RED RIVER GROUNDWATER CONSERVATION DISTRICT

Annual Financial Report

Year Ended December 31, 2025

RED RIVER GROUNDWATER CONSERVATION DISTRICT

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Year Ended December 31, 2025

McCLANAHAN AND HOLMES, LLP
Certified Public Accountants

George H. Struve, CPA
Debra J. Wilder, CPA
Teffany A. Kavanaugh, CPA
April J. Hatfield, CPA
Brittany L. Martin, CPA

Steven W. Mohundro, CPA, of Counsel

228 Sixth St. SE
Paris, TX 75460
903-784-4316
Fax 903-784-4310

304 W. Chestnut
Denison, TX 75020
903-465-6070
Fax 903-465-6093

1400 W. Russell
Bonham, TX 75418
903-583-5574
Fax 903-583-9453

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Red River Groundwater Conservation District (the District), as of and for the year ended December 31, 2025, 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 governmental activities and the major fund of the Red River Groundwater Conservation District as of December 31, 2025, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 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.

Auditors' 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 auditors' 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 and *Government 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 and *Government 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 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 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 4-7 and 19 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
July 13, 2026

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis
Year Ended December 31, 2025

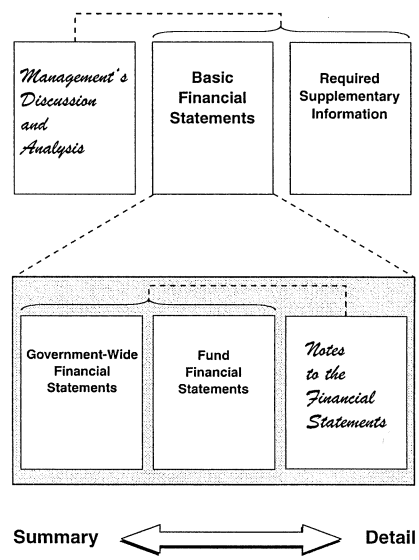
The Red River Groundwater Conservation District (the District) is pleased to present its financial statements. This required supplementary information presents our discussion and analysis of the District's financial performance during the year ended December 31, 2025. Please read this section in conjunction with the basic financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was $982,974 at December 31, 2025.
- During the year, the District's expenditures were $220,348 more than the $397,777 generated from groundwater production fees and other revenues.
- The General Fund presents a year end fund balance of $932,594 at December 31, 2025.

OVERVIEW OF THE FINANCIAL STATEMENTS

Figure A-1, Required Components of the District's Annual Financial Report



In addition to this Management's Discussion and Analysis, this report consists of government-wide financial statements, fund financial statements, and the notes to the financial statements. The first two statements are condensed and present a government-wide view of the District's finances. The government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the District.

Basic Financial Statements

- The Statement of Net Position focuses on resources available for future operations. In simple terms, the statement presents a snapshot of the assets of the District, the liabilities it owes, and the net difference. The net difference is further separated into amounts restricted for specific purposes, if any, and unrestricted amounts. The information presented in this statement is reported on the accrual basis of accounting.

- The Statement of Activities focuses on gross and net costs of the District's programs and the extent to which such programs rely on general revenues. The statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

- Fund financial statements focus separately on individual funds, including assets, liabilities and equity. Separate revenues and expenditures analysis are presented for the major fund.

- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's budgetary comparison schedule. Required supplementary information can be found on page 19 of this report.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. For the District, the total combined net position was $982,974 at year end. A comparative, condensed summary of the District's statements of net position is presented below:

Table A-1

Red River Groundwater Conservation District's Net Position

	2025	2024	Total Percentage Change 2024-2025
Assets:			
Cash and Cash Equivalents	$ 88,112	$ 201,588	-56.29%
Investments	863,874	907,959	-4.86%
Receivables and Other Assets	87,525	90,459	-3.24%
Capital Assets, Net of Accumulated Depreciation	50,380	16,694	201.79%
Total Assets	1,089,891	1,216,700	-10.42%
Liabilities:			
Current Liabilities	106,917	47,064	127.17%
Total Current Liabilities	106,917	47,064	127.17%
Net Position:			
Net Investment in Capital Assets	50,380	16,694	201.79%
Unrestricted	932,594	1,152,942	-19.12%
Total Net Position	$ 982,974	$1,169,636	-15.96%

At year end, 8.09% of the District's total assets were held in cash and cash equivalents, with investments representing 79.26%, fees receivable and other assets representing 8.03%, and fixed assets representing 4.62%.

