*ANNUAL FINANCIAL REPORT*

of the

# Lone Star Groundwater Conservation District

**For the Year Ended**
**December 31, 2023**

# Lone Star Groundwater Conservation District

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**December 31, 2023**


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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, 2023, 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, 2023, 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
July 17, 2024

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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, 2023**

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, 2023.

## FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities (net position) at December 31, 2023 by $7,187,260.
- The District's total net position increased by $2,016,429.
- At the end of the fiscal year unrestricted portion of net position was $5,761,523.

## 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 $7,187,260 at the close of the most recent fiscal year.

An important portion of the District's net position, assets, $1,425,737, 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 | |
|---|---|---|
| | 2023 | 2022 |
| Current and other assets | $ 7,683,657 | $ 5,437,087 |
| Capital assets, net | 1,425,737 | 1,452,036 |
| **Total Assets** | 9,109,394 | 6,889,123 |
| Accounts payable & accrued expenses | 57,998 | 236,660 |
| Unearned revenue | 1,864,136 | 1,481,632 |
| **Total Liabilities** | 1,922,134 | 1,718,292 |
| Net position: | | |
| Net investment in capital assets | 1,425,737 | 1,452,036 |
| Unrestricted | 5,761,523 | 3,718,795 |
| **Total Net Position** | $ 7,187,260 | $ 5,170,831 |

Current assets increased by $2,246,570 primarily due to greater cash on hand, resulting from operating surpluses during the year. Accounts payable and accrued expenses decreased by $178,662 primarily due to paying off a nonrecurring invoice for prior year election expenses during the current fiscal 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 | |
|---|---|---|
| | 2023 | 2022 |
| **Revenues** | | |
| Water use fees | $ 4,258,157 | $ 2,975,858 |
| Interest and other | 36,941 | 14,838 |
| **Total Revenues** | 4,295,098 | 2,990,696 |
| **Expenses** | | |
| Programs | 167,509 | 138,558 |
| Personnel | 721,541 | 665,790 |
| Legal | 454,335 | 365,440 |
| Engineering & technical support | 347,576 | 239,243 |
| Education and public awareness | 85,597 | 152,847 |
| Other | 433,279 | 467,551 |
| Depreciation | 68,832 | 67,650 |
| **Total Expenses** | 2,278,669 | 2,097,079 |
| **Change in Net Position** | 2,016,429 | 893,617 |
| Beginning Net Position | 5,170,831 | 4,277,214 |
| **Ending Net Position** | $ 7,187,260 | $ 5,170,831 |

The District's total expenses increased by $181,590. In fiscal year 2022, the District incurred $199,135 in elections expenses. The decrease in other expenses is due to the election that was held on November 8, 2022, while no election was held in the current year. Legal, engineering and technical support expenses increased by $197,228 due to nonrecurring permitting and planning consulting expenses for groundwater management area 14 in the current year. Personnel expenses increased primarily due to new hires and general raises approved during the current year. Education and public awareness expenses decreased by $67,250 primarily due to nonrecurring water conservation school program expenses in the prior year and a vendor overcharging for services that has since been terminated.

## BUDGETARY HIGHLIGHTS

A final budgeted decrease in net position of $1,346,500 was anticipated in 2023. The actual surplus of revenue over expenses of $2,016,429 was due to less expenses than anticipated and greater revenues than expected.

Actual revenues were greater than final budgeted revenues by $1,085,898 during the year. Actual expenses were under the final budget by $2,277,031.

## CAPITAL ASSETS

As of the end of the year, the District had invested $1,425,737 in a variety of capital assets and infrastructure, net of accumulated depreciation.

