

PANOLA COUNTY
GROUNDWATER CONSERVATION DISTRICT
Panola County, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended
December 31, 2020

**Panola County Groundwater Conservation District
Financial Statements
For the Year Ended December 31, 2020**

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Financial Section

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Morgan LaGrone, CPA, PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Panola County Groundwater Conservation District
Carthage, TX

Members of the Board:

We have audited the accompanying financial statements of the governmental activities and each major fund of Panola County Groundwater Conservation District as of and for the year ended December 31, 2020, 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 of 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 of 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 audit 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 of 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 Panola County Groundwater Conservation District as of December 31, 2020, and the respective changes in financial position thereof for the year then ended in conformity 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 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.


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2021, 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 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 internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,



Morgan LaGrone
Certified Public Accountant
Henderson, Texas
August 19, 2021

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

This section of Panola County Groundwater Conservation District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended December 31, 2020. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position was \$976,683 at December 31, 2020.
- During the year, the District's expenses were \$93,730 less than the \$504,232 generated in taxes and other revenues for governmental activities.
- The general fund reported fund balance this year of \$630,245, of which \$624,501 was unassigned and \$5,744 was nonspendable.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

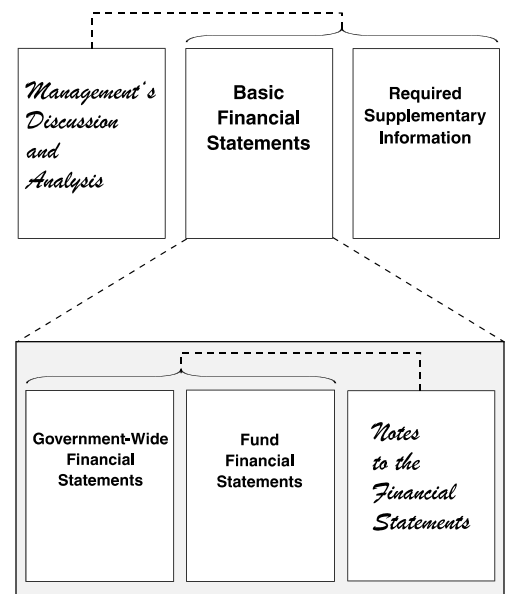
Government-Wide Statements

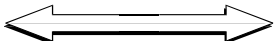
The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- The government-wide financial statements of the District include the governmental activities. All of the District's basic services are included here. Property taxes finance virtually all of the District's activities.

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



Summary  Detail

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds may be required by State law.
- The Board of Directors may establish other funds to control and manage money for particular purposes.

The District has the following kinds of funds:

- Governmental funds—All of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's net position was \$976,683 at December 31, 2020.

Table A-1
Panola County Groundwater Conservation District
Net Position

	<u>2020</u>	<u>2019</u>	Increase/ (Decrease) <u>2019-2020</u>	Percentage Change <u>2019-2020</u>
Current Assets:				
Cash	\$ 842,521	\$ 780,567	\$ 61,954	7.94%
Due from Other Governments	67,549	28,713	38,836	135.26%
Prepaid Expenses	5,744	5,096	648	12.72%
Taxes Receivable, Net	24,946	15,112	9,834	65.07%
Accounts Receivable	-	255	(255)	(100.00%)
Total Current Assets	<u>\$ 940,760</u>	<u>\$ 829,743</u>	<u>\$ 111,017</u>	<u>13.38%</u>
Noncurrent Assets:				
Buildings, Equipment & Vehicles	\$ 518,756	\$ 500,138	\$ 18,618	3.72%
Less: Accumulated Depreciation	(199,222)	(164,147)	(35,075)	21.37%
Total Noncurrent Assets	<u>\$ 319,534</u>	<u>\$ 335,991</u>	<u>\$ (16,457)</u>	<u>(4.90%)</u>
Total Assets	<u>\$ 1,260,294</u>	<u>\$ 1,165,734</u>	<u>\$ 94,560</u>	<u>8.11%</u>
Liabilities:				
Current Liabilities	\$ 4,817	\$ 11,910	\$ (7,093)	(59.55%)
Noncurrent Liabilities	8,174	7,544	630	8.35%
Total Liabilities	<u>\$ 12,991</u>	<u>\$ 19,454</u>	<u>\$ (6,463)</u>	<u>(33.22%)</u>
Deferred Inflows of Resources	<u>\$ 280,751</u>	<u>\$ 263,327</u>	<u>\$ 17,424</u>	<u>-6.62%</u>
Net Position:				
Net Investment in Capital Assets	\$ 319,534	\$ 335,991	\$ (16,457)	(4.90%)
Unrestricted	657,149	546,962	110,187	20.15%
Total Net Position	<u>\$ 976,683</u>	<u>\$ 882,953</u>	<u>\$ 93,730</u>	<u>10.62%</u>