The District's liabilities consist of accounts payable for items or services received during the year but not paid out in cash until after year end, as well as deposits to be refunded to drillers.

Unrestricted net position represents amounts available for future spending.

CHANGES IN NET POSITION

The District's total revenues were $397,777. These revenues were generated from $296,770 of Groundwater Production Fees assessed upon residents of the District and $101,007 of other revenues.

The total cost of all services was $584,439 for third party administration of the program and legal services.

A condensed summary of the District's statements of activities and changes in net position for the years ended December 31, 2025 and 2024 is presented here:

Table A-2

Changes in Red River Groundwater Conservation District's Net Position

	2025	2024	Total Percentage Change 2024-2025
General Revenues:			
Groundwater Production Fees	$ 296,770	$ 352,855	-15.89%
Registration and Other Fees	31,189	30,812	1.22%
Interest Income	40,072	39,816	0.64%
Miscellaneous Income	29,746	-	100.00%
Total Revenues	397,777	423,483	-6.07%
Expenses:			
Administration	479,636	264,487	81.35%
Legal	104,803	20,526	410.59%
Total Expenses	584,439	285,013	105.06%
Increase (Decrease) in Net Position	$ (186,662)	$ 138,470	-234.80 %

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The governmental funds of the District, as presented on page 11, reported revenues of $397,777 during the year, with total expenditures of $618,125.

BUDGETARY HIGHLIGHTS

The District's Board of Directors adopted a final operating budget for the 2025 fiscal year, based on anticipated receipts and expenditures (unaudited), prior to year end. The budget encompasses all the activities of the District, which would normally include both revenues and expenditures. Total revenues were $97,829 above final budgeted amounts. Total expenditures were above final budgeted amounts by $73,943.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital Assets amounted to $163,483, net of accumulated depreciation of $113,103 as of December 31, 2025. This investment in capital assets includes a vehicle, a well watch, and computer software.

A summary of capital asset activity is shown in Note I. E of the financial statements.

Debt

As of December 31, 2025, the District has not entered into any debt agreements. The District has no outstanding long-term debt at year end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District adopted the next year's budget to provide for the developing nature of the services provided by the District, which remains consistent with current year budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Paul Sigle, General Manager for the District.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Statement of Net Position
December 31, 2025

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 88,112
Investments	863,874
Accounts Receivable, Net of Allowance for Uncollectibles of $4,643	85,511
Prepaid Expenses	2,014
Total Current Assets	1,039,511
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation:	
Vehicles and Computer Software	50,380
Total Noncurrent Assets	50,380
Total Assets	1,089,891
LIABILITIES	
Current Liabilities	
Accounts Payable	90,667
Driller Deposits	16,250
Total Current Liabilities	106,917
Total Liabilities	106,917
NET POSITION	
Net Investment in Capital Assets	50,380
Unrestricted	932,594
Total Net Position	$ 982,974

The notes to financial statements are an integral part of this statement.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Statement of Activities
Year Ended December 31, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Primary Government				
Governmental Activities:				
Administration	$ 479,636	$ -	$ -	$ (479,636)
Legal	104,803	-	-	(104,803)
Total Governmental Activities	584,439	-	-	(584,439)
Total Primary Government	$ 584,439	$ -	$ -	(584,439)
General Revenues:				
Groundwater Production Fees				296,770
Registration and Other Fees				31,189
Interest Income				40,072
Miscellaneous Income				29,746
Total General Revenues				397,777
Change in Net Position				(186,662)
Net Position - Beginning (January 1)				1,169,636
Net Position - Ending (December 31)				$ 982,974

The notes to financial statements are an integral part of this statement.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Balance Sheet - Governmental Fund
December 31, 2025