During 2023, the District purchased a 2023 blue Ford Ranger for $42,533. The total amount of depreciation expenses was $68,832 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, 2023**

| | | Business-Type Activities |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | | $ 6,874,471 |
| Receivables, net | | 801,442 |
| Prepaid expenses | | 7,744 |
| | **Total Current Assets** | $ 7,683,657 |
| **Noncurrent Assets** | | |
| Capital assets, non-depreciable | | 260,187 |
| Capital assets (net of accumulated depreciation) | | 1,165,550 |
| | **Total Noncurrent Assets** | 1,425,737 |
| | **Total Assets** | $ 9,109,394 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | | $ 39,776 |
| Unearned revenue | | 1,864,136 |
| Compensated absences | | 18,222 |
| | **Total Current Liabilities** | 1,922,134 |
| **Net Position** | | |
| Net investment in capital assets | | 1,425,737 |
| Unrestricted | | 5,761,523 |
| | **Net Position** | $ 7,187,260 |

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, 2023**

| | | Business-Type Activities |
|---|---|---|
| **Operating revenues** | | |
| Water use fees | | $ 3,289,616 |
| Administrative use fees | | 8,850 |
| Application fees | | 70,206 |
| Overpumpage fees | | 889,485 |
| Penalty & interest on fees | | 27,997 |
| | **Total Operating revenues** | 4,286,154 |
| **Operating expenses** | | |
| Programs | | 167,509 |
| Personnel | | 721,541 |
| Legal | | 454,335 |
| Audit | | 9,750 |
| Engineering | | 347,576 |
| Education & public awareness | | 85,597 |
| Board expenses | | 65,969 |
| Elections expense | | 3,094 |
| Manager expenses | | 8,908 |
| Computer support | | 156,391 |
| Office expenses | | 15,464 |
| Supplies & other | | 6,054 |
| Advertising & public notices | | 1,382 |
| Travel and training staff | | 5,204 |
| Membership dues | | 14,503 |
| Building maintenance & utilities | | 99,696 |
| Vehicle costs | | 7,725 |
| Insurance | | 12,242 |
| Miscellaneous | | 7,754 |
| Depreciation | | 68,832 |
| | **Total Operating expenses** | 2,278,669 |
| | **Operating income** | 2,007,485 |
| **Nonoperating revenues (expenses)** | | |
| Interest income | | 8,944 |
| | **Total nonoperating revenues (expenses)** | 8,944 |
| | **Change in net position** | 2,016,429 |
| Beginning Net Position | | 5,170,831 |
| | **Ending Net Position** | $ 7,187,260 |

See Notes to Financial Statements.

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# Lone Star Groundwater Conservation District

*STATEMENT OF CASH FLOWS*

**For the Year Ended December 31, 2023**

| | | Business-Type Activities |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Receipts from customers | $ | 4,189,250 |
| Payments to employees | | (816,125) |
| Payments to suppliers | | (1,574,434) |
| **Net Cash Provided by / (Used) in Operating Activities** | | 1,798,691 |
| **Cash Flows From Capital and Related Financing Activities** | | |
| Purchases of capital assets | | (42,533) |
| **Net Cash Provided by / (Used) in Capital and Related Financing Activities** | | (42,533) |
| **Net Increase / (Decrease) in Cash and Cash Equivalents** | | 1,756,158 |
| Beginning cash and cash equivalents | | 5,118,313 |
| **Ending Cash and Cash Equivalents** | $ | 6,874,471 |
| **Reconciliation of Operating Income / (Loss) to Net Cash Provided by / (Used) in Operating Activities** | | |
| Operating income | $ | 2,016,429 |
| Adjustments to reconcile operating income to net cash provided: | | |
| Depreciation | | 68,832 |
| **Changes in Operating Assets and Liabilities:** | | |
| **(Increase) Decrease in:** | | |
| Accounts receivable | | (488,352) |
| Prepaid expenses | | (2,060) |
| **Increase (Decrease) in:** | | |
| Accounts payable and accrued liabilities | | (178,662) |
| Unearned revenue | | 382,504 |
| **Net Cash Provided by / (Used) in Operating Activities** | $ | 1,798,691 |

See Notes to Financial Statements.

