

**HUDSPETH COUNTY UNDERGROUND WATER  
CONSERVATION DISTRICT NO. 1**

**FINANCIAL STATEMENTS AND AUDITOR'S REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2020**

**Sammy C. Johnson**  
Certified Public Accountant

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HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2020

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Our discussion and analysis of the Hudspeth County Underground Water Conservation District No. 1 (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2020. Please read it in conjunction with the District's financial statements, which begin on page 7.

#### FINANCIAL HIGHLIGHTS

- The District's net position decreased because of this year's operations. Net position of our governmental activities decreased by \$84,274 or approximately 8.3%.
- During the year, the District had expenses that were \$27,514 less than the \$212,214 generated in tax and other revenues for governmental operations. This compares to last year when revenues exceeded expenses by \$95,151.
- Overall revenues increased by \$5,669 from the prior year. Individually, property taxes increased by \$20,332 and other general revenues decreased by \$14,663.

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 7 and 8) provide information about the activities of the District and present a longer-term view of the District's finances. The governmental fund financial statements (on pages 9 and 10) tell how the governmental activities were financed in the short term as well as what remains for future spending.

#### Reporting the District as a Whole

Our analysis of the District begins on page 1. One of the most important questions asked about the District's finances is, "Is the District, as a whole, better off, or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is like the accounting used by most private-sector companies. All the current year's revenues and expenses are considered regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position as the difference between assets and liabilities as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's property tax base, to assess the *overall health* of the District.

In the Statement of Net Position and the Statement of Activities, we report the District as one kind of activity:

- Governmental activities - All the District's basic services are reported here, primarily general administration. Property taxes finance most of these activities.

#### Reporting the District's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. The District's board establishes funds by resolution to help it control and manage money for a purpose, or to demonstrate that it is meeting legal responsibilities for using certain money.

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
YEAR ENDED DECEMBER 31, 2020

The following is a description of the accounting approach used in governmental funds:

- *Governmental Funds*-All of 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 and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent soon to finance the District's programs.

THE DISTRICT AS A WHOLE

The District's net position decreased from a year ago by \$84,274. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2020	2019
Current and other assets	\$801,648	\$875,047
Capital assets	153,882	158,218
Total assets	955,530	1,033,265
Total liabilities	(29,301)	(22,762)
Net position		
Invested in capital assets	153,882	158,218
Unrestricted	772,347	852,285
Total net position	\$926,229	\$1,010,503

Net position of the District's governmental activities decreased by 8.3 percent (\$926,229 compared to \$1,010,503). *Unrestricted* net position, the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation or other legal requirements, changed from \$852,285 on December 31, 2019, to \$772,347 at the end of this year.

This decrease in unrestricted governmental net position arose primarily because of a decrease in total assets during the year of \$77,735, and an increase in total liabilities during the year of \$6,539 as shown in Table 1 above.

**HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
YEAR ENDED DECEMBER 31, 2020**

Table 2

	Governmental Activities	
	2020	2019
<b>REVENUES</b>		
General revenues		
Property taxes	\$210,727	\$190,395
Other general revenues	1,487	16,150
Total revenues	<u>212,214</u>	<u>206,545</u>
<b>PROGRAM EXPENSES</b>		
Service operations		
Bad debts	1,000	(73,100)
Engineering consultant	42,179	30,761
Professional fees	4,200	4,200
Attorney fees	8,600	38,841
Appraisal district fees	8,011	7,635
Salaries	74,833	61,440
Payroll taxes	6,079	4,832
Travel and mileage	13,243	11,998
Utilities	3,943	3,868
Other general government expenses	22,612	20,919
Total expenses	<u>184,700</u>	<u>111,394</u>
Increase (decrease) in net position	<u>\$27,514</u>	<u>\$95,151</u>

As shown in Table 2 above, total revenues increased by \$5,669 from 2019 to 2020. Property taxes increased by \$20,332, and other general revenues decreased by \$14,663.