		General Fund
ASSETS		
Current Assets		
Cash and Cash Equivalents	$	88,112
Investments		863,874
Accounts Receivable, Net of Allowance for Uncollectibles of $4,643		85,511
Prepaid Expenses		2,014
Total Current Assets		1,039,511
Total Assets	$	1,039,511
LIABILITIES		
Current Liabilities		
Accounts Payable	$	90,667
Driller Deposits		16,250
Total Current Liabilities		106,917
Total Liabilities		106,917
FUND BALANCE		
Nonspendable		2,014
Unassigned		930,580
Total Fund Balance		932,594
Total Liabilities and Fund Balance	$	1,039,511

Amounts reported for governmental activities in the statement of net position are different because:

Fund Balance - Total Governmental Fund (above)	$	932,594
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is $163,483 and the accumulated depreciation is $113,103.		50,380
Net Position of Governmental Activities	$	982,974

The notes to financial statements are an integral part of this statement.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Governmental Fund
Year Ended December 31, 2025

	General Fund
REVENUES	
Groundwater Production Fees	$ 296,770
Registration and Other Fees	31,189
Interest Income	40,072
Miscellaneous Revenue	29,746
Total Revenues	397,777
EXPENDITURES	
Current	
Administration	457,345
Legal	104,803
Capital Outlay:	
Equipment	55,977
Total Expenditures	618,125
Excess (Deficiency) of Revenues over Expenditures	(220,348)
Net Change in Fund Balance	(220,348)
Fund Balance - Beginning (January 1)	1,152,942
Fund Balance - Ending (December 31)	$ 932,594

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balance - Total Governmental Fund (above)	$ (220,348)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($55,977) exceeds depreciation expense ($22,291) in the current year.	33,686
Change in Net Position of Governmental Activities	$ (186,662)

I. Summary of Significant Accounting Policies

The basic financial statements of the Red River Groundwater Conservation District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Red River Groundwater Conservation District (the District), is a political subdivision of the State of Texas, created under the authority of Article XVI, Section 59, Texas Constitution, and operating pursuant to the provisions of the Texas Water Code, Chapter 36, and Senate Bill 2497, Acts of the 81st Texas Legislature, Regular Session, 2010. The District encompasses the Red River counties of Grayson and Fannin. The Board of Directors (Board), a seven-member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities within the jurisdiction of the District. The Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Reporting Standards, since Board members are appointed, have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

As required by accounting principles generally accepted in the United States of America, the basic financial statements of the reporting entity include those of the District (primary government) and its component units. There are no component units included in these basic financial statements.

B. Basis of Presentation – Basis of Accounting

Government-Wide Statements - The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (1) fees and other charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxing entities allocations and investments, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Any remaining governmental funds are aggregated and reported as non-major funds.

The District accounts are organized on the basis of funds, each of which is considered a separate accounting entity. Governmental resources allocated to individual funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations or other appropriate requirements. The fund types and funds utilized by the District are described below.

I. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Basis of Accounting (continued)

Governmental fund types include the following:

The *General Fund* is used to account for financial resources used for general operations. This is a budgeted fund and any unassigned fund balances are considered resources available for current operations. All revenues and expenditures not required to be accounted for in other funds are accounted for in this fund.

C. Measurement Focus – Basis of Accounting

Government-Wide Statements – These financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives), value without directly receiving (or giving) equal value in exchange, are not recognized if not measurable and are disclosed. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Fund Financial Statements – These financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

D. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. The total accounts receivable balance is expected to be collected within one year.

E. Financial Statement Amounts

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on hand and deposits in financial institutions, including time deposits, with original maturities of three months or less from the date of acquisition. Restricted assets and temporary investments are not included.

Investments

Investments classified in the financial statements consist of funds held in certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost plus interest earned, which approximates fair value.

In accordance with generally accepted accounting principles, inputs to valuation techniques used to measure fair value are prioritized according to a fair value hierarchy, as follows:

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Investments (continued)

Level I - Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level II - Fair values are based on generally indirect information such as quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active.