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# Lone Star Groundwater Conservation District

*NOTES TO FINANCIAL STATEMENTS*

**For the Year Ended December 31, 2023**

## 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, 2023, the allowance for doubtful accounts was $28,860.

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, 2023, the accrued vacation pay benefit balance was $18,222.

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, 2023. This is comprised of revenue for well permits billed in the current year that relate to the annual or quarterly periods following December 31, 2023. The revenue is deferred and recognized in the permit year. As of December 31, 2023, unearned revenue was $1,864,136.

## 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 2023 budget was adopted on December 13, 2022. 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. membership dues - $4,503, 2. miscellaneous - $2,754, 3. Bad debt - $19,143, and 4. depreciation - $18,832; for the year ended December 31, 2023.

## NOTE 4 - DETAILED NOTES

A. Deposits and Investments

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

| Investment Type | | Value | Maturity (years) |
|---|---|---|---|
| External investment pools | $ | 49,946 | 0.10 |
| | $ | 49,946 | |

*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, 2023, 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, 2023, 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, 2023, 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 | $ 830,302 |
| Allowance for doubtful accounts | (28,860) |
| **Total** | $ 801,442 |

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 | 353,693 | 42,533 | - | 396,226 |
| Total capital assets being depreciated | 1,947,246 | 42,533 | - | 1,989,779 |
| Less accumulated depreciation | | | | |
| Building | (462,212) | (38,976) | - | (501,188) |
| Furniture, vehicles & equipment | (293,185) | (29,856) | - | (323,041) |
| Total accumulated depreciation | (755,397) | (68,832) | - | (824,229) |
| Net capital assets being depreciated | 1,191,849 | (26,299) | - | 1,165,550 |
| **Total capital assets** | $ 1,452,036 | $ (26,299) | $ - | $ 1,425,737 |

Depreciation expense was $68,832 for the year ended December 31, 2023.

The following is a summary of changes in the District's other long-term liabilities for the year ended December 31, 2023. The District uses the general fund to liquidate compensated absences.

D. Compensated Absences

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| **Business-Type Activities:** | | | | |
| Compensated Absences | $ 22,340 | $ - | $ (4,118) | $ 18,222 |
| **Total Business-Type Activities** | $ 22,340 | $ - | $ (4,118) | $ 18,222 |

## 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, 2023 were $34,509.

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 July 17, 2024, 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, 2023**

| | Original Budget Amounts | Final Budget Amounts | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| **Revenues** | | | | |
| Water use fees | $ 3,102,500 | $ 3,102,500 | $ 3,289,616 | $ 187,116 |
| Administrative use fees | 12,550 | 7,550 | 8,850 | 1,300 |
| Application fees | 32,950 | 33,550 | 70,206 | 36,656 |
| Overpumpage fees | 50,000 | 50,000 | 889,485 | 839,485 |
| Penalty & interest on fees | 10,000 | 10,000 | 27,997 | 17,997 |
| Interest income | 5,000 | 5,000 | 8,944 | 3,944 |
| Export fees | 600 | 600 | - | (600) |
| **Total Revenues** | 3,213,600 | 3,209,200 | 4,295,098 | 1,085,898 |
| **Expenses** | | | | |
| Programs | 248,206 | 1,598,206 | 167,509 | 1,430,697 |
| Personnel | 917,200 | 962,200 | 721,541 | 240,659 |
| Legal | 550,000 | 560,000 | 454,335 | 105,665 |
| Engineering & technical support | 58,500 | 113,500 | - | 113,500 |
| Audit | 9,750 | 9,750 | 9,750 | - |
| Engineering | 475,000 | 505,000 | 347,576 | 157,424 |
| Education & public awareness | 204,250 | 189,250 | 85,597 | 103,653 |
| Board expenses | 79,500 | 85,500 | 65,969 | 19,531 |
| Elections expense | 100,000 | 100,000 | 3,094 | 96,906 |
| Rebate on water use fees | 15,000 | 15,000 | - | 15,000 |
| Manager expenses | 15,200 | 15,200 | 8,908 | 6,292 |
| Computer support | 59,000 | 164,000 | 156,391 | 7,609 |
| Office expenses | 12,500 | 16,700 | 15,464 | 1,236 |
| Supplies & other | 16,000 | 16,000 | 6,054 | 9,946 |
| Advertising & public notices | 6,000 | 6,000 | 1,382 | 4,618 |