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

The \$651,149 of unrestricted net position represents resources available to fund the programs of the District next year.

Change in net position. The District's total revenues were \$443,703. Of the District's revenue, 86.79% comes from property taxes, 3.97% comes from donations from corporations, 8.04% comes from fees charged to customers, and the remaining 1.20% comes from interest and miscellaneous.

The total cost of all programs and services was \$410,502.

Governmental Activities

Table A-2
Panola County Groundwater Conservation District
Change in Net Position

	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease) 2019-2020</u>	<u>Percentage Change 2019-2020</u>
Program Revenues:				
Charges for Services	\$ 40,529	\$ 53,068	\$ (12,539)	-23.63%
Operating Grants and Contributions	20,000	20,000	-	0.00%
General Revenues:				
Tax Revenue	437,629	388,645	48,984	12.60%
Interest and Miscellaneous	6,074	7,211	(1,137)	-15.77%
Total Revenues	<u>\$ 504,232</u>	<u>\$ 468,924</u>	<u>\$ 35,308</u>	<u>7.53%</u>
Expenses:				
General Government	\$ 410,502	\$ 400,658	\$ 9,844	2.46%
Total Expenses	<u>\$ 410,502</u>	<u>\$ 400,658</u>	<u>\$ 9,844</u>	<u>2.46%</u>
Change in Net Position	<u>\$ 93,730</u>	<u>\$ 68,266</u>	<u>\$ 25,464</u>	<u>37.30%</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$468,924, an increase of \$25,098 from the preceding year. Property tax revenue increased \$8,317 because of an increase in the District's property values; and because of an increase in the needs for services, revenues from the issuance of permits and inspection increased to \$53,068 from the prior year's revenue of \$38,662.

Expenditures from governmental fund types totaled \$400,658, a decrease of \$6,852 from the preceding year.

General Fund Budgetary Highlights

During the year, the District revises its budget. During the year, the District did not exceed its final budgeted expenditures.

Fund balance in the General Fund increased by \$92,190.

CAPITAL ASSETS

At the end of 2019, the District had invested \$500,137 in capital assets, consisting of vehicles, software, equipment, and a building (See Table A-3).

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Table A-3
Panola County Groundwater Conservation District
Capital Assets

	<u>2020</u>	<u>2019</u>	Increase/ (Decrease) <u>2019-2020</u>	Percentage Change <u>2019-2020</u>
Capital Assets				
Buildings	\$ 349,449	\$ 349,449	\$ -	0.00%
Equipment & Vehicles	128,894	110,275	18,619	16.88%
Software	40,413	40,413	-	0.00%
Total Capital Assets	<u>\$ 518,756</u>	<u>\$ 500,137</u>	<u>\$ 18,619</u>	<u>16.88%</u>
Less Accumulated Depreciation	<u>(199,222)</u>	<u>(164,146)</u>	<u>(35,076)</u>	<u>(21.37%)</u>
Net Capital Assets	<u><u>\$ 319,534</u></u>	<u><u>\$ 335,991</u></u>	<u><u>\$ (16,457)</u></u>	<u><u>(4.90%)</u></u>

Capital assets are also presented in Note III B to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Amounts available for appropriation in the General Fund budget are \$413,051 which is the same as the 2020 adopted budget. Property tax revenue is expected to remain the same.
- General Fund spending will also remain the same in the 2021 budget.
- The District anticipates fund balance to stay approximately the same.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT STAFF

This financial report is designed to provide residents residing within the District, creditors, and the general public with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's General Manager at 419 West Sabine, Carthage, Texas 75633.

