ANNUAL FINANCIAL REPORT

of the

Lone Star Groundwater Conservation District

For the Year Ended
December 31, 2022

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Lone Star Groundwater Conservation District

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BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2022, 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, 2022, 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.

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

August 31, 2023

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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, 2022

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, 2022.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities (net position) at December 31, 2022 by $5,170,831.
- The District's total net position increased by $893,617.
- At the end of the fiscal year unrestricted portion of net position was $3,718,795.

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".

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 $5,170,831 at the close of the most recent fiscal year. Current assets increased by $1,253,631 primarily due to greater cash on hand, resulting from a surplus in revenues over expenses in the current year.

An important portion of the District's net position, assets, $1,452,036, 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.

Statement of Net Position:

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

	Business-Type Activities	
	2022	**2021**
Current and other assets	$ 5,437,087	$ 4,183,456
Capital assets, net	1,452,036	1,516,510
Total Assets	6,889,123	5,699,966
Accounts payable & accrued expenses	236,660	55,785
Unearned revenue	1,481,632	1,366,967
Total Liabilities	1,718,292	1,422,752
Net position:		
Net investment in capital assets	1,452,036	1,516,510
Unrestricted	3,718,795	2,760,704
Total Net Position	$ 5,170,831	$ 4,277,214

Accounts payable and accrued expenses increased by $180,875 primarily due to the District receiving an invoice for election expenses incurred during the November 8, 2022 election. The District did not hold any elections in the prior year.

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	
	2022	**2021**
Revenues		
Water use fees	$ 2,975,858	$ 2,818,778
Interest and other	14,838	63,708
Total Revenues	2,990,696	2,882,486
Expenses		
Programs	138,558	260,774
Personnel	665,790	586,781
Legal	365,440	277,593
Engineering & technical support	239,243	263,220
Education and public awareness	152,847	83,284
Other	467,551	259,284
Depreciation	67,650	64,872
Total Expenses	2,097,079	1,795,808
Change in Net Position	893,617	1,086,678
Beginning Net Position	4,277,214	3,190,536
Ending Net Position	$ 5,170,831	$ 4,277,214

The District's total expenses increased by $301,271. In fiscal year 2022, the District incurred $199,135 in elections expenses, which is an increase of $196,895 in the current year. The increase is due to the election that was held on November 8, 2022, and no election was held in the prior year. During 2021, the District began a new subsidence study. The costs decreased by $42,878 in the current year for the study. The costs related to the USGS subsidence study also decreased by $79,344 in the current year for the study. Personnel expenses increased primarily due to the hiring of a permitting director and raises given during the current year. Legal costs increased by $87,847 primarily due to the District hiring new legislative consultants in the current year.

BUDGETARY HIGHLIGHTS

A budgeted increase in net position of $612,850 was anticipated in 2022. The actual surplus of revenue over expenses of $893,617 was due to less expenses than anticipated.

Actual revenues were less than final budgeted revenues by $222,904 during the year. Actual expenses were under the final budget by $503,671.

CAPITAL ASSETS

As of the end of the year, the District had invested $1,452,036 in a variety of capital assets and infrastructure, net of accumulated depreciation.

During 2022, the District purchased new software systems totaling $3,176. The total amount of depreciation expenses was $67,650 during the current year.

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.

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, 2022

		Business-Type Activities
Assets		
Current Assets		
Cash		$ 5,118,313
Receivables, net		313,090
Prepaid expenses		5,684
	Total Current Assets	$ 5,437,087
Noncurrent Assets		
Capital assets, non-depreciable		260,187
Capital assets (net of accumulated depreciation)		1,191,849
	Total Noncurrent Assets	1,452,036
	Total Assets	$ 6,889,123
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses		$ 236,660
Unearned revenue		1,481,632
	Total Current Liabilities	1,718,292
Net Position		
Net investment in capital assets		1,452,036
Unrestricted		3,718,795
	Net Position	$ 5,170,831