# Lone Star Groundwater Conservation District

*BUDGETARY COMPARISON - PROPRIETARY FUND (Page 2 of 2)*

**For the Year ended December 31, 2023**

| | Original Budget Amounts | Final Budget Amounts | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| **Expenses (continued)** | | | | |
| Travel and training staff | $ 8,000 | $ 8,000 | $ 5,204 | $ 2,796 |
| Membership dues | 10,000 | 10,000 | 14,503 | (4,503) * |
| Building maintenance & utilities | 87,000 | 102,000 | 99,696 | 2,304 |
| Vehicle costs | 9,500 | 9,500 | 7,725 | 1,775 |
| Insurance | 12,894 | 14,894 | 12,242 | 2,652 |
| Miscellaneous | 5,000 | 5,000 | 7,754 | (2,754) * |
| Bad debt | - | - | 19,143 | (19,143) * |
| Depreciation | 50,000 | 50,000 | 68,832 | (18,832) * |
| **Total Expenses** | $ 2,948,500 | $ 4,555,700 | $ 2,278,669 | $ 2,277,031 |
| **Revenues over (under) expenses** | $ 265,100 | $ (1,346,500) | $ 2,016,429 | $ 3,362,929 |
| Beginning Net Position | | | 5,170,831 | |
| **Ending Net Position** | | | $ 7,187,260 | |

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, 2023**

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 | | | | |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| **Revenues** | | | | | |
| Application fees | $ 70,206 | $ 35,947 | $ 40,095 | $ 51,294 | $ 41,175 |
| Admin. fees | 8,850 | - | - | 922 | 846 |
| Water use fees | 3,289,616 | 2,792,018 | 2,698,168 | 2,573,161 | 2,402,665 |
| Interest income | 8,944 | 5,492 | 48,837 | 13,032 | 4,083 |
| Overpumpage fee | 889,485 | 147,893 | 80,515 | 8,505 | - |
| Miscellaneous | - | - | - | - | - |
| Penalty & interest | 27,997 | 9,346 | 14,871 | 7,443 | 63,908 |
| **Total Revenues** | 4,295,098 | 2,990,696 | 2,882,486 | 2,654,357 | 2,512,677 |
| **Total Expenses** | 2,278,669 | 2,097,079 | 1,795,808 | 1,805,170 | 1,734,466 |
| **Revenues Over (Under) Expenditures** | $ 2,016,429 | $ 893,617 | $ 1,086,678 | $ 849,187 | $ 778,211 |

| Percent of Total Fund Revenues | | | | |
|---|---|---|---|---|
| 2023 | 2022 | 2021 | 2020 | 2019 |
| 1.6 % | 1.2 % | 1.4 % | 1.9 % | 1.6 % |
| 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % |
| 76.6 % | 93.4 % | 93.6 % | 96.9 % | 95.6 % |
| 0.2 % | 0.2 % | 1.7 % | 0.5 % | 0.2 % |
| 20.7 % | 0.0 % | 0.0 % | 0.3 % | 0.0 % |
| 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % |
| 0.7 % | 0.3 % | 0.5 % | 0.3 % | 2.5 % |
| 99.8 % | 95.1 % | 97.2 % | 100.0 % | 100.0 % |
| 53.1 % | 70.1 % | 62.3 % | 68.0 % | 69.0 % |
| 46.9 % | 29.9 % | 37.7 % | 32.0 % | 31.0 % |