Level III - Fair values are based on inputs other than quoted prices included within Level I that are unobservable and include the District's own assumptions about pricing.

This fair value hierarchy gives the highest priority to Level I inputs and the lowest priority to Level III inputs. The District's investments are classified in Level II of the hierarchy.

Capital Assets

Capital assets are reported in the government-wide statement of net position. All capital assets are valued at historical cost. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend asset life are not capitalized.

Assets capitalized have an original cost of more than $5,000 and useful life in excess of one year. Depreciation has been provided over the estimated useful life using the straight-line method of depreciation. The estimated useful life of the vehicle, equipment, and computer software is five years. Development in progress is not depreciated. Depreciation expense of $22,291 was charged to Administration in the Statement of Activities for the year ended December 31, 2025.

	Balance 12/31/24	Additions	Retirements	Balance 12/31/25
Governmental Activities:				
Total Capital Assets Not Being Depreciated	$ -	$ -	$ -	$ -
Capital Assets being Depreciated:				
Vehicle	24,036	-	-	24,036
Equipment	-	55,977	-	55,977
Computer Software	83,470	-	-	83,470
Total Capital Assets Being Depreciated	107,506	55,977	-	163,483
Less Accumulated Depreciation for:				
Vehicle	(24,036)	-	-	(24,036)
Equipment	-	(5,597)	-	(5,597)
Computer Software	(66,776)	(16,694)	-	(83,470)
Total Accumulated Depreciation	(90,812)	(22,291)	-	(113,103)
Governmental Activities Capital Assets, Net	$ 16,694	$ 33,686	$ -	$ 50,380

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Net Position/Fund Balance

Net Position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal or a permanent fund). The District has classified prepaid items as being nonspendable as these items are not expected to be converted to cash.

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers. The District does not have any restricted fund balances by enabling legislation.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the Board. Committed resources cannot be used for any other purpose unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally. The District has set a minimum committed fund balance equal to $250,000.

Assigned fund balance – represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated authority. The District has no assigned fund balances at December 31, 2025.

Unassigned fund balances – represents all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

In circumstances where an expenditure is to be made for the purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance. The District has adopted a policy that sets a minimum fund balance of $600,000 and a maximum of $850,000. Fund balance at December 31, 2025, amounted to $932,594, which exceeded the $850,000 maximum level established.

The following schedule provides information about the specific fund balance classification by fund:

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Net Position/Fund Balance (continued)

	General
Nonspendable	$ 2,014
Unassigned	930,580
Total	$ 932,594

II. Stewardship, Compliance, and Accountability

By its nature as a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

For the year ended December 31, 2025, the District's expenditures exceeded appropriations in the General Fund as follows:

Object Category	Expenditures Exceeding Appropriations
Legal	$ 54,803
Capital Outlay	55,977

The over-expenditure was funded by available fund balance.

III. Deposits, Securities, and Investments

District funds may be invested in obligations of the United States Government, fully insured or collateralized certificates of deposit from any bank doing business in the State of Texas, and certain Texas Local Government Investment Pools. At December 31, 2025, the District has only invested in certificates of deposit.

As of December 31, 2025, the District maintains deposits in First United, Sherman, Texas, that at times may exceed the insured amount provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The District has not experienced any losses related to amounts in excess of FDIC limits and it is management's opinion that there is no significant exposure to credit risk. At December 31, 2025, the carrying amount of all deposits was $88,112 and the bank balance was $88,323. As of December 31, 2025, $250,000 was insured by FDIC.

The District maintains certificates of deposit in East West Bank, Plano, Texas that at times may exceed the insured amount of $250,000 provided by the U.S. Federal Deposit Insurance Corporation (FDIC). At December 31, 2025, the carrying amount of the certificates of deposits was $863,874 and the bank balances were $864,399. As of December 31, 2025, $250,000 was insured by FDIC and $614,399 was collateralized by a FHLB Letter of Credit. The certificates of deposit will mature in 2026.

III. Deposits, Securities, and Investments (Continued)

As of December 31, 2025, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Certificates of Deposit	$863,874	N/A

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the District's name.