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, 2022

		Business-Type Activities
Operating revenues		
Water use fees		$ 2,792,018
Administrative use fees		14,047
Application fees		21,900
Overpumpage fees		147,893
Penalty & interest on fees		9,346
	Total Operating revenues	2,985,204
Operating expenses		
Programs		138,558
Personnel		665,790
Legal		365,440
Audit		9,500
Engineering		239,243
Education & public awareness		152,847
Board expenses		60,335
Elections expense		199,135
Rebate on water use fees		13,439
Manager expenses		10,520
Computer support		46,498
Office expenses		4,537
Supplies & other		16,203
Advertising & public notices		5,685
Travel and training staff		4,126
Membership dues		9,546
Building maintenance & utilities		65,681
Vehicle costs		7,167
Insurance		11,673
Miscellaneous		3,506
Depreciation		67,650
	Total Operating expenses	2,097,079
	Operating income	888,125
Nonoperating revenues (expenses)		
Interest income		5,492
	Total nonoperating revenues (expenses)	5,492
	Change in net position	893,617
Beginning Net Position		4,277,214
	Ending Net Position	$ 5,170,831

See Notes to Financial Statements.

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Lone Star Groundwater Conservation District

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2022

		Business-Type Activities
Cash Flows from Operating Activities		
Receipts from customers	$	2,991,882
Payments to employees		(747,403)
Payments to suppliers		(1,087,782)
Net Cash Provided by / (Used) in Operating Activities		1,156,697
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets		(3,176)
Net Cash Provided by / (Used) in Capital and Related Financing Activities		(3,176)
Net Increase / (Decrease) in Cash and Cash Equivalents		1,153,521
Beginning cash and cash equivalents		3,964,792
Ending Cash and Cash Equivalents	$	5,118,313
Reconciliation of Operating Income / (Loss) to Net Cash Provided by / (Used) in Operating Activities		
Operating income	$	893,617
Adjustments to reconcile operating income to net cash provided:		
Depreciation		67,650
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable		(100,040)
Prepaid expenses		(70)
Increase (Decrease) in:		
Accounts payable and accrued liabilities		180,875
Unearned revenue		114,665
Net Cash Provided by / (Used) in Operating Activities	$	1,156,697

See Notes to Financial Statements.

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Lone Star Groundwater Conservation District

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2022

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. One board member had terms that expired on December 1, 2022; three board members have terms that will expire on December 1, 2024; three board members have terms that will expire on December 1, 2026.

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

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.

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, 2022, the allowance for doubtful accounts was $9,717.

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:

Asset Description	Estimated Useful Life
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

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, 2022, the accrued vacation pay benefit balance was $22,340.

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.

10. Unearned revenue

Unearned revenue represents revenues billed but not earned as of December 31, 2022. This is comprised of revenue for well permits billed in the current year that relate to the annual or quarterly periods following December 31, 2022. The revenue is deferred and recognized in the permit year. As of December 31, 2022, unearned revenue was $1,481,632.

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 2022 budget was adopted on December 14, 2021. 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. elections - $99,135 and 2. depreciation - $17,650, for the year ended December 31, 2022.

NOTE 4 - DETAILED NOTES

A. Deposits and Investments

As of December 31, 2022, the District had the following investments:

Investment Type	Carrying Value	Maturity (years)
External investment pools	47,511	0.07
	$ 47,511	

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.

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, 2022, 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, 2022, 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, 2022, 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.

B. Receivables

The following comprise the receivable balances at year end:

Type	Total
Permit receivables	$ 322,807
Allowance for doubtful accounts	(9,717)
Total	$ 313,090

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	350,517	3,176	-	353,693
Total capital assets being depreciated	1,944,070	3,176	-	1,947,246
Less accumulated depreciation				
Building	(423,236)	(38,976)	-	(462,212)
Furniture, vehicles & equipment	(264,511)	(28,674)	-	(293,185)
Total accumulated depreciation	(687,747)	(67,650)	-	(755,397)
Net capital assets being depreciated	1,256,323	(64,474)	-	1,191,849
Total capital assets	$ 1,516,510	$ (64,474)	$ -	$ 1,452,036

Depreciation expense was $67,650 for the year ended December 31, 2022.

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, 2022 were $31,863.

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.