# Lone Star Groundwater Conservation District

*PROPRIETARY FUND EXPENDITURES*

**For the Years Ended December 31, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| Current | | |
| **Personnel Services** (including benefits) | $ 721,541 | $ 665,790 |
| **Professional Fees:** | | |
| Auditing | 9,750 | 9,500 |
| Legal | 454,335 | 365,440 |
| Consulting - engineering | 347,576 | 239,243 |
| | 811,661 | 614,183 |
| **Administrative programs** | | |
| Directors' fees & payroll taxes | 50,245 | 52,724 |
| Office supplies & Postage | 6,054 | 16,203 |
| Insurance | 12,242 | 11,673 |
| | 68,541 | 80,600 |
| **Community programs** | | |
| Hydrogeological modeling | 600 | 619 |
| PIA legal work | 5,460 | - |
| Subsidence & other | 89,243 | 65,733 |
| USGS - joint funding agreement | 72,206 | 72,206 |
| | 167,509 | 138,558 |
| **Other Expenditures** | | |
| Building expense | 99,696 | 65,681 |
| Depreciation | 68,832 | 67,650 |
| Education & public awareness | 85,597 | 152,847 |
| Travel/training for staff & board | 22,428 | 14,646 |
| Computer support | 156,391 | 46,498 |
| Advertising | 1,382 | 5,685 |
| Membership dues & subscriptions | 14,503 | 9,546 |
| User fees rebates | - | 13,439 |
| Elections expense | 3,094 | 199,135 |
| Other expenses | 30,626 | 15,654 |
| Bad debt | 19,143 | - |
| Field & technical | 7,725 | 7,167 |
| | 509,417 | 597,948 |
| **Total Expenditures** | $ 2,278,669 | $ 2,097,079 |

# Lone Star Groundwater Conservation District

*CASH AND TEMPORARY INVESTMENTS*

**December 31, 2023**

| Funds | Identification or Certificate Number | Interest Rate (%) | Maturity Date | Balance |
|---|---|---|---|---|
| Checking - money market | 1026172 | 0.10% | N/A | $ 6,824,525 |
| TexPool | 788420 | 0.028% | N/A | 49,946 |
| **Total** | | | | $ 6,874,471 |

# Lone Star Groundwater Conservation District

*BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS*

**For the Year Ending December 31, 2023**

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 | $ 3,801 | President |
| Stuart Traylor | 12/1/2024 | $ 10,250 | $ - | Vice President |
| Janice Thigpen | 12/1/2026 | $ 9,000 | $ 1,461 | Secretary |
| Jonathan Prykryl | 12/1/2026 | $ 4,250 | $ - | Treasurer |
| Jon Bouche | 12/1/2026 | $ 5,250 | $ - | Director |
| Garry Dent | 12/1/2024 | $ 9,000 | $ - | Director |
| | | $ 46,750 | $ 5,262 | |

| Name and Address | Type | Amount | Title |
|---|---|---|---|
| **Key Administrative Personnel** | | | |
| Samantha Reiter (1/1/23 - 6/30/23) | Salary | $ 54,872 | General Manager |
| | Expenses | $ 1,361 | |
| | Auto allowance | $ 3,300 | |
| Sarah Kouba (8/15/23 - 12/31/23) | Salary | $ 45,923 | General Manager |
| | Expenses | $ 782 | |
| | Auto allowance | $ 2,730 | |
| **Consultants** | | | |
| Stacey Reese Law PLLC | | $ 300,654 | Legal |
| Fancher Legal, PLLC | | $ 24,614 | Legal |
| Phenix & Saenz LLC | | $ 72,000 | Legal |
| Advanced Groundwater Solutions, LLC | | $ 365,508 | Research & development |
| US Geological Survey | | $ 72,206 | Research & development |
| Harden, R.W. & Associates, Inc | | $ 26,201 | Research & development |
| MCB Technologies | | $ 21,716 | IT Consultant |
| Jay Brown | | $ 60,000 | Public affairs |
| Collier Consulting | | $ 100,000 | Engineering |
| Halff Associates (Dallas), Inc | | $ 16,631 | Engineering |
| BrooksWatson & Co., PLLC | | $ 9,750 | Auditor |

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