Credit Risk

Investments are exposed to the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment balance consists of only certificates of deposit as described above.

Interest Rate Risk

Interest rate risks refers to the risk that changes in interest rates will adversely affect the fair value of an investment.

Foreign Currency Risk

Foreign currency risk refers to the risk that exchange rates will adversely affect the fair value of an investment. At December 31, 2025, the District was not exposed to foreign currency risk.

IV. 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; injuries to employees; and natural disasters. During the year ended December 31, 2025, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the last year, and there were no settlements exceeding insurance coverage in the past year.

V. Estimates

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

VI. Related Party Transaction

The District and Greater Texoma Utility Authority (GTUA) have common management. The District rents office space and receives administrative services from GTUA. Total amounts incurred by the District to GTUA amounted to $280,603. The amount payable to GTUA at December 31, 2025 was $14,658.

VII. Concentrations

One customer individually comprised approximately 26% of gross accounts receivable at December 31, 2025. This customer individually comprised approximately 24% of revenue for the year ended December 31, 2025. One vendor (GTUA) comprised approximately 45% of expenditures for the year ended December 31, 2025.

VIII. Commitments

At December 31, 2025, the District has outstanding contract commitments totaling $3,409 related to the GMA 8 groundwater planning effort agreement and $32,642 related to system upgrades.

IX. Subsequent Events

Subsequent events have been evaluated through July 13, 2026, the date the financial statements were available to be issued.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
General Fund
Budgetary Comparison Schedule
Year Ended December 31, 2025

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Groundwater Production Fees	$ 267,948	$ 267,948	$ 296,770	$ 28,822
Registration and Other Fees	17,000	17,000	31,189	14,189
Interest Income	15,000	15,000	40,072	25,072
Miscellaneous Income	-	-	29,746	29,746
Total Revenues	299,948	299,948	397,777	97,829
EXPENDITURES				
Administration	494,182	494,182	457,345	36,837
Legal	50,000	50,000	104,803	(54,803)
Capital Outlay:				
Equipment	-	-	55,977	(55,977)
Total Expenditures	544,182	544,182	618,125	(73,943)
Net Change in Fund Balance	(244,234)	(244,234)	(220,348)	23,886
Fund Balance - Beginning (January 1)	1,152,942	1,152,942	1,152,942	-
Fund Balance - Ending (December 31)	$ 908,708	$ 908,708	$ 932,594	$ 23,886

George H. Struve, CPA
Debra J. Wilder, CPA
Teffany A. Kavanaugh, CPA
April J. Hatfield, CPA
Brittany L. Martin, CPA

Steven W. Mohundro, CPA, of Counsel

MCCLANAHAN AND HOLMES, LLP
Certified Public Accountants

228 Sixth St. SE
Paris, TX 75460
903-784-4316
Fax 903-784-4310

304 W. Chestnut
Denison, TX 75020
903-465-6070
Fax 903-465-6093

1400 W. Russell
Bonham, TX 75418
903-583-5574
Fax 903-583-9453

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Red River Groundwater Conservation District (the District), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 13, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

Financial Accounting and Reporting:

The District does not control the period-end financial reporting process, including controls over the application of accounting principles that are in conformity with generally accepted accounting principles and controls over procedures used to analyze transactions comprising general ledger activity.

Views of Responsible Official: The District's management agrees with the finding and plans to maintain close oversight of the accounting and reporting process.

Segregation of Duties:

A critical element in any internal control structure is the characteristic known as segregation of duties. Assigning different personnel the responsibility of authorizing transactions, recording transactions, and maintaining custody of assets achieves this internal control structure attribute. Due to the District's small number of personnel, there is limited segregation of duties in substantially all areas of the accounting system. To the extent possible, every effort should be made to utilize a "best practices" approach when considering controls over cash transactions and preparation of accounting records. We encourage the board to closely monitor its financial activities which may help offset the weaknesses associated with limited segregation of duties.

Views of Responsible Official: The District's management agrees with the finding and the Board of Directors will maintain close oversight of the District's operations.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described previously. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
July 13, 2026