Basic Financial Statements

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Panola County Groundwater Conservation District
Statement of Net Position
December 31, 2020

	Governmental <u>Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$842,521
Taxes Receivable	33,261
Less Allowance for Uncollectible Accounts	(8,315)
Due from Panola County	67,549
Prepaid Assets	5,744
Capital Assets, Net	319,534
Total Assets	<u>\$1,260,294</u>
<u>Liabilities</u>	
Accounts Payable	\$2,217
Refundable Deposits	2,600
Non-current Liabilities	
Accrued Compensated Absence:	8,174
Total Liabilities	<u>\$12,991</u>
<u>Deferred Inflows of Resources</u>	
Unearned Revenues - Advance Tax Collections	\$280,751
Total Deferred Inflows of Resources	<u>\$280,751</u>
<u>Net Position</u>	
Net Investment in Capital Assets	\$319,534
Restricted - Scientific Research Program	40,000
Unrestricted	617,149
Total Net Position	<u><u>\$976,683</u></u>

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

Panola County Groundwater Conservation District
Statement of Activities
For the Year Ended December 31, 2020

		<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	Charges for <u>Services</u>	Operating Grants and <u>Contributions</u>	Governmental <u>Activities</u>
<u>Functions/Programs</u>				
Governmental Activities:				
General Government	\$410,502	\$40,529	\$20,000	(\$349,973)
Total Governmental Activities	<u>\$410,502</u>	<u>\$40,529</u>	<u>\$20,000</u>	<u>(\$349,973)</u>
General Revenues:				
Property Taxes				\$437,629
Interest				5,530
Miscellaneous				<u>544</u>
Total General Revenues				<u>\$443,703</u>
Change in Net Position				93,730
Net Position - Beginning				<u>882,953</u>
Net Position - Ending				<u><u>\$976,683</u></u>

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

Panola County Groundwater Conservation District
Balance Sheet - General Fund
December 31, 2020

Assets

Cash	\$842,521
Taxes Receivable, Net	24,945
Due from Panola County	67,549
Prepaid Assets	<u>5,744</u>
Total Assets	<u><u>\$940,759</u></u>

Liabilities, Deferred Inflows of Resources, and Fund Balances**Liabilities**

Accounts Payable	\$2,217
Refundable Deposits	<u>2,600</u>
Total Liabilities	<u>\$4,817</u>

Deferred Inflows of Resources

Unearned Revenue - Advance Tax Collections	\$280,751
Deferred Revenues - Property Taxes	<u>24,946</u>
Total Deferred Inflows of Resources	<u>\$305,697</u>

Fund Balances

Nonspendable - Prepaids	\$5,744
Restricted - Scientific Research Program	40,000
Unassigned	<u>584,501</u>
Total Fund Balance	<u>\$630,245</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u><u>\$940,759</u></u>

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

Panola County Groundwater Conservation District
 Reconciliation of the Balance Sheet-General Fund
 to the Statement of Net Position
 December 31, 2020

Amounts Reported for Governmental Activities in the Statement of Net Position
 are Different Because:

Total Fund Balances-Total Governmental Funds (Page 9)	\$630,245
Net Delinquent Property Taxes Receivable is a "long-term asset" and not available to pay for current period expenditures and therefore is deferred in the funds.	35,078
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	319,534
Compensated Absences are not due and payable in the current period and therefore are not reported in the funds	(8,174)
Net Position of Governmental Activities (Page 7)	<u><u>\$976,683</u></u>

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

Panola County Groundwater Conservation District
Statement of Revenues, Expenditures, and
Changes in Fund Balances-General Fund
For the Year Ended December 31, 2020

Revenues:

Tax Revenue	\$427,795
Interest	5,530
Rental Income	7,605
Fees, Fines, and Forfeitures	31,229
Donations	20,000
Well Inspection and Testing	1,695
Miscellaneous	544
	<hr/>
Total Revenues	\$494,398

Expenditures:

Accounting	6,500
Assessor Commissions	4,569
Assessment-Appraisal District	5,190
Automobile Expense	6,984
Building Expense	6,236
Consultant	4,750
Dues and Subscriptions	2,710
Election	387
Field Expense	14,228
Insurance	38,149
Legal	43,046
Miscellaneous	138
Office Expense	22,500
Payroll and Related Taxes	236,725
Rental Expense	142
Travel and Conferences	1,014
Utilities	8,478
Water Sampling	1,802
	<hr/>
Total Expenditures	\$403,547

Excess (Deficiency) of Revenues Over (Under) Expenditures	\$90,851
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Net Change in Fund Balance	<hr/> \$90,851
Fund Balance, January 1, 2020	<hr/> 539,394
Fund Balance, December 31, 2020	<hr/> <hr/> \$630,245

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

Panola County Groundwater Conservation District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances-General Fund
To the Statement of Activities
For the Year Ended December 31, 2020

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Net Change in Fund Balances-Total Governmental Funds (Page 11)	\$90,851
Current year change in property taxes receivable does not increase financial resources and is not reported as revenue in governmental funds	19,966
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 exceeded depreciation in the current period.	(16,457)
The change in accrued compensated absences did not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	<u>(630)</u>
Changes in Net Position of Governmental Activities (Page 8)	<u><u>\$93,730</u></u>

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

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2020

I. Summary of Significant Accounting Policies

Panola County Groundwater Conservation District was created in 2007 by the 80th Texas Legislature with a directive to conserve, protect, and enhance the groundwater resources of Panola County. The District is a political subdivision of the State of Texas organized and existing under Section 59, Article XVI, Texas Constitution, Chapter 36, Texas Water Code, and the District Act. On November 6, 2007, the citizens of Panola County approved the formation of the District to protect and monitor the resources within the District. The District is committed to managing and protecting the groundwater resources within its jurisdiction and to work with other stakeholders to ensure a sustainable, high quality and cost-effective supply of water for future generations. The District is governed by a Board of Directors which is comprised of nine elected individuals. Two directors from each of four precincts are elected along with one at-large director.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The government's significant accounting policies are described below.

A. Reporting Entity

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units for which the District may be financially accountable and, as such, should be included within the District's financial statements. The District is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial burden on the District. Additionally, the District is required to consider other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. Based upon the application of those criteria, the District has no component units.

B. Government-Wide and Fund Financial Statements

The Government-Wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the District. Any interfund activity is removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are to be reported separately from business-type activities. Panola County Groundwater Conservation District has no business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers, citizens, or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Major individual governmental funds are reported as separate columns in the Fund Financial Statements.

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2020

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collectible within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The District reports the following major Governmental fund:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government.

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

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The District's cash includes amounts on hand and in demand deposits.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

2. Property Taxes

The District's property taxes are levied on October 1, but do not become due until January 1 of the following year. Taxes become past due February 1 and become delinquent June 30. Because the taxes are not due and payable until January 1, no current taxes receivable are reported as of December 31.

Since delinquent taxes were due on January 1 of the fiscal and budget year, any unpaid taxes are recorded as receivable, net of allowance for uncollectibles. This receivable has been reported in the assets section of the balance sheet and offset as deferred revenues in the deferred inflows of resources section.

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2020

The following is a summary of the gross delinquent taxes and the allowance for uncollectible taxes:

Delinquent Taxes	\$ 33,261
Allowance for Uncollectible Taxes	(8,315)
Net Taxes Receivable	<u>\$ 24,946</u>

By policy, any taxes, regardless of character (delinquent, advance) collected between October 1 and December 31 are not available for use until January 1, the beginning of the next fiscal year. Therefore, all of these receivables and advance collections are recorded as unearned revenues.

A summary of taxes collected and recognized on the governmental basis as current revenues, deferred revenues, or unearned revenues is summarized below:

	Recognized in Current Year	Deferred Revenues	Unearned Revenues
Collections from October 1, 2019 to September 30, 2020	\$ 263,327	\$ -	\$ -
Advance collections of 2021 taxes	-	-	280,751
Delinquent taxes receivable (net of allowance)	-	24,946	-
Total	<u>\$ 263,327</u>	<u>\$ 24,946</u>	<u>\$ 280,751</u>

3. *Capital Assets*

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. A capitalization threshold of \$1,000 and an estimated useful life in excess of one year is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	39
Equipment & Software	5-7
Vehicles	10

4. *Deferred Outflows and Inflows of Resources*

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds Balance Sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District has no items that qualify for reporting in this category.

