

REPORT OF AUDIT
HICKORY UNDERGROUND WATER CONSERVATION
DISTRICT NO. 1
SEPTEMBER 30, 2019

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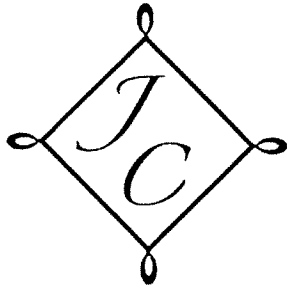
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INTRODUCTORY SECTION

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
DISTRICT OFFICIALS
SEPTEMBER 30, 2019**

W. Owen Parks	President
Bill Sloan	Vice-President
Gay Nesloney	Secretary
Amy Greer	Board Member
Don Williams	Board Member
David Huie	Manager
Angelina Deans	Assistant Manager
Ronnie Moore	Field and Lab Tech
Caroline Runge	Consulting Manager

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hickory Underground Water Conservation District #1
P. O. Box 1214
Brady, Texas 76825

We have audited the accompanying financial statements of the governmental activities and the major fund of the Hickory Underground Water Conservation District #1, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Hickory Underground Water Conservation District #1, as of September 30, 2019, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10 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.

Jodi Crudgington, CPA, LLC

Brady, Texas

November 19, 2019

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2019**

Our discussion and analysis of the Hickory Underground Water Conservation District's performance provides an overview of the District's financial activities for the year ending September 30, 2019. Please read it in conjunction with the District's financial statements, which begin on page 11.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) schedule of revenues, expenditures and changes in fund balances, budget and actual (budgetary basis) and 4) notes to the financial statements. The Statement of Net Position and the Statement of Activities, on pages 11 and 12 provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements report the District's operations in more detail than the government-wide statements.

The Statement of Net Position and the Statement of Activities

Our analysis of the District as a whole begins on page 11. The Statement of Net Position and the Statement of Activities report information about the District as a whole and indicate whether the District's financial condition is better or worse than the prior year. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. The District's net position, the difference between assets and liabilities, is a measure of the District's financial position. Over time, increases and decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating.

All of the District's activities are considered to be governmental activities, as the District has no business-type activities.

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2019**

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the District's general fund, which is reported as a governmental fund.

Government funds - The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations.

Reporting the District's Fiduciary Responsibilities

At this time, the District has no fiduciary responsibilities.

The District as a Whole

Shown below is a comparison of net position for the prior fiscal year and the current year ended September 30, 2019. Net position has increased by \$229,026. This is an indicator that the District's financial condition has improved. Most of the change can be attributed to an increase in cash deposits.

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2019**

	Governmental Activities 9-30-19	Governmental Activities 9-30-18
Current and other assets \$	2,265,540	\$ 2,073,030
Capital assets	90,967	55,130
Total assets	2,356,507	2,128,160
Long-term liabilities	19,285	18,495
Other liabilities	4,338	5,807
Total liabilities	23,623	24,302
Net investment in capital assets	90,967	55,130
Unrestricted	2,241,917	2,048,728
Ending net position \$	2,332,884	\$ 2,103,858

Governmental Activities

The following schedule presents a comparison between general fund revenues and expenditures for the fiscal year ended September 30, 2019 and the prior fiscal year.

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2019**

Revenues:	<u>9-30-19</u>	<u>9-30-18</u>	<u>Increase (Decrease)</u>
Taxes	\$ 565,793	\$ 487,275	\$ 78,518
Interest	16,380	3,589	12,791
Attorney Fees	2,388	2,503	(115)
Miscellaneous	920	1,165	(245)
Gain on Sale of Assets	5,000	-	5,000
Total Revenues	\$ 590,481	\$ 494,532	\$ 95,949

