\$ 54,000	\$ -	

-

<u>Name and Address</u>	<u>Amount</u>	<u>Title</u>
<u>Key Administrative Personnel</u>		
Samantha Reiter	Salary \$ 110,000	General Manager
	Expenses \$ 6,248	
	Cell phone \$ 600	
	Auto allowance 7,200	
<u>Consultants</u>		
Stacey Reese Law PLLC	\$ 255,395	Legal
Fancher Legal, PLLC	\$ 19,728	Legal
Advanced Groundwater Solutions, LLC	\$ 249,584	Research & development
US Geological Survey	\$ 151,550	Research & development
MCB Technologies	\$ 23,842	IT Consultant
The Mach 1 Group	\$ 72,950	Public affairs
Thornhill Group, Inc.	\$ 67,854	Engineering
LRE Water, LLC	\$ 48,987	Engineering
Half Associates (Dallas), Inc	\$ 15,408	Engineering
BrooksWatson & Co., PLLC	\$ 8,750	Auditor

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