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements
December 31, 2020

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. Deferred Revenue is reported in the governmental fund Balance Sheet. Net delinquent taxes receivable as of December 31, 2020 are recorded as deferred revenue.

5. Fund Balances – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amount that can only be used for a specific purpose because of a formal action by the District's Board of Directors. Committed amounts cannot be used for any other purpose unless the Board of Directors removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Directors. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

6. Net Position

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position invested in capital assets, net of any related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets, and adding back any unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2020

the District or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

II. Stewardship, Compliance, and Accountability

Budgetary Information

Prior to January 1, the District discusses and considers an operating budget for the fiscal year commencing the following January 1. The operating budget includes expenditures and the means of financing them for the upcoming year. The budget for 2020 was approved on August 6, 2019.

Once a budget is approved, it can be amended only by approval of a majority of the members of the Board of Directors. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was amended during the year.

All budget appropriations lapse at year-end.

III. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas State Law. The depository bank deposits for safekeeping and trust with the District's agent bank, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract.

The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) Insurance. At December 31, 2020, and throughout the year, the District's bank balances were fully covered by federal depository insurance or collateral held by the pledging financial institution's agent in the District's name.

Investments

The District is required by Texas Water Code Chapter 49 and Government Code Chapter 2256, The Public Funds Investment Act ("Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2020

reports, and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper. During the year ended December 31, 2020, the District's investments were in certificates of deposits with its non-depository bank.

Demand Deposit Accounts	\$ 588,824
Time Deposit Accounts	253,697
	<u>\$ 842,521</u>

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

- Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The District was not exposed to credit risk.

- 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 credit 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. The District was not exposed to custodial credit risk.

- Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District was not exposed to concentration of credit risk.

- Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District was not exposed to interest rate risk.

- Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. The District does not engage in foreign currency transactions. The District was not exposed to foreign currency risk.

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements
December 31, 2020

B. Capital Assets

Capital asset activity for the year ended December 31, 2020, was as follows:

	Balance January 1, <u>2020</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2020</u>
Capital Assets Being Depreciated:				
Buildings	\$ 349,449	\$ -	\$ -	\$ 349,449
Equipment & vehicles	110,275	18,619	-	128,894
Software	40,413	-	-	40,413
Total Capital Assets Being Depreciated	<u>\$ 500,137</u>	<u>\$ 18,619</u>	<u>\$ -</u>	<u>\$ 518,756</u>
Less: Accumulated Depreciation for:				
Buildings	\$ (78,402)	\$ (8,960)	\$ -	\$ (87,362)
Equipment & vehicles	(67,654)	(18,033)	-	(85,687)
Software	(18,090)	(8,083)	-	(26,173)
Total Accumulated Depreciation	<u>\$ (164,146)</u>	<u>\$ (35,076)</u>	<u>\$ -</u>	<u>\$ (199,222)</u>
Total Capital Assets Being Depreciated, Net	<u><u>\$ 335,991</u></u>	<u><u>\$ (16,457)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 319,534</u></u>

C. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in insurance coverages during the year ended December 31, 2020.

D. Compensated Absences

Vacation is a benefit earned through active service. Full-time and part-time employees are eligible for paid vacation time. Vacation time can be carried over to the following year up to 1.5 times the employee's annual accrual. Terminated employees will be paid for vacation accrued and not yet taken as of the effective date of termination. The District has provided for the liability in the government-wide financial statements. Changes in the compensated absences for the year are as follows:

Beginning Balance 1/1/2020	Additions	Reductions	Ending Balance 12/31/2020	Due Within One Year
\$ 7,544	\$ 630	\$ -	\$ 8,174	\$ 8,174

PANOLA COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2020

E. Other Income

Other income sources of the District consist of fines and forfeitures, well inspection revenues, net rental income from leasing of office space in the District's building, and other miscellaneous revenues. These revenues fluctuate on a year-to-year basis. In the current year, other income was comprised of fines and forfeitures \$31,229; a \$20,000 corporate donation; net rental income \$7,463; well inspection fees \$1,695; and other miscellaneous revenues \$544.