Expenses:	<u>9-30-19</u>	<u>9-30-18</u>	<u>Increase (Decrease)</u>
Salaries	\$ 165,529	\$ 158,554	\$ 6,975
Payroll Taxes	2,427	2,785	(358)
Health Insurance	88,505	95,677	(7,172)
Retirement	12,356	11,847	509
Storage	540	540	-
Utilities	2,936	2,743	193
Telephone	3,303	2,628	675
Furniture	-	816	(816)
Copier	3,445	3,445	-
Maintenance	87	72	15
Office Supplies	1,656	1,306	350
Janitorial	137	155	(18)
Election/Legal Notices	819	735	84
Legislative Service	9,960	7,991	1,969
Appraisal District	19,041	16,969	2,072
Legal Fees	3,575	3,986	(411)
Accounting	6,995	6,795	200
Computer	5,693	2,739	2,954

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2019**

Expenses:	<u>9-30-19</u>	<u>9-30-18</u>	<u>Increase (Decrease)</u>
Vehicle Expense	\$ 1,025	\$ 1,842	\$ (817)
Vehicle Insurance	786	754	32
Travel	1,113	3,872	(2,759)
Meetings	1,468	2,483	(1,015)
Dues and Miscellaneous	2,746	2,257	489
Bonds and Insurance	2,115	2,021	94
Building Insurance	469	469	-
Postage	998	829	169
Attorney Fees	2,388	2,503	(115)
Geological Studies	697	48,000	(47,303)
Education Information	5,150	7,347	(2,197)
Water Management	2,793	4,358	(1,565)
Depreciation	12,703	4,527	8,176
Total Expenses	<u>361,455</u>	<u>401,045</u>	<u>(39,590)</u>
Increase in net position	<u>\$ 229,026</u>	<u>\$ 93,487</u>	<u>\$ 135,539</u>

Revenues increased by \$95,949. Most of the increase was from taxes and interest.

Expenses decreased by \$39,590. In employee related expenses, salaries increased by \$6,975. Health insurance decreased by \$7,172 and retirement increased by \$509. Only \$697 was spent on geological studies in this fiscal year, where \$48,000 was spent in the prior fiscal year.

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2019**

General Fund Budgetary Highlights

The District amended the budget for the fiscal year ending September 30, 2019. A budgetary comparison schedule is presented on pages 17 and 18. The District had no expenditures in excess of budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

At the end of September 30, 2019 the District had \$90,967 invested in capital assets, net of depreciation, including land, a building, vehicles, hydro geo equipment, and office equipment as represented below:

	9-30-19	9-30-18	
Land	\$ 5,000	\$ 5,000	
Building	61,146	61,146	
Vehicles	53,872	40,442	
Hydro Geo	48,939	35,912	
Office Equipment	9,845	9,845	
Accumulated Depreciation	(87,835)	(97,215)	
	\$ 90,967	\$ 55,130	

During the fiscal year, the District purchased three remote telemetry base stations and traded their 2006 Chevrolet pickup for a 2018 Ford pickup.

The District does not own any infrastructure assets.

Debt

The District has no debt.

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2019**

Economic Factors and Next Year's Budgets and Rates

2020 is an election year with two directors up for re-election. This means money must be budgeted for election costs. Other legal fees will include the continued contract with John Davis, a lobbyist representing the District and groundwater concerns with the Texas Legislature.

The future of Hydromodel Host as a cloud-based groundwater modeling source is questionable. Funds will be utilized to replace this system with a comparable in-house geographic information system (GIS) based service until something similar to Hydromodel Host can be found. ArcGIS Pro offers many features that will benefit the District in its decisions and policies. The District hopes to direct more time and effort to analysis of current data and accumulation of additional information regarding the formations and their characteristics. More precise mapping of the Hickory Aquifer will be the focus of efforts in 2020.

District Programs and Water Managements

Conserve, preserve, prevent waste and protect all of the aquifers within the District boundaries is the District's mission. In order to accomplish this mission, data must not only be collected, but also stored and analyzed. The District has updated software this past year. A few additional extensions for currently owned software may be required but the primary thrust will be the accumulation and analysis of data.

Outreach continues to be an important part of the District's mission. As rainfall totals fall short of previous averages more attention will be paid to conservation methods such as rainwater harvesting and xeriscaping. Cooperating with other agencies such as the Texas AgriLife programs and the Upper Colorado River Authority, the District will reach a wider audience.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact the District Office at 111 East Main Street, P.O. Box 1214, Brady, TX 76825.