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 August 31, 2023, 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, 2022

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Positive (Negative)	
Revenues					
Water use fees	$ 3,102,500	$ 3,102,500	$ 2,792,018	$ (310,482)	
Administrative use fees	12,550	12,550	14,047	1,497	
Application fees	32,950	32,950	21,900	(11,050)	
Overpumpage fees	50,000	50,000	147,893	97,893	
Penalty & interest on fees	10,000	10,000	9,346	(654)	
Interest income	5,000	5,000	5,492	492	
Export fees	600	600	-	(600)	
Total Revenues	3,213,600	3,213,600	2,990,696	(222,904)	
Expenses					
Programs	327,550	193,206	138,558	54,648	
Personnel	696,384	917,200	665,790	251,410	
Legal	395,000	481,000	365,440	115,560	
Litigation / engineering & technical support	58,500	8,500	-	8,500	
Audit	9,750	9,500	9,500	-	
Engineering	385,000	330,000	239,243	90,757	
Education & public awareness	185,750	183,750	152,847	30,903	
Board expenses	79,500	76,000	60,335	15,665	
Elections expense	100,000	100,000	199,135	(99,135)	*
Rebate on water use fees	15,000	15,000	13,439	1,561	
Manager expenses	15,200	11,200	10,520	680	
Computer support	50,000	59,000	46,498	12,502	
Office expenses	11,000	12,500	4,537	7,963	
Supplies & other	16,500	19,000	16,203	2,797	
Advertising & public notices	10,000	6,000	5,685	315	

Lone Star Groundwater Conservation District

BUDGETARY COMPARISON - PROPRIETARY FUND (Page 2 of 2)

For the Year ended December 31, 2022

	Original Budget Amounts	Final Budget Amounts	Actual	Variance with Final Budget Positive (Negative)
Expenses (continued)				
Travel and training staff	3,000	4,500	4,126	374
Membership dues	10,000	10,000	9,546	454
Building maintenance & utilities	77,000	87,000	65,681	21,319
Vehicle costs	7,500	9,500	7,167	2,333
Insurance	12,694	12,894	11,673	1,221
Miscellaneous	3,000	5,000	3,506	1,494
Depreciation	50,000	50,000	67,650	(17,650) *
Total Expenses	$ 2,518,328	$ 2,600,750	$ 2,097,079	$ 503,671
Revenues over (under) expenses	$ 695,272	$ 612,850	$ 893,617	$ 280,767
Beginning Net Position			4,277,214	
Ending Net Position			$ 5,170,831	

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, 2022

1. Services provided by the District:

___	Retail Water	___	Wholesale Water	___	Drainage
___	Retail Sewer	___	Wholesale Sewer	___	Irrigation
___	Parks/Recreation	___	Fire Protection	___	Security
___	Solid Waste/Garbage	___	Flood Control	___	Roads
___	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
X	Other (specify):	Water conservation services			

Lone Star Groundwater Conservation District

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES

Last Five Years

	Amounts				
	2022	**2021**	**2020**	**2019**	**2018**
Revenues					
Application fees	$ 35,947	$ 40,095	$ 51,294	$ 41,175	$ 26,400
Export fees	-	-	922	846	821
Water use fees	2,792,018	2,698,168	2,573,161	2,402,665	2,402,540
Interest income	5,492	48,837	13,032	4,083	4,098
Overpumpage fee	147,893	80,515	8,505	-	10,656
Penalty & interest	9,346	14,871	7,443	63,908	7,781
Total Revenues	2,990,696	2,882,486	2,654,357	2,512,677	2,452,296
Total Expenses	2,097,079	1,795,808	1,805,170	1,734,466	1,961,976
Revenues Over (Under) Expenditures	$ 893,617	$ 1,086,678	$ 849,187	$ 778,211	$ 490,320

Percent of Total Fund Revenues				
2022	2021	2020	2019	2018
1.2 %	1.4 %	1.9 %	1.6 %	1.1 %
0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
93.4 %	93.6 %	96.9 %	95.6 %	98.0 %
0.2 %	1.7 %	0.5 %	0.2 %	0.2 %
4.9 %	0.0 %	0.0 %	0.0 %	0.4 %
0.3 %	0.5 %	0.3 %	2.5 %	0.3 %
100.0 %	97.2 %	99.7 %	100.0 %	100.0 %
70.1 %	62.3 %	68.0 %	69.0 %	80.0 %
29.9 %	37.7 %	32.0 %	31.0 %	20.0 %