F. 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.

G. Employee Pension Plan

In July 2009, the District established a 457(b) plan for its permanent, full-time employees with at least one year of service. Employees can defer up to the limit allowed by the Internal Revenue Service. The District matches at 4% of gross wages of such deferrals. Contributions of \$7,154 were made by the District to the plan in 2020.

H. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreement for copier usage provide for minimum future payments as of December 31, 2020 as follows:

Year Ending December 31,	
2021	1,180
2022	1,180
2023	590
	<hr/>
	2,950
	<hr/>
Lease Expenditures in 2020	\$ 1,505

Required Supplementary Information

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Panola County Groundwater Conservation District
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
General Fund (Budgetary Basis)
For the Year Ended December 31, 2020

	<u>Original</u>	<u>Amended</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Tax Revenue	\$ 413,051	\$ 413,051	\$ 427,795	\$ 14,744
Interest	-	-	5,530	5,530
Fees, Fines, and Forfeitures	-	-	31,229	31,229
Donation Revenue	-	-	20,000	20,000
Rental Revenue	-	-	7,605	7,605
Well Inspection and Testing	-	-	-	-
Other Revenue	-	-	544	544
Total Revenues	\$ 413,051	\$ 413,051	\$ 492,703	\$ 79,652
Expenditures:				
Accounting	\$ 7,500	\$ 6,584	\$ 6,500	\$ 84
Assessor Commissions	4,000	4,000	4,569	(569)
Assessment-Appraisal District	5,500	5,500	5,190	310
Automobile Expense	9,000	9,000	6,984	2,016
Building Expense	4,000	9,394	6,236	3,158
Consulting	10,000	4,800	4,750	50
Election	2,500	2,107	387	1,720
Field Expense	7,975	14,018	14,228	(210)
Insurance	39,950	39,950	38,149	1,801
Legal	45,000	45,000	43,046	1,954
Miscellaneous	-	-	138	(138)
Office Expense	19,873	25,073	25,210	(137)
Payroll and Related Taxes	233,053	233,053	236,725	(3,672)
Rental Expense	-	-	142	(142)
Travel and Conferences	12,100	1,056	1,014	42
Utilities	7,600	8,516	8,478	38
Water Sampling	5,000	5,000	-	5,000
Total Expenditures	\$ 413,051	\$ 413,051	\$ 401,745	\$ 11,306
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 90,958	\$ 90,958
Net Change in Fund Balance	-	-	\$ 90,958	\$ 90,958
Fund Balance, January 1, 2020	539,394	539,394	539,394	-
Fund Balance, December 31, 2020	\$ 539,394	\$ 539,394	\$ 630,352	\$ 90,958
Reconciliation to Exhibit #4				
Exhibit #5 Revenues			\$ 492,703	
Well Inspection and Testing			1,695	
Total Exhibit #4 Revenues			<u>\$ 494,398</u>	
Exhibit #5 Expenditures			\$ 401,745	
Water Sampling			1,802	
Total Exhibit #4 Expenditures			<u>\$ 403,547</u>	

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Compliance Section

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Morgan LaGrone, CPA, PLLC

Certified Public Accountant

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116 S Marshall
Henderson TX 75654

Independent Auditor's Report

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*

August 19, 2021

Board of Directors
Panola County Groundwater Conservation District
Carthage, TX

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund of Panola County Groundwater Conservation District as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 19, 2021.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Panola County Groundwater Conservation District's internal control over financial reporting (internal control) to determine the 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 Panola County Groundwater Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Panola County Groundwater Conservation 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 a 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 the 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

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might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

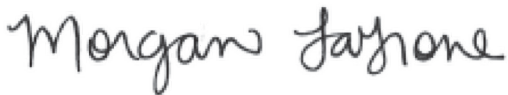
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Panola County Groundwater Conservation District's financial statements are free of 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 determination of financial statement amounts. 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*.

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 entity's internal control or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Morgan LaGrone
Certified Public Accountant

Panola County Groundwater Conservation District
Schedule of Findings
For the Year Ended December 31, 2020

Not applicable for the year ended December 31, 2020.

Panola County Groundwater Conservation District
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2020

Not applicable for the year ended December 31, 2020.