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

		GENERAL FUND
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$	2,241,849
Receivables, net		
Taxes		16,884
Accounts		2,500
Interest		3,564
Prepaid Expenses		743
Total Current Assets		2,265,540
Noncurrent Assets		
Land (Note 5)		5,000
Other Capital Assets, net of depreciation (Note 5)		85,967
Total Noncurrent Assets		90,967
Total Assets		2,356,507
LIABILITIES		
Current Liabilities		
Accounts Payable		4,338
Total Current Liabilities		4,338
Noncurrent Liabilities		
Accrued Compensated Absences (Note 7)		19,285
Total Noncurrent Liabilities		19,285
Total Liabilities		23,623
NET POSITION		
Net Investment in Capital Assets		90,967
Unrestricted		2,241,917
TOTAL NET POSITION	\$	2,332,884

See accompanying notes to the basic financial statements.

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2019

		<u>General Government</u>
Expenses:		
Salaries	\$	165,529
Payroll Taxes		2,427
Health Insurance		88,505
Retirement		12,356
Storage Building		540
Utilities		2,936
Telephone		3,303
Copier		3,445
Maintenance		87
Office Supplies		1,656
Janitorial		137
Election/Legal Notices		819
Appraisal District		19,041
Legal Fees		3,575
Legislative Service		9,960
Accounting		6,995
Computer		5,693
Vehicle Expense		1,025
Vehicle Insurance		786
Travel		1,113
Meetings		1,468
Dues and Miscellaneous		2,746
Bonds and Insurance		2,115
Building Insurance		469
Postage		998
Attorney Fees on Tax Collection		2,388
Hydro/Geo Research		697
Education Information		5,150
Water Management		2,793
Depreciation		12,703
Total Governmental Activities		<u>361,455</u>
General Revenues:		
Taxes		
Property Taxes, Levied for General Purposes		565,793
Attorney Fees on Tax Collections		2,388
Interest Revenue		16,380
Miscellaneous		920
Gain on Sale of Assets		5,000
Total General Revenues		<u>590,481</u>
Change in Net Position		229,026
Net Position, Beginning		2,103,858
Net Position, Ending	\$	<u><u>2,332,884</u></u>

See accompanying notes to the basic financial statements.

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

	<u>GENERAL FUND</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,241,849
Receivables, net	
Taxes (Note 1)	16,884
Accounts	2,500
Interest	3,564
Total Assets	\$ <u>2,264,797</u>
LIABILITIES	
Liabilities	
Accounts Payable	\$ 4,338
Total Liabilities	4,338
DEFERRED INFLOWS OF RESOURCES	
Property Taxes	\$ 16,884
FUND BALANCES	
Fund Balance:	
Unreserved	140,634
Committed for:	
Litigation	1,244,000
Research	814,000
Building Renovations	10,000
Vehicle Replacement	34,841
Special Purposes	100
Total Fund Balances	<u>2,243,575</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ <u>2,264,797</u>
Total Fund Balances	\$ 2,243,575
Amounts reported for governmental activities in statements of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, (net of accumulated depreciation of \$87,835)	90,967
Other assets used in the governmental activities are not financial resources and therefore are not reported in the funds.	
Prepaid Insurance	743
Property taxes receivable are not available to pay for current period expenditures and are not recognized as revenue in the governmental funds	
Deferred inflows of resources - property taxes	16,884
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued Compensated Absences	<u>(19,285)</u>
Net Position of Governmental Activities	\$ <u>2,332,884</u>

See accompanying notes to the basic financial statements.

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2019

REVENUES

Property Taxes	\$	556,988
Penalties and Interest		6,441
Interest on Investments		16,380
Attorney Fees		2,388
Miscellaneous		920
Total Revenues		<u>583,117</u>

EXPENDITURES

Current

Salaries	\$	164,750
Payroll Taxes		2,416
Health Insurance		88,505
Retirement		12,356
Storage Building		540
Utilities		2,936
Telephone		3,303
Copier Lease		3,445
Maintenance		87
Office Supplies		1,656
Janitorial		137
Election/Legal Notices		819
Appraisal District		19,041
Legislative Service		9,960
Legal Fees		3,575
Accounting		6,995
Computer		5,693
Vehicle Expense		1,025
Vehicle Insurance		786
Travel		1,113
Meetings		1,468
Dues and Miscellaneous		2,746
Bonds and Insurance		1,838
Building Insurance		469
Postage		998
Attorney Fees on Tax Collection		2,388

See accompanying notes to the basic financial statements.