As shown in Table 2 above, total expenses increased by \$73,306 from 2019 to 2020. Bad debts increased by \$74,100, engineering consultant fees increased by \$11,418, professional fees did not change, attorney fees decreased by \$30,241, appraisal district fees increased by \$376, salaries increased by \$13,393, payroll taxes increased by \$1,247, travel and mileage increased by \$1,245, utilities increased by \$75, and other general government expenses increased by \$1,693.

Overall, net position increased in 2020 by \$27,514 and increased by \$95,151 in 2019. The net effect is that revenues increased by \$5,669 from 2019 to 2020, and expenses increased from 2019 to 2020 by \$73,306. The net effect was an overall decrease in net position when comparing the results of 2020 to 2019.

**THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds reported a fund balance of \$564,820, which is higher than last year's total of \$561,180.

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 (CONTINUED)  
 YEAR ENDED DECEMBER 31, 2020

**General Fund Budgetary Highlights**

Some of the highlights of the budgeting process comparing actual revenues and expenditures to budgeted revenues and expenditures are as follows:

- Actual revenues were less than budgeted revenues by \$5,469.
- Actual expenditures were less than budgeted expenditures by \$103,149.
- Actual revenues over expenditures were more than budgeted revenues over expenditures by \$97,680.

Since actual revenues were less than budgeted revenues by \$5,469 and actual expenditures were less than budgeted expenditures by \$103,149, the budget variance shows a positive amount of \$97,680.

**CAPITAL ASSETS**

At the end of 2020, the District had \$153,882 invested in capital assets. This represented a net decrease of \$4,336 over last year. Table 3 below shows the net capital assets for 2020 and 2019.

Table 3

	Governmental Activities	
	2020	2019
Land and landscaping	\$15,860	\$15,860
Buildings and improvements	138,022	142,358
	<hr/>	<hr/>
Totals	\$153,882	\$158,218
	<hr/>	<hr/>

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's taxpayers, customers, and creditors with a general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's manager at the District's offices.

Randy Barker, District Manager

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Hudspeth County Underground Water  
Conservation District No. 1  
Dell City, Texas

I have audited the accompanying financial statements of the governmental activities and each major fund of Hudspeth County Underground Water Conservation District No. 1 as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Hudspeth County Underground Water Conservation District No. 1 basic financial statements as listed in the table of contents.

**Managements' 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.

**Auditors' Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 auditors' 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Opinions**

In my 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 Hudspeth County Underground Water Conservation District No. 1 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 on pages 1 through 4 and 21 through 22, respectively, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 29, 2021 on my consideration of the Hudspeth County Underground Water Conservation District No. 1's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hudspeth County Underground Water Conservation District No. 1's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hudspeth County Underground Water Conservation District No. 1's internal control over financial reporting and compliance.



November 29, 2021  
El Paso, Texas



**HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 484,453
Property taxes receivable, net	314,258
Prepaid expenses	<u>2,937</u>
Total current and other assets	801,648
Capital assets	
Land and landscaping	\$ 15,860
Buildings, improvements, and equipment, net of depreciation	<u>138,022</u>
Total capital assets	<u>153,882</u>
<b>TOTAL ASSETS</b>	<u><b>955,530</b></u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	<u>29,301</u>
<b>TOTAL LIABILITIES</b>	<u><b>29,301</b></u>
<b>NET POSITION</b>	
Net investment in capital assets	153,882
Unassigned	<u>772,347</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ 926,229</b></u>

See accompanying notes and independent auditor's report.

**HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2020**

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services		Primary Government
		Capital Grants and Contributions		Governmental Activities
<b>PRIMARY GOVERNMENT</b>				
Governmental activities				
Service operations				
Bad debts	\$ 1,000	\$ -	\$ -	\$ (1,000)
Dues and subscriptions	1,420	-	-	(1,420)
Insurance	2,103	-	-	(2,103)
Engineering consultant	42,179	-	-	(42,179)
Professional fees	4,200	-	-	(4,200)
Attorney fees	8,600	-	-	(8,600)
Building maintenance, parts	790	-	-	(790)
Appraisal district fees	8,011	-	-	(8,011)
Postage	174	-	-	(174)
Office supplies	4,483	-	-	(4,483)
Salaries	74,833	-	-	(74,833)
Payroll taxes	6,079	-	-	(6,079)
Pest control	456	-	-	(456)
Meals	581	-	-	(581)
Telephone	1,990	-	-	(1,990)
Travel and mileage	13,243	-	-	(13,243)
Utilities	3,943	-	-	(3,943)
Facilities and equipment, other	2,822	-	-	(2,822)
Depreciation	7,793	-	-	(7,793)
	<u>184,700</u>	<u>-</u>	<u>-</u>	<u>(184,700)</u>
<b>Total governmental activities</b>	<b><u>184,700</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(184,700)</u></b>
<b>General revenues</b>				
Property taxes				210,727
District fees				250
Interest income				1,237
<b>Total general revenues, special items, and transfers</b>				<b><u>212,214</u></b>
<b>Change in net position</b>				<b>27,514</b>
Net position - beginning				1,010,503
Prior period adjustment				(111,788)
<b>Net position - ending</b>				<b><u>\$ 926,229</u></b>

See accompanying notes and independent auditor's report.

**HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2020**

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	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 484,453
Property taxes receivable	<u>137,216</u>
<b>TOTAL ASSETS</b>	<u>621,669</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	<u>12,851</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred property taxes	<u>43,998</u>
<b>FUND BALANCES</b>	
Unassigned	<u>564,820</u>
<b>TOTAL FUND BALANCES</b>	<u>564,820</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 621,669</u>

See accompanying notes and independent auditor's report.

**HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>General Fund</u>
<b>Revenues</b>	
General revenues	
Property taxes	\$ 184,104
Interest income	1,237
District fees	<u>250</u>
<b>Total revenues</b>	<u><b>185,591</b></u>
<b>Expenditures</b>	
Service operations	
Dues and subscriptions	1,420
Insurance	2,103
Engineering consultant	42,179
Professional fees	3,850
Attorney fees	8,600
Building maintenance, parts	790
Appraisal district fees	10,949
Postage	174
Office supplies	4,482
Salaries	74,833
Payroll taxes	6,079
Pest control	456
Meals	581
Telephone	1,990
Travel and mileage	13,243
Utilities	3,943
Facilities and equipment, other	2,822
Capital outlay	<u>3,457</u>
<b>Total expenditures/expenses</b>	<u><b>181,951</b></u>
Excess (deficiency) of revenues over expenditures	3,640
<b>Fund balance</b>	
Beginning of the year	<u>561,180</u>
End of the year	<u><b>\$ 564,820</b></u>

See accompanying notes and independent auditor's report.

**HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS 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 of governmental funds in the balance sheet		\$ 564,820
Certain assets are not due and receivable in the current period and, therefore, are not reported in the governmental funds:		
Property taxes receivable, net	\$ 221,040	
Prepaid expenses	<u>2,937</u>	223,977
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Governmental capital assets	237,488	
Less accumulated depreciation	<u>(83,606)</u>	153,882
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Accrued expenses		<u>(16,450)</u>
<b>NET POSITION, GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 926,229</u></b>

See accompanying notes and independent auditor's report.

**HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

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**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:**

Net change in fund balance - governmental funds	\$	3,640
Property taxes are reported as income in the governmental funds on the modified accrual basis, but are reported as income in the statement of net position on the full accrual basis.		26,623
Certain expenses are reported as an expense in the governmental funds on the modified accrual basis, but are reported as an expense in the statement of activities on the full accrual basis:		
Bad debts	\$ (1,000)	
Professional fees	(350)	
Appraisal district fees	<u>2,938</u>	1,588
Depreciation expense on capital assets is not reported in the governmental funds, but is reported as an expense in the statement of activities.		(7,793)
Capital asset purchases are reported in the governmental funds as capital outlay expenditures, but are not reported as an expense in the statement of activities.		<u>3,456</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>27,514</u></b>

See accompanying notes and independent auditor's report.