Lone Star Groundwater Conservation District

PROPRIETARY FUND EXPENDITURES

For the Years Ended December 31, 2022 and 2021

	2022	2021
Current		
Personnel Services (including benefits)	$ 665,790	$ 586,781
Professional Fees:		
Auditing	9,500	8,750
Legal	365,440	277,593
Consulting - engineering	239,243	263,220
	614,183	549,563
Administrative programs		
Directors' fees & payroll taxes	52,724	58,186
Office supplies & Postage	16,203	12,415
Insurance	11,673	12,676
	80,600	83,277
Community programs		
Hydrogeological modeling	619	613
Subsidence & other	65,733	108,611
USGS - joint funding agreement	72,206	151,550
	138,558	260,774
Other Expenditures		
Building expense	65,681	62,746
Depreciation	67,650	64,872
Education & public awareness	152,847	83,284
Travel/training for staff & board	14,646	16,219
Computer support	46,498	39,811
Advertising	5,685	8,712
Membership dues & subscriptions	9,546	4,792
User fees rebates	13,439	8,420
Elections expense	199,135	2,240
Miscellaneous & other expenses	15,654	19,920
Field & technical	7,167	4,397
	597,948	315,413
Total Expenditures	$ 2,097,079	$ 1,795,808

Lone Star Groundwater Conservation District

CASH AND TEMPORARY INVESTMENTS

December 31, 2022

Funds	Identification or Certificate Number	Interest Rate (%)	Maturity Date	Balance
Checking - operating	1049725	0.00%	N/A	$ 46,242
Checking - money market	1026172	0.10%	N/A	5,024,560
TexPool	788420	0.028%	N/A	47,511
Total				$ 5,118,313

Lone Star Groundwater Conservation District

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

For the Year Ending December 31, 2022

District's Mailing Address: 655 Conroe Park North Drive
Conroe, Texas 77303

District's Business Telephone Number: (936) 494-3436

Board Members	Term Expires	Fees	Expenses	Title
James B. Spigener	12/1/2024	$ 9,000	$ -	President
Stuart Traylor	12/1/2024	$ 5,750	$ -	Vice President
Janice Thigpen	12/1/2026	$ 6,500	$ -	Secretary
Jonathan Prykryl	12/1/2026	$ 7,750	$ -	Treasurer
Jon Bouche	12/1/2026	$ 7,750	$ -	Director
Garry Dent	12/1/2024	$ -	$ -	Director
Kenneth Earnest	12/1/2026	$ -	$ -	Director
[1] Henry Hardman	11/8/2022	$ 6,750	$ -	Former President
[1] Larry Rogers	11/8/2022	$ 5,500	$ -	Former Secretary
		$ 49,000	$ -	

[1] Henry Hardman and Larry Rogers were not re-elected in November of 2022.

Name and Address		Amount	Title
Key Administrative Personnel			
Samantha Reiter	Salary	$ 110,000	General Manager
	Expenses	$ 3,319	
	Cell phone	$ 600	
	Auto allowance	7,200	
Consultants			
Stacey Reese Law PLLC		$ 261,723	Legal
Fancher Legal, PLLC		$ 10,500	Legal
Phenix & Saenz LLC		$ 36,000	Legal
Advanced Groundwater Solutions, LLC		$ 225,974	Research & development
US Geological Survey		$ 72,206	Research & development
Harden, R.W. & Associates, Inc		$ 64,665	Research & development
MCB Technologies		$ 24,286	IT Consultant
The Mach 1 Group		$ 92,922	Public affairs
Tinker, LLC		$ 50,167	Public affairs
Brown, Jay P. & Sabrina T		$ 45,000	Public affairs
Thornhill Group, Inc.		$ 13,838	Engineering
Halff Associates (Dallas), Inc		$ 10,500	Engineering
BrooksWatson & Co., PLLC		$ 9,500	Auditor

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