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2019

EXPENDITURES - continued

Current		
Hydro/Geo Research	\$	697
Education Information		5,150
Water Management		2,793
Capital Outlay		43,540
Total Expenditures		<u>391,225</u>
Net Change in Fund Balances		191,892
Fund Balance, Beginning of Year		<u>2,051,683</u>
Fund Balance, End of Year	\$	<u>2,243,575</u>
Reconciliation of the change in fund balances of governmental funds to the change in net assets of governmental activities:		
Net Change in Fund Balances - Total Governmental Funds	\$	191,892
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and depreciated.		
Assets capitalized		48,540
Depreciation expense		(12,703)
Property taxes reported as revenue in the Statement of Activities are not yet available.		
Increase in deferred inflow of resources		2,364
Governmental funds report insurance expenditures as incurred. The Statement of Activities reports unexpired insurance as prepaid.		
Prepaid insurance		(277)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Accrued compensated absences		<u>(790)</u>
Change in Net Position of Governmental Activities	\$	<u>229,026</u>

See accompanying notes to the basic financial statements.

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Property Taxes	\$ 541,196	\$ 541,196	\$ 563,596	\$ 22,400
Interest on Investments	-	-	13,026	13,026
Attorney Fees	-	-	2,388	2,388
Miscellaneous	-	-	920	920
Total Revenues	<u>541,196</u>	<u>541,196</u>	<u>579,930</u>	<u>38,734</u>
<u>EXPENDITURES</u>				
Current				
Salaries	164,750	164,750	164,750	-
Payroll Taxes	6,178	6,178	2,416	3,762
Health Insurance	87,886	87,886	88,505	(619)
Retirement	12,356	12,356	12,356	-
Storage	540	540	540	-
Utilities	6,000	4,000	2,863	1,137
Telephone	6,000	6,000	3,303	2,697
Furniture	3,000	1,300	-	1,300
Copier	4,000	4,000	3,445	555
Maintenance	3,000	4,700	4,687	13
Office Supplies	3,071	3,001	1,672	1,329
Janitorial	1,000	1,000	137	863
Election/Legal Notices	3,500	3,500	1,554	1,946
Appraisal Districts	18,000	19,041	19,041	-
Legislative Service	25,000	25,000	9,960	15,040
Legal Fees	11,000	9,960	3,575	6,385
Accounting	9,000	9,000	6,995	2,005
Computer	7,000	7,000	1,698	5,302
Vehicle Replacement Fund	23,990	30,513	30,513	-
Vehicle Expense	5,000	3,400	1,069	2,331
Vehicle Insurance	800	800	786	14
Travel	4,500	3,500	1,093	2,407
Meetings	7,000	5,000	1,631	3,369
Dues and Miscellaneous	3,500	3,500	2,746	754
Bonds and Insurance	2,000	2,070	1,838	232
Building Insurance	500	500	469	31
Postage	2,000	2,000	998	1,002
Geological Studies	96,925	89,910	697	89,213
Education Information	15,000	15,000	5,150	9,850
Water Management	8,700	15,715	2,793	12,922
Attorney Fees on Tax Collection	-	-	2,388	(2,388)
Capital Outlay	-	-	13,027	(13,027)
Total Expenditures	<u>541,196</u>	<u>541,120</u>	<u>392,695</u>	<u>148,425</u>
Net Change in Fund Balances	-	76	187,235	187,159
Fund Balance - Beginning	<u>2,051,683</u>	<u>2,051,683</u>	<u>2,051,683</u>	-
Fund Balance - Ending, Budgetary Basis	<u>\$ 2,051,683</u>	<u>\$ 2,051,759</u>	2,238,918	<u>\$ 187,159</u>

See accompanying notes to the basic financial statements.