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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**NOTE 1 – THE FINANCIAL REPORTING ENTITY**

Hudspeth County Underground Water Conservation District No. 1 (the District) was created under Section 59, Article XVI, Texas Constitution, that has the authority to regulate the spacing of water wells, the production from water wells, or both. The District was created to protect and manage groundwater. The basic operations of the District are financed by taxes levied on property owners and by the issuance of well permits. The District operates under a board of directors. The members of this board are elected for four-year terms.

**NOTE 2 – SUMMARY OF ACCOUNTING POLICIES AND BASIS OF ACCOUNTING**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. The Reporting Entity**

The District, for financial purposes, records all its transactions in the general operating fund relevant to the operations of the District.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all activities of the District. There are no fiduciary or business-type activities conducted by the District. All activities of the District are governmental in nature and are supported by taxes and other non-exchange transactions.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program is offset by program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has a general fund.

**C. Measurement Focus, Basis of Accounting, and Financial 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 the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider 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. Revenues are available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due.

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2020

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NOTE 2 - SUMMARY OF ACCOUNTING POLICIES AND BASIS OF ACCOUNTING – Continued

C. Measurement Focus, Basis of Accounting, and Financial Presentation (Continued)

Grants and entitlement and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized, if applicable, as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the District receives cash.

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

D. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

E. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. For the District, the General Fund is used to account for all financial resources of the District, except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Texas and the by-laws of the District.

F. Reservations of Fund Balance

Beginning with fiscal year 2013, the District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Unassigned fund balance – amounts that are available for any purpose; these amounts can only be reported in the District's General Fund.

Assigned fund balance – amounts that can only be spent for specific purposes determined by a formal action of the Board of Directors, as well as funds that have been assigned to fund encumbered expenses. If assigned and unassigned assets are available for the same purpose, the assigned assets will be used before unassigned assets. At December 31, 2020 no amounts were assigned by the District.

Committed fund balance – amounts that can be spent only for specific purposes determined by documentation prepared in accordance with the actions by the Board of Directors, the District's highest level of decision-making authority. At December 31, 2020 no amounts were committed by the District.

Restricted fund balance – amounts can be spent only for specific purposes because of constraints imposed by external providers (such as grantors). At December 31, 2020 no amounts are restricted by external providers.



HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2020

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NOTE 2 - SUMMARY OF ACCOUNTING POLICIES AND BASIS OF ACCOUNTING – Continued

F. Reservations of Fund Balance (Continued)

Nonspendable fund balance – amounts cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained. At December 31, 2020 the District had no fund balances in nonspendable form.

Net Position – Equity is classified as net position and displayed in three components:

- 1) Net investment in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- 2) Restricted net position – consists of net position with constraints placed on their use either by a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or b) law through constitutional provisions or enabling legislation.
- 3) Unrestricted net position – all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

G. Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of fiscal year-end. Under the modified accrual basis, interest and charges for services are both measurable and available at fiscal year-end.

Non-exchange transactions in which the District receives value without directly giving value in return, includes grants and donations, if any. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

H. Expenses/Expenditures

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
 NOTES TO FINANCIAL STATEMENTS  
 (CONTINUED)  
 DECEMBER 31, 2020

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NOTE 2 - SUMMARY OF ACCOUNTING POLICIES AND BASIS OF ACCOUNTING – Continued

I. Cash and Cash Equivalents and Investments

For presentation in the financial statements, investments with an original maturity of three months or less at the time they are purchased by the District are cash equivalents. Investments with an original maturity of more than three months are reported as investments. Investments are recorded at fair value, which is based on quoted market prices.

