RED RIVER GROUNDWATER
CONSERVATION DISTRICT

Communication with Those
Charged With Governance

December 31, 2025

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Communication with Those Charged
With Governance

Members of the Board
Red River Groundwater Conservation District
Denison, Texas

We have audited the financial statements of the governmental activities and the major fund of the Red River Groundwater Conservation District (the District) for the year ended December 31, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government 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 August 14, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the 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 2025. 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 District's financial statements were:

> Management's estimate of allowance for doubtful accounts. Allowance for doubtful accounts is based on historical consumption, accounts receivable, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

> Management's estimate of depreciation expense. Depreciation expense is calculated on a straight-line basis, over the estimated useful lives of the District's assets. We evaluated the key factors and assumptions used to develop the depreciation method used and the estimates of useful lives of the assets in determining that it is reasonable in relation to the financial statements taken as a whole.

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 clearly trivial, and communicate them to the appropriate level of management. The attached schedule (Appendix A) summarizes misstatements detected as a result of audit procedures that were corrected by management. The attached schedule (Appendix B) summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

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 auditors' 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 July 13, 2026.

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" or certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' 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 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.

Groundwater production fees were not updated in the first quarter of 2025, however, management recognized and made corrections in the second quarter of 2025.

<u>Other Matters</u>

We applied certain limited procedures to the management's discussion and analysis and the budgetary comparison schedule, 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 response 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 Members and management of the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
July 13, 2026

Appendix A

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Misstatements Corrected by Management
December 31, 2025

Description	Debit	Credit
Adjusting Journal Entries JE # 1		
Accounts Receivable	$ 1,953.52	$ -
Bad Debt	1,564.59	-
GW Production	-	3,518.11
Total	$ 3,518.11	$ 3,518.11
Adjusting Journal Entries JE # 2		
A/R Well Application Fees	$ 6,100.00	$ -
Well Drillers Fees	-	6,100.00
Total	$ 6,100.00	$ 6,100.00

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Uncorrected Misstatements
December 31, 2025

Description	Debit		Credit	
Software Maintenance	$	7,036.75	$	-
Accounts Payable		-		7,036.75
	$	7,036.75	$	7,036.75