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes Receivable - The District budgets on the cash basis.			\$ (165)	
Accounts Payable - The District budgets on the cash basis.			1,469	
Interest Receivable - The District budgets on the cash basis.			3,353	

Fund Balance - Ending, GAAP Basis			\$ <u>2,243,575</u>	

See accompanying notes to the basic financial statements.

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hickory Underground Water Conservation District No. 1 been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing government accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below:

Financial Reporting Entity

The Hickory Underground Water Conservation District No. 1 (The District) was created on June 9, 1982 under the terms and provisions of Article XVI, Section 59 of the Constitution of Texas, and Chapter 52 of the Texas Water Code, Vernon's Texas Civil Statutes, together with all amendments and additions thereto. The District operates under an elected Board of Directors - Manager form of government for the following purposes:

1. to formulate, promulgate and enforce rules and regulations for the purpose of conserving, preserving, protecting and recharging the underground water of the underground water reservoir or subdivision thereof;
2. to formulate, promulgate and enforce rules and regulations to control subsidence and to prevent waste of the underground water of the underground water reservoir or subdivision thereof.

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity are set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards. Based on these standards, the Hickory Underground Water Conservation District No. 1 has no component units.

Basic Financial Statements

The basic financial statements include both government-wide financial statements (based on the District as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

government-wide Statement of Net Position, the governmental activities are presented and reflected on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The District has no business-type activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include contributions that are restricted to meeting the operational requirements of a specific program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property taxes are recorded as receivables until they become available. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected as of year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantors have been met.

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. Available means collectibles within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected as of year-end. Expenditures are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or at year-end and available to pay obligations of the current period.) This includes revenues such as interest revenue.

When fund balance resources are available for a specific purpose in more than one classification, it is the District's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

The District's only fund is the general fund. This is the district's primary operating fund. It accounts for all financial resources of the District. By definition, the general fund is a major governmental fund.

The District has no proprietary funds or fiduciary funds.

Assets, Liabilities, and Net Position

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

The District's receivables include property taxes and interest receivable, both of which are recorded at full value with no allowance for doubtful accounts.

Inventories and Prepaid Items

The District carries no material amount of inventory.

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide statements.

Capital Assets

Capital assets include land, buildings, equipment, and vehicles. Capital assets purchased, acquired or developed, are carried at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed. A capitalization threshold of \$1,000 is due for all capital assets. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	20 - 50 years
Equipment	2 - 15 years
Vehicles	5 years

Infrastructure

The District has no infrastructure.

Compensated Absences

The District allows employees to accumulate annual leave based on their length of employment with the District. Beginning employees accrue one (1) day per month of leave to a maximum of fifteen (15) days. After three (3) years of employment, leave accrues at one and one-half (1.5) days per month to a maximum of twenty-one (21) days. After ten (10) years of employment, leave accrues at two (2) days per month to a maximum of thirty (30) days. Upon termination, an employee may be reimbursed for annual leave not taken up to the maximum allowable.

As of September 30, 2019, the liability for accrued leave is \$19,285. This amount has been recorded as a noncurrent liability.

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Government-wide Net Position

Government-wide net position is divided into three components:

- a. Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- b. Restricted - consists of net assets that are restricted by the District's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- c. Unrestricted - all other net assets are reported in this category.

Governmental Fund Balances

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

- a. Nonspendable - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- b. Restricted - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- c. Committed - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the highest level action to remove or change the constraint.
- d. Assigned - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

- e. Unassigned - amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Board of Directors through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In the general fund, the District strives to maintain an unassigned fund balance to be used for operations.

Designations of Fund Balance

Fund balances are designated for the following uses in the governmental funds:

Committed for:	
Litigation	\$ 1,244,000
Research	814,000
Building Renovations	10,000
Vehicle Replacement	34,841
Special Purposes	100
	<u>\$ 2,102,941</u>

Budgetary Information

The budget requirements for all funds are as follows:

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 2 - COMPLIANCE, AND ACCOUNTABILITY, continued

Annual budgets are adopted for all District funds. Under state law, the General Manager submits an annual budget to the Board of Directors for consideration and approval. Such budget is based on expected expenditures by program within the fund and estimates resources by source for the General Fund.

The General Manager submits budget amendment ordinances to the Board of Directors. These ordinances are updated for any estimate revisions as well as year-end encumbrances and may include additional information requested by the Board. The Board may subsequently amend such ordinances. The Board of Directors did not amend the budget for the fiscal year ending September 30, 2019.

For day-to-day management control, expenditures may not exceed the budget at the expenditure-type (i.e., personal services, other operations and maintenance, etc.) level of each cost center (activity within a program within the General Fund.) The Board may transfer unencumbered appropriations within the fund.

Appropriation control (Board of Directors appropriated budget) is within the General Fund. The Board may, by order, transfer amounts among expenditures. Budgetary comparison schedules are presented in the Basic Financial Statements. The annual budget is prepared in accordance with the basis of accounting utilized by the General Fund (cash basis).

The annual budget is prepared in accordance with the basis of accounting utilized by that fund (cash basis of accounting). Adjustments have been made to make the budgetary comparative statements conform to generally accepted accounting principles (GAAP).

Expenditures Exceeding Budget

The District had no expenditures in excess of budgeted amounts for the fiscal year ending September 30, 2019.

HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The Board of Directors has the authority to choose the types of deposits and investments made by the District. District cash, deposited at several different banks, is protected by a combination of federal deposit insurance coverage and securities pledged by the depository banks. The District does not enter into reverse repurchase agreements.

Deposits

At year-end, the carrying amount of the District's deposits was \$2,241,849 and the bank balance totaled \$2,245,375. Of the bank balances, \$995,626 was insured by the federal deposit insurance corporation and \$1,249,749 was covered by pledged securities held by Mason Bank, Commercial Bank of Mason and Commercial National Bank of Brady. Deposits with the depository banks were fully insured at the balance sheet date.

NOTE 4 - PROPERTY TAXES

Property taxes include amounts levied against all real and tangible personal property, which are used in businesses located in the District. Real property taxes are levied before the first day of October on the assessed value listed as of the prior January 1st. Taxes are due and payable upon receipt of the tax bill and are considered delinquent if not paid by February 1st. On January 1st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Assessed values are established by various county appraisal districts that support the District.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended September 30, 2019 was as follows:

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION, continued

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Subtotal	5,000	-	-	5,000
Other capital assets:				
Building	61,146	-	-	61,146
Hydro Geo	35,912	13,027	-	48,939
Office Equipment	9,845	-	-	9,845
Vehicles	40,442	35,513	(22,083)	53,872
Subtotal	147,345	48,540	(22,083)	173,802
Accumulated depreciation:				
Building	(27,219)	(1,888)	-	(29,107)
Hydro Geo	(20,437)	(3,319)	-	(23,756)
Office Equipment	(9,117)	(393)	-	(9,510)
Vehicles	(40,442)	(7,103)	22,083	(25,462)
Subtotal	(97,215)	(12,703)	22,083	(87,835)
Net other capital assets	50,130	35,837	-	85,967
Net capital assets	<u>\$ 55,130</u>	<u>\$ 35,837</u>	<u>\$ -</u>	<u>\$ 90,967</u>

Depreciation was charged as follows:

Governmental activities:

General Government \$ 12,703

**Total governmental activities
depreciation expense** \$ 12,703

**HICKORY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 6 - EMPLOYEE PENSIONS

The Hickory Underground Water Conservation District No. 1 contributes to an IRA-SEP Plan for all full-time District employees. The contributions are based on the employees' salary times a contribution rate of 7.5%. Edward Jones maintains a money market and securities balance for the individuals involved. The District is not responsible for any maintenance of the account as it is held in the individual's name. The total District contributions to the plan for the fiscal year totaled \$12,356.

NOTE 7 - RISK MANAGEMENT

Liability Insurance

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; employees health and life and natural disasters. The District manages these losses by purchasing insurance to preclude any significant losses.

Management believes the insurance coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years nor has there been a reduction in insurance coverage from prior years.

NOTE 8 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2019 included the following:

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 18,495	\$ 790	\$ -	\$ 19,285	\$ -
Governmental activities long-term liabilities	<u>\$ 18,495</u>	<u>\$ 790</u>	<u>\$ -</u>	<u>\$ 19,285</u>	<u>\$ -</u>