J. Property Taxes

The tax roll from the Hudspeth Appraisal District reflected an assessed value of \$72,568,480 for the year ended December 31, 2020. Taxes are due upon receipt of the tax bill and are delinquent if not paid by January 31 of the year following in which levied. On January 1 of each year a tax lien attaches to property to secure the payment of tax revenues, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable in the current period. The District's 2020 tax rate was \$.2746 per \$100 of assessed valuation. The District incurred expenditures of \$8,011 for the services provided by the Hudspeth Appraisal District for the year ended December 31, 2020.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. Capital Assets

Capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are recorded at cost (or estimated historical cost) if purchased or constructed and updated for additions and retirements during the year. Donated capital assets are recorded at estimated fair market value at the date of the donation. The District does not maintain a capitalization threshold. Infrastructure and improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Depreciation is determined using the straight-line method over the following estimated useful lives of the capital assets:

	<u>Estimated Life</u>
Buildings and improvements	40 Years
Machinery and equipment	3-10 Years
Furniture and fixtures	7-10 Years

M. Allowance for doubtful accounts

Property taxes receivable are stated net of an allowance for doubtful accounts. Management periodically evaluates the collectability of its property taxes receivable. The allowance for doubtful accounts amounted to \$20,000 at December 31, 2020.

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2020

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**NOTE 3 – DEPOSITS AND INVESTMENTS**

*Cash and Cash Equivalents*

Statutes require the classification of funds held by the District into three categories.

Category 1 consists of “active funds – those funds required to be kept in “cash” or “near cash” status for immediate use by the District. Such funds must be maintained as cash, withdrawal on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds – those funds not required for use within the current two-year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds – those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 1) Commercial paper;
- 2) Bankers’ acceptances;
- 3) Repurchase agreements;
- 4) Certificates of deposit; and
- 5) Obligation of, or guaranteed by governmental agencies, such as letters of credit or direct obligations.

The District has no formal investment policy.

*Investments*

The District’s investments are categorized to give an indication of the level of risk assumed by the District as of fiscal year-end. The categories are described as follows:

- |            |  |
|------------|--|
| Category 1 | Insured or registered, with securities held by the District or its agent in the District’s name.   |
| Category 2 | Uninsured and unregistered, with securities held by the counter party’s trust department or agent in the District’s name.                  |
| Category 3 | Uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the District’s name. |

Cash is classified as Investment Category 1 with a carrying amount of \$484,453.

*Interest Rate Risk* – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* – State law limits investments to the types described above. However, the District has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* – The District places no limit on the amount the District may invest in any one issuer.

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2020

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NOTE 3 – DEPOSITS AND INVESTMENTS - Continued

*Investments – (Continued)*

*Custodial Credit Risk – Deposits* – Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2020, none of the District’s cash balances of \$484,453 was exposed to custodial credit risk.

NOTE 4 – PROPERTY TAXES RECEIVABLE, NET

Property taxes receivable, net, is summarized at December 31, 2020 as follows:

Property taxes receivable, current	\$137,216
Property taxes receivable, delinquent	<u>197,042</u>
	334,258
Less allowance for doubtful accounts	<u>20,000</u>
Property taxes receivable, net	<u>\$314,258</u>

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
 NOTES TO FINANCIAL STATEMENTS  
 (CONTINUED)  
 DECEMBER 31, 2020

**NOTE 5 – CAPITAL ASSETS**

Capital assets include land, buildings, building improvements, machinery and equipment, and furniture and fixtures that are used in operations and that have initial useful lives extending beyond a single reporting period.

