

NECHES AND TRINITY VALLEYS  
GROUNDWATER CONSERVATION DISTRICT

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2023

MCPA, P.C.  
Certified Public Accountants

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
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DECEMBER 31, 2023

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# MCPA, PC

Certified Public Accountants

KYLE CAPERTON, CPA | ERIC PASCHALL, CPA | KYLE ALLIS, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Neches and Trinity Valleys Groundwater Conservation District  
Jacksonville, Texas

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINIONS

We have audited the accompanying financial statements of the business-type activities of the Neches and Trinity Valleys Groundwater Conservation District ("District"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Neches and Trinity Valleys 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. 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 the Neches and Trinity Valleys 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 opinions.

#### RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Neches and Trinity Valleys Groundwater Conservation District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Neches and Trinity Valleys 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 the Neches and Trinity Valleys 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 and budgetary comparison information on pages 5-7 and 21 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.

*MCPA, PC*

MCPA, P.C.  
*Certified Public Accountants*  
Forney, Texas

March 8, 2024

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023

Within this section of the Neches and Trinity Valleys Groundwater Conservation District's annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2023. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

#### APPLICATION TO PRIMARY AND COMPONENT UNITS

The District was created by Senate Bill No. 1821 and approved by the voters in Anderson, Cherokee, and Henderson Counties in a confirmation election held in November 6, 2001. The District is managed by a Board of Directors consisting of two members from each county appointed by the Commissioner's Court and a seventh member seat which rotates among the major cities in each county. Day-to-day operations are administered by a General Manager appointed by the Board of Directors.

#### FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at December 31, 2023 by \$613,088 (net assets).
- Total revenues exceeded expenses for the current year by \$83,319.

#### THE DISTRICT FUND

Governmental funds – All of the District's services are reported in governmental funds. They use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliations of the statements.

#### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District operated during the year primarily on revenue received from water pumpage production fees and well permit fees. During 2015, these fees were increased back to the maximum rate of \$0.03 per thousand gallons of water pumped from those wells which were not otherwise exempt from production fees. The well permit fees were issued on all new wells.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023

YEAR OVER YEAR – COMPARATIVE FINANCIAL SUMMARY

Balance Sheet:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Current & Other Assets	\$ 640,303	\$ 555,775
Capital Assets (net)	<u>-</u>	<u>-</u>
Total Assets	640,303	555,775
Current Liabilities	<u>27,215</u>	<u>26,006</u>
Total Liabilities	27,215	26,006
Net Assets		
Invested in Capital Assets net of Related Debt	-	-
Unrestricted	<u>613,088</u>	<u>529,769</u>
Total Net Assets	<u>\$ 613,088</u>	<u>\$ 529,769</u>

Statement of Activities:

	<u>2023</u>	<u>2022</u>
Revenues:		
Pumpage Income	\$ 230,433	\$ 231,980
Export and Administration Fees	782	855
Non-Compliance Fees	275	964
Permit Income	40,050	30,750
Interest and Other Income	<u>4,882</u>	<u>1,235</u>
Total Revenues	276,422	265,784
Expenses:		
Salaries and Benefits	117,893	103,613
Professional Fees	33,234	25,980
Other Operating	41,976	31,157
Depreciation	<u>-</u>	<u>-</u>
Total Expenses	193,103	160,750
Change in Net Assets	83,319	105,034
Beginning Net Assets	529,769	424,735
Prior Period Adjustment	<u>-</u>	<u>-</u>
Ending Net Assets	<u>\$ 613,088</u>	<u>\$ 529,769</u>

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023

ANALYSIS OF CHANGES IN CAPITAL ASSETS

The District has accumulated few assets. All assets are cash funds except for office furnishings, equipment, and software. The District has no outstanding debt except for current operating expenses.

THE BUDGET, ECONOMIC ENVIRONMENT AND RATES

As a result of holding off on capital equipment purchases and increased pumping income and fees collected, the 2023 budget has provided a surplus of income over expenses.

For the upcoming year, the District has budgeted for expenditures to remain consistent. Further, the District plans to increase public conservation education through outreach to schools and public groups to encourage water conservation and protection.

Presentations were made to approximately 640 citizens and students from 5th thru 7th grade in 5 school districts concerning the principals of water conservation relating to the best practices for the efficient use of groundwater.

During 2023, the District issued 196 permits for new wells in compliance with spacing limits.

These included:

Exempt Wells	178
Non-Exempt Wells	14
Commercial Wells	-
PWS Wells	4
Oil & Gas Rig Supply Wells	-

*The % of completed applications reviewed within 90 days of receipt of application was 100%.*

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

If you wish to contact the District you may contact Penny Hanson, General Manager by:

Phone: 903-541-4845  
E-mail: [manager@ntvgcd.org](mailto:manager@ntvgcd.org)  
Mail: P.O. Box 1387  
Jacksonville, TX 75766  
Website: [www.ntvgcd.org](http://www.ntvgcd.org)

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2023

	Governmental Fund
Assets	
Cash & Equivalents	\$ 567,777
Receivables	72,526
Total Current Assets	640,303
Capital Assets (NOTE IV)	
Furniture and Equipment	39,272
Less Accumulated Depreciation	(39,272)
Total Capital Assets	-
Total Assets	640,303
Liabilities	
Accrued Liabilities (NOTE VI)	12,215
Advanced Payments (NOTE X)	15,000
Total Current Liabilities	27,215
Net Assets	
Investment in Capital Assets	-
Unrestricted	613,088
Total Net Assets	\$ 613,088

The accompanying notes are an integral part of the financial statements.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2023

	Governmental Fund
Revenues	
Pumpage Income	\$ 230,433
Export and Administration Fees	782
Non-Compliance Fees	275
Other Income	4,882
Permit Income	40,050
Total Revenues	276,422
Expenditures	
Salaries	93,157
Payroll Taxes	7,629
Health Insurance	5,916
Vacation Pay	1,330
Retirement	9,861
Rent	7,350
Copier Lease & Maintenance	1,922
Insurance	5,819
Professional Services	33,234
Utilities and Telephone	3,744
Office Expense	9,253
Auto Expense	1,592
Travel Expense	969
Dues and Subscriptions	1,689
Conferences	850
Other Director and Employee Expenditures	4,407
Conservation Initiatives	4,141
Advertising	240
Depreciation	-
Total Expenditures	193,103
Change in Net Assets	
Income / (Loss)	83,319
Net Assets: Beginning	529,769
Net Assets: Ending	\$ 613,088

The accompanying notes are an integral part of the financial statements.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2023

	Governmental Fund
<b>Assets</b>	
Cash & Equivalents	\$ 567,777
Receivables	72,526
Total Assets	\$ 640,303
<b>Liabilities</b>	
Accrued Liabilities	\$ 12,215
Advanced Payments	15,000
Total Current Liabilities	27,215
<b>Fund Balance</b>	
Unrestricted	613,088
Total Fund Balance	613,088
Total Liabilities, Reserves and Net Assets	\$ 640,303

The accompanying notes are an integral part of the financial statements.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
 RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2023

Total Fund Balance - Total Governmental Funds	\$	613,088
Amounts reported for government assets in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.		39,272
Accumulated depreciation has not been included in the governmental fund financial statements.		<u>(39,272)</u>
Net Assets of Governmental Activities	\$	<u><u>613,088</u></u>

The accompanying notes are an integral part of the financial statements.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Governmental Fund</u>
Revenues	
Pumpage Income	\$ 230,433
Export and Administration Fees	782
Non-Compliance Fees	275
Other Income	4,882
Permit Income	40,050
Total Revenues	<u>276,422</u>
Expenditures	
Salaries	93,157
Payroll Taxes	7,629
Health Insurance	5,916
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Retirement	9,861
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Copier Lease & Maintenance	1,922
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Professional Services	33,234
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Office Expense	9,253
Auto Expense	1,592
Travel Expense	969
Dues and Subscriptions	1,689
Conferences	850
Other Director and Employee Expenses	4,407
Conservation Initiatives	4,141
Advertising	240
Capital Expenditures	-
Total Expenditures	<u>193,103</u>
Change in Fund Balance	83,319
Fund Balance: Beginning	529,769
Fund Balance: Ending	<u>\$ 613,088</u>

The accompanying notes are an integral part of the financial statements.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2023

Net Change in Fund Balance - Total Governmental Funds \$ 83,319

Amounts reported for government activities  
 in the Statement of Activities are  
 different because:

Governmental funds report capital outlay as expenditures  
 However, in the government-wide statement of  
 activities and changes in net assets, the cost of  
 those assets is allocated over their estimated useful  
 lives as depreciation expense. This is the amount  
 of capital assets recorded in the current period. -

Depreciation expense on capital assets is reported in  
 the government-wide statement of activities and  
 changes in net assets, but they do not require  
 the use of current financial resources. Therefore,  
 depreciation expenses is not reported as expenditure  
 in governmental funds. -

Change Net Assets of Governmental Activities \$ 83,319

The accompanying notes are an integral part of the financial statements.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*A. Introduction*

The accounting and reporting framework and the more significant accounting principles and practices of the Neches and Trinity Valleys Groundwater Conservation District (District) are discussed in subsequent sections of this Note. The remaining notes are organized to provide explanations, including required disclosures of the District's financial activities for the fiscal year ended December 31, 2023.

*B. Financial Reporting Entity*

The Neches and Trinity Valleys Groundwater Conservation District was established by Senate Bill No. 1821 and approved by the voters in Anderson, Cherokee and Henderson counties in a confirmation election held November 6, 2001. The organization functions under Chapter 36 of the Texas Water Code. The District is managed by a Board of Directors consisting of two members appointed by the Commissioner's Court of each participating counties and a seventh member seat which rotates among the major cities of each county. The purpose of the District is to provide for the conservation, preservation and management of groundwater and the related issues of waste. The District's programs are financed primarily through water production fees and well drilling permits.

Though approved in November of 2001, operations actually commenced July 12, 2003. The District has adopted a calendar year and audits will cover annual operations.

The accompanying financial statements present the District's primary government. The District has no reporting component units.

*C. Basis of Presentation*

Government-Wide and Fund Financial Statements

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the individual fund of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

The District has one fund which reports its activities on a governmental fund basis. It is a budgeted fund, and any fund balances are considered resources available for current operations. All general revenues are accounted for in this fund.

*D. Basis of Accounting*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2023

flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The modified accrual basis of accounting is used in this fund type.

*E. Financial Statement Amounts*

Cash and Equivalents – 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.

Capital Assets – The District’s capital assets with useful lives of more than one year are stated at historical cost if purchased or constructed and comprehensively reported in the government-wide financial statements. Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Equipment	5 to 10 years
Furniture and Fixtures	5 to 10 years

Impairment of Long-lived Assets – The District reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset’s carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of December 31, 2023, no impairment of long-lived assets is necessary.

Long-Term Obligations – The district had no long-term debt during the period ending December 31, 2023.

Income Taxes – The District is a political subdivision of the State of Texas and is exempt from federal income taxes.

Estimates – The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2023

Fund Equity – GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – includes the portion of net resources that cannot be spent because of their forms (i.e., inventory, long-term debt, or prepaid items) or because they must remain intact such as the principle of an endowment.
- *Restricted fund balance* – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e., externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – includes the portion of net resources on which the District Board of Directors has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a resolution of the District Board of Directors. The resolution must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
- *Assigned fund balance* – includes the portion of net resources for which an intended use has been established by the District Board of Directors or the District official authorized to do so by the District Board of Directors. Assignment of fund balance is much less formal than commitments and do not require formal action for their imposition or removal.
- *Unassigned fund balance* – includes the amounts in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first and then unrestricted resources as needed.

NOTE II. COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provisions

- In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not applicable

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2023

Deficit Fund Balance or Fund Net Position of Individual Funds

- Following are funds having deficit fund balances or net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None Reported	Not applicable

Budgets and Budgetary Accounting

- The Conservation District operates on an approved operating budget which includes proposed expenditures that were formally adopted by the Board prior to the start of the current year.

NOTE III. DEPOSITS AND INVESTMENTS

State Statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year end the carrying amount of the District's deposits was \$567,777. Of this amount, all except TexPool funds are deposited in federally insured banks, with each account maintained under the limit for FDIC insurance. The balance of the funds deposited in TexPool, a state depository, was \$4,043.

NOTE IV. CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	<u>12/31/22</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/23</u>
Computer Software	\$ 39,272	\$ -	\$ -	\$ 39,272
Less Accumulated Depreciation	<u>(39,272)</u>	<u>(-)</u>	<u>-</u>	<u>(39,272)</u>
Net Capital Assets	<u>\$ -</u>	<u>\$ (-)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense is charged to the General Government.

NOTE V. LONG-TERM OBLIGATIONS

The District has no long-term obligations as of December 31, 2023.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023

NOTE VI. EMPLOYEE BENEFITS

The District has adopted a modified holiday and vacation schedule based on guidelines from the State of Texas and employees earn vacation time based on length of service. The schedule also indicates the allowable number of vacation hours (maximum 240 hours) that can be carried over each year. Sick time is earned at a standard 8 hours per month with allowable carryover based on years of service (maximum 240 hours). The employee policy manual indicates that an employee who leaves employment of the District shall be paid for the accrued vacation (up to 240 hours) at their current rate of pay (however no payout is allowed for accrued sick time). As of the end of 2023, the total accrued vacation pay was \$8,806.

The District provided a 457b plan for retirement benefits which is administered by Lord Abbett. Full time employees become eligible after 6 months of service. The employee may contribute up to 7% of compensation to the plan each year with the District matching it at the rate of two to one (each employee dollar equals 2 employer matched dollars). All employees are currently in compliance with IRS contribution limits (\$22,500 per year with an additional \$7,500 if over age 50). Employer contributions for the year ended December 31, 2023 totaled \$9,861. Vesting is commensurate with the state's schedule.

NOTE VII. LEASES

The District currently leases office space from Texas Ruby Properties in Jacksonville. The lease is renewed annually from November thru October for \$675 per month and annual expense for 2023 was \$7,350.

The District also has an equipment lease with Ricoh USA Inc. for their office copier. The current rate is \$154 per month with an annual expense of \$1,848 (plus any overage charges). The current agreement ended in 2019 but Ricoh USA agreed to allow the District to keep the same copier for the same rate on a month-by-month basis.

NOTE VIII. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, error and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

NOTE IX. LITIGATION

During the course of the District's responsibility for collecting water production fees, lawsuits are sometimes brought against the District representing appeals. No liability is provided for as of December 31, 2023.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023

NOTE X. ADVANCED PAYMENTS

The District, along with several other districts in the area, entered into an interlocal agreement with the Groundwater Management Area 11 during 2013. A payment of \$25,000 was received from APEX as a deposit to cover the District's cost of evaluating the operating permit applications, including the cost of a Professional Geoscientist, when such permits are submitted. During 2015, \$10,000 was released and used for a hydrology consultant. The remaining \$15,000 is deferred income set aside for future project expenses.

NOTE XI. SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after December 31, 2023 up through March 8, 2024, the date of the report.

SUPPLEMENTARY INFORMATION

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2023

	NON-GAAP BUDGETARY BASIS			
	Budget Original	Budget Final	Actual	Variance
Revenues				
Pumpage Income	\$ 220,000	\$ 220,000	\$ 230,433	\$ 10,433
Export and Administration Fees	600	600	782	182
Non-Compliance Fees	1,000	1,000	275	(725)
Other Income	2,000	2,000	4,882	2,882
Permit Income	31,000	31,000	40,050	9,050
Total Revenues	<u>254,600</u>	<u>254,600</u>	<u>276,422</u>	<u>21,822</u>
Expenditures				
(Fixed)				
Salaries	90,000	90,000	93,157	(3,157)
Payroll Taxes	10,000	10,000	7,629	2,371
Health Insurance	7,000	7,000	5,916	1,084
Vacation Pay	7,400	7,400	1,330	6,070
Retirement	10,000	10,000	9,861	139
Rent	7,200	7,200	7,350	(150)
Copier Lease & Maintenance	2,500	2,500	1,922	578
Insurance	3,150	3,150	5,819	(2,669)
(Variable)				
Professional Services	26,000	26,000	33,234	(7,234)
Utilities and Telephone	5,100	5,100	3,744	1,356
Office Expense	12,900	12,900	9,253	3,647
Auto Expense	2,000	2,000	1,592	408
Travel Expense	1,700	1,700	969	731
Dues and Subscriptions	1,400	1,400	1,689	(289)
Conferences	1,500	1,500	850	650
Other Director and Employee Expenses	4,200	4,200	4,407	(207)
Conservation Initiatives	5,100	5,100	4,141	959
Advertising	400	400	240	160
Capital Expenditures	-	-	-	-
Total Expenditures	<u>197,550</u>	<u>197,550</u>	<u>193,103</u>	<u>4,447</u>
Change in Fund Balance	57,050	57,050	83,319	<u>\$ 26,269</u>
Fund Balance: Beginning	<u>529,769</u>	<u>529,769</u>	<u>529,769</u>	
Fund Balance: Ending	<u>\$ 586,819</u>	<u>\$ 586,819</u>	<u>\$ 613,088</u>	

*\*\* Professional fees (attorney) continue to include the District having to defend itself against a counter-claim made by a defendant sued by the District. The claim was elevated to the Texas Supreme Court in 2020 but the court rejected the appeal in 2021. Case to be Settled in early 2024.*

See independent auditor's report.

# MCPA, PC

Certified Public Accountants

KYLE CAPERTON, CPA | ERIC PASCHALL, CPA | KYLE ALLIS, CPA

March 8, 2024

To the Board of Directors and Management  
Neches and Trinity Valleys Groundwater Conservation District

We have audited the financial statements of the business type activities of the Neches and Trinity Valleys Groundwater Conservation District (District) as of and for the year ended December 31, 2023, and have issued our report thereon dated March 8, 2024. Professional standards require that we advise you of the following matters relating to our audit.

## OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

As communicated in our engagement letter dated January 4, 2024, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

## PLANNED SCOPE AND TIMING OF THE AUDIT

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team has complied with all relevant ethical requirements regarding independence.

## SIGNIFICANT AUDIT FINDINGS

### *Qualitative Aspects of the District's Significant Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Neches and Trinity Valleys Groundwater Conservation District are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive estimate affecting the Neches and Trinity Valleys Groundwater Conservation District's financial statements was:

Management's estimate of the depreciation of the District's fixed assets is based upon management's estimate of the specific assets useful life and the cost of the assets is depreciated accordingly. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgement and are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

### *Significant Unusual Transactions*

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were no unusual transactions noted.

### *Significant Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

These included adjustments to:

- Adjustment to balance out the accrued vacation liability to 240 hours PTO carryover limit.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 8, 2024.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Neches and Trinity Valleys Groundwater Conservation District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Neches and Trinity Valleys Groundwater Conservation District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## OTHER MATTERS

We applied certain limited procedures to the MD&A and the Budget to Actual schedules which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

## RESTRICTION ON USE

This information is intended solely for the information and use of the Board of Directors and management of the Neches and Trinity Valleys Groundwater Conservation District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*MCPA, PC*

MCPA, P.C.