

NECHES AND TRINITY VALLEYS  
GROUNDWATER CONSERVATION DISTRICT

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019

MURREY PASCHALL & CAPERTON, P.C.  
Certified Public Accountants

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DECEMBER 31, 2019

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**M** **Murrey Paschall & Caperton PC**  
**Certified Public Accountants**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, and each major fund, of the Neches and Trinity Valleys Groundwater Conservation District ("District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Neches and Trinity Valleys Groundwater Conservation District, as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## OTHER MATTERS

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-7 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Murray Paschall & Caperton, PC". The signature is written in a cursive, flowing style.

Murrey, Paschall & Caperton, P.C.

*Certified Public Accountants*

Forney, Texas

March 13, 2020

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019

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, 2019. 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, 2019 by \$175,304 (net assets).
- Total revenues exceeded expenses for the current year by \$69,041.

#### THE DISTRICT FUND

Governmental funds – All of the District's services are reported in governmental funds. These 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. These fees were increased back to the maximum rate of \$0.03 during 2015 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, 2019

YEAR OVER YEAR – COMPARATIVE FINANCIAL SUMMARY

Balance Sheet:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current & Other Assets	\$ 211,735	\$ 140,199
Capital Assets (net)	<u>-</u>	<u>3,230</u>
Total Assets	211,735	143,429
Current Liabilities	<u>36,431</u>	<u>23,236</u>
Total Liabilities	36,431	23,326
Net Assets		
Invested in Capital Assets net of Related Debt	-	3,230
Unrestricted	<u>175,304</u>	<u>116,963</u>
Total Net Assets	<u>\$ 175,304</u>	<u>\$ 120,193</u>

Statement of Activities:

	<u>2019</u>	<u>2018</u>
Revenues:		
Pumpage Income	\$ 212,599	\$ 215,504
Export and Administration Fees	748	971
Non-Compliance Fees	4,525	825
Permit Income	34,675	20,448
Interest and Other Income	<u>1,107</u>	<u>302</u>
Total Revenues	253,654	238,050
Expenses:		
Salaries and Benefits	108,928	148,805
Professional Fees	32,625	25,296
Other Operating	39,830	39,974
Depreciation	<u>3,230</u>	<u>6,954</u>
Total Expenses	184,613	221,029
Change in Net Assets	69,041	17,021
Beginning Net Assets	120,193	103,172
Prior Period Adjustment	<u>(13,930)</u>	<u>-</u>
Ending Net Assets	<u>\$ 175,304</u>	<u>\$ 120,193</u>

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019

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 2019 budget has provided a surplus of income over expenses.

For the upcoming year, the District has budgeted for wages and benefits to increase as a result of the full time General Manager and part time assistant. Further, the District plans to increase public conservation education through outreach to schools and public groups to encourage water conservation and protection. The District engaged a part-time consultant to perform the outreach efforts within the public schools.

During 2019, the District made presentations to over 1,233 5<sup>th</sup> thru 7<sup>th</sup> grade students in 9 school districts.

During 2019, the District issued 117 permits for new wells in compliance with spacing limits. These included:

Exempt Wells	79
Non-Exempt Wells	18
Commercial Wells	7
PWS Wells	7
Oil & Gas Rig Supply Wells	6

*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: office@ntvgcd.org  
Mail: P.O. Box 1387  
Jacksonville, TX 75766  
Website: www.ntvgcd.org

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2019

	Governmental Fund
Assets	
Cash & Equivalents	\$ 159,716
Receivables	52,019
Total Current Assets	211,735
Capital Assets (NOTE IV)	
Furniture and Equipment	39,272
Less Accumulated Depreciation	(39,272)
Total Capital Assets	-
Total Assets	211,735
Liabilities	
Accrued Liabilities (NOTE VI)	21,431
Advanced Payments (NOTE X)	15,000
Total Current Liabilities	36,431
Net Assets	
Investment in Capital Assets	-
Unrestricted	175,304
Total Net Assets	\$ 175,304

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, 2019

	Governmental Fund
<b>Revenues</b>	
Pumpage Income	\$ 212,599
Export and Administration Fees	748
Non-Compliance Fees	4,525
Other Income	1,107
Permit Income	34,675
Total Revenues	253,654
<b>Expenditures</b>	
Salaries	70,578
Payroll Taxes	6,071
Health Insurance	3,896
Vacation Pay	21,504
Retirement	6,879
Rent	6,600
Copier Lease & Maintenance	2,658
Insurance	2,746
Professional Services	32,625
Utilities and Telephone	3,175
Office Expense	10,004
Auto Expense	1,599
Travel Expense	1,633
Dues and Subscriptions	1,279
Conferences	1,010
Other Director and Employee Expenditures	3,822
Conservation Initiatives	4,930
Advertising	374
Depreciation	3,230
Total Expenditures	184,613
Change in Net Assets	
Income / (Loss)	69,041
Net Assets: Beginning	120,193
Prior Period Adjustment (NOTE VI)	(13,930)
Net Assets: Ending	\$ 175,304

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

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2019

	Governmental Fund
<b>Assets</b>	
Cash & Equivalents	\$ 159,716
Receivables	52,019
Total Assets	\$ 211,735
<b>Liabilities</b>	
Accrued Liabilities	\$ 21,431
Advanced Payments	15,000
Total Current Liabilities	36,431
<b>Fund Balance</b>	
Unrestricted	175,304
Total Fund Balance	175,304
Total Liabilities, Reserves and Net Assets	\$ 211,735

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, 2019

Total Fund Balance - Total Governmental Funds	\$ 175,304
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>\$ 175,304</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, 2019

	<u>Governmental Fund</u>
Revenues	
Pumpage Income	\$ 212,599
Export and Administration Fees	748
Non-Compliance Fees	4,525
Other Income	1,107
Permit Income	34,675
Total Revenues	<u>253,654</u>
Expenditures	
Salaries	70,578
Payroll Taxes	6,071
Health Insurance	3,896
Vacation Pay	21,504
Retirement	6,879
Rent	6,600
Copier Lease & Maintenance	2,658
Insurance	2,746
Professional Services	32,625
Utilities and Telephone	3,175
Office Expense	10,004
Auto Expense	1,599
Travel Expense	1,633
Dues and Subscriptions	1,279
Conferences	1,010
Other Director and Employee Expenses	3,822
Conservation Initiatives	4,930
Advertising	374
Capital Expenditures	-
Total Expenditures	<u>181,383</u>
Change in Fund Balance	72,271
Fund Balance: Beginning	116,963
Prior Period Adjustment	(13,930)
Fund Balance: Ending	<u>\$ 175,304</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, 2019

Net Change in Fund Balance - Total Governmental Funds \$ 72,271

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. (3,230)

Change Net Assets of Governmental Activities \$ 69,041

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

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

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, 2019.

*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, 2019

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, 2019, no impairment of long-lived assets is necessary.

Long-Term Obligations – The district had no long-term debt during the period ending December 31, 2019.

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, 2019

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, 2019

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 \$155,949. This amount is deposited in federally insured banks, with each account maintained under the limit for FDIC insurance. The balance of the funds was deposited in TexPool, a state depository. The balance at year end was \$3,767.

NOTE IV. CAPITAL ASSETS

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

	<u>12/31/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/19</u>
Computer Software	\$ 54,828	\$ -	\$ (15,556)	\$ 39,272
Less Accumulated Depreciation	<u>(51,598)</u>	<u>(3,230)</u>	<u>15,556</u>	<u>(39,272)</u>
Net Capital Assets	<u>\$ 3,230</u>	<u>\$ (3,230)</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, 2019.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

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 that can be carried over each year. Sick time is earned at a standard 8 hours per month with no indication of the amount of sick time that can be carried over. The employee policy manual indicates that an employee who leaves employment of the District shall be paid for the vacation and sick leave they have accumulated at their current rate of pay. In early 2019, the District's General Manager retired and was paid for accrued vacation and sick leave in the amount of \$17,007.93. At this time the Board agreed that any vacation / sick balance for the remaining employee should be accrued and shown on the balance sheet as a liability. This led to a prior period adjustment of nearly \$14k. During 2019 the remaining employee was named the new General Manager and as of December 31, 2019, the total accrued vacation pay was \$18,375.

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 (\$19,000 per year with an additional \$6,000 if over age 50). Employer contributions for the year ended December 31, 2019 totaled \$6,879. 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 \$600 per month and annual expense for 2019 was \$6,600.

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. The current agreement ended in July 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 risk 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.

NECHES AND TRINITY VALLEYS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

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, 2019.

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, 2019 up through March 13, 2020, 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, 2019

	NON-GAAP BUDGETARY BASIS			
	Budget Original	Budget Final	Actual	Variance
<b>Revenues</b>				
Pumpage Income	\$ 206,000	\$ 206,000	\$ 212,599	\$ 6,599
Export and Administration Fees	600	600	748	148
Non-Compliance Fees	1,000	1,000	4,525	3,525
Other Income	800	800	1,107	307
Permit Income	14,800	14,800	34,675	19,875
Total Revenues	<u>223,200</u>	<u>223,200</u>	<u>253,654</u>	<u>30,454</u>
<b>Expenditures</b>				
<b>(Fixed)</b>				
Salaries	88,000	88,000	70,578	17,422
Payroll Taxes	7,000	7,000	6,071	929
Health Insurance	5,500	5,500	3,896	1,604
Vacation Pay	-	-	21,504	(21,504)
Retirement	7,000	7,000	6,879	121
Rent	7,200	7,200	6,600	600
Copier Lease & Maintenance	2,200	2,200	2,658	(458)
Insurance	2,700	2,700	2,746	(46)
<b>(Variable)</b>				
Professional Services	25,500	25,500	32,625	(7,125)
Utilities and Telephone	2,750	2,750	3,175	(425)
Office Expense	8,962	8,962	10,004	(1,042)
Auto Expense	1,800	1,800	1,599	201
Travel Expense	1,000	1,000	1,633	(633)
Dues and Subscriptions	600	600	1,279	(679)
Conferences	1,000	1,000	1,010	(10)
Other Director and Employee Expenses	3,250	3,250	3,822	(572)
Conservation Initiatives	5,000	5,000	4,930	70
Advertising	600	600	374	226
Capital Expenditures	17,000	17,000	-	17,000
Total Expenditures	<u>187,062</u>	<u>187,062</u>	<u>181,383</u>	<u>5,679</u>
Change in Fund Balance	36,138	36,138	72,271	<u>\$ 36,133</u>
Fund Balance: Beginning	116,963	116,963	116,963	
Prior Period Adjustment	-	-	(13,930)	
Fund Balance: Ending	<u>\$ 153,101</u>	<u>\$ 153,101</u>	<u>\$ 175,304</u>	

See independent auditor's report.

**M** **Murrey Paschall & Caperton PC**  
**Certified Public Accountants**

March 13, 2020

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

We have audited the financial statements of Neches and Trinity Valleys Groundwater Conservation District for the year ended December 31, 2019, and have issued our report thereon dated March 13, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 30, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Neches and Trinity Valleys Groundwater Conservation District, are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2019. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for depreciation expense is based on the estimated useful lives of each asset. We evaluated the key factors and assumptions used to develop the estimate of depreciating the estimated useful lives of each asset in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures (such as long-term debt) are particularly sensitive because of their significance to financial statement users. As of year-end, the District had no outstanding long-term debt.

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

*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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. These included adjustments to:

- Remove fully depreciated assets that have been disposed.
- True up accrued vacation and sick leave as of year end for Penny Hanson

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as 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 13, 2020.

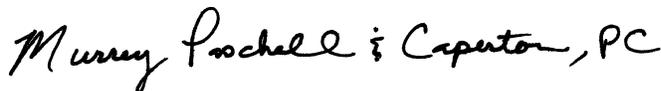
### *Other Audit Findings or Issues*

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 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. We did, however, note the following other audit findings that we do not consider to be significant but rather opportunities to further enhance the internal controls of the district:

- There is a \$15,000 accrued liability (\$25,000 in prior years) on the books for an on-going commitment with Apex regarding drilling wells and performing land studies. As of the date of this report, the work was still open to be completed and management believed the liability was still accurate. As such, this money is 'restricted' cash and should not be spent on general operating expenses.
- The financial statements now include a liability for accrued vacation and sick payout. All calculations for the balance as of December 31, 2019 were based on Penny Hanson's worksheet of accrued vacation and sick hours at her current rate of pay. We noted Penny had more vacation hours carry over than the policy allows as she was waiting on clarification from the Board before doing any vacation and sick leave payouts.

This information is intended solely for the use of the board of directors and management of 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,



Murrey Paschall & Caperton, P.C.