	Balance December 31, 2019	Additions	Retirements	Balance December 31, 2020
<b>Governmental activities</b>				
<b>Capital assets not being depreciated</b>				
Land	\$5,000	\$	\$	\$5,000
Landscaping	10,860			10,860
<b>Total capital assets not             being depreciated</b>	<b>15,860</b>			<b>15,860</b>
<b>Capital assets being depreciated</b>				
Buildings and improvements	154,361	1,000		155,361
Machinery and equipment	39,471	2,457		41,928
Furniture and fixtures	24,339			24,339
<b>Total capital assets being             depreciated</b>	<b>218,171</b>	<b>3,457</b>		<b>221,628</b>
<b>Less: accumulated depreciation for</b>				
Buildings and improvements	28,537	3,878		32,415
Machinery and equipment	36,680	1,552		38,232
Furniture and fixtures	10,595	2,363		12,958
<b>Total accumulated             depreciation</b>	<b>75,812</b>	<b>7,793</b>		<b>83,605</b>
<b>Capital assets being depreciated, net</b>	<b>142,359</b>	<b>4,336</b>		<b>138,023</b>
<b>Governmental activities capital assets, net</b>	<b>\$158,219</b>	<b>\$4,336</b>	<b>\$</b>	<b>\$153,883</b>

Depreciation expense for the current year is \$7,793.

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2020

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**NOTE 6 – COMMITMENTS AND CONTINGENCIES**

**Litigation**

As of December 31, 2020 the District did not have any claims, pending litigation, or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

**NOTE 7 – DEFERRED INFLOWS OF RESOURCES**

Unavailable revenues in the amount of \$43,998 at December 31, 2020 represent property tax revenue that was not received within 60 days following year-end (unavailable to pay liabilities of the current period). Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unavailable revenue received after 60 days after year-end is fully recognized as revenue on the government-wide statements. Unavailable revenue at the government-wide level arises only when the District receives resources before it has a legal claim to them and is reported as deferred revenue.

**NOTE 7 – SUBSEQUENT EVENTS**

In December, 2019 an outbreak of a novel strain of coronavirus (“COVID-19”) originated in Wuhan, China and has since spread to other countries, including the United States. On March 11, 2020 the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the United States have declared a state of emergency. It is anticipated that these impacts will continue for some time. The current impact on the District has included administrative operational disruptions. Future potential impacts may include disruptions or restrictions on employees’ ability to work or the District’s taxpayer base to pay property taxes and fees. The extent to which COVID-19 may impact the District’s financial condition or results of operation is highly uncertain and cannot be predicted.

Subsequent events were evaluated through November 29, 2021 which is the date the financial statements were available to be issued.

**NOTE 8 – PRIOR PERIOD ADJUSTMENT**

The prior period adjustment arose from reporting an overstatement of Property taxes receivable, net on the Statement of Net Position in the prior year of \$111,788, and a resulting overstatement of Property tax revenue on the Statement of Activities in the prior year of \$111,788.

**REQUIRED SUPPLEMENTARY INFORMATION**

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Tax Assessments	\$ 183,355	\$ 183,355	\$ 184,104	\$ 749
Interest Income	931	931	1,237	306
District fees	-	-	250	250
Income from Hudspeth County General Fund	<u>6,774</u>	<u>6,774</u>	<u>-</u>	<u>(6,774)</u>
<b>Total revenues</b>	<u>191,060</u>	<u>191,060</u>	<u>185,591</u>	<u>(5,469)</u>
<b>Expenditures/expenses</b>				
<b>Service operations</b>				
Advertising and Notices Expense	1,000	1,000	-	1,000
Insurance, Postage, Shipping, Small Items, and other Miscellaneous Items	2,500	2,500	5,680	(3,180)
Engineering and Technical Reports and Plans	30,000	30,000	42,179	(12,179)
Legal Fees and Hearing Expense	50,000	50,000	8,600	41,400
Flow Meter Hardware	5,000	5,000	-	5,000
Hudspeth County Appraisal District and Other Fees	9,000	9,000	10,949	(1,949)
Office Supplies and Computer Expense	10,000	10,000	4,482	5,518
General Manager Salary	50,000	50,000	50,171	(171)
Administrative Assistant Salary	15,000	15,000	14,130	870
Salary-Other	-	-	10,532	(10,532)
Employment Taxes Paid by District	12,000	12,000	6,079	5,921
Building Maintenance and Repairs	2,500	2,500	790	1,710
Utilities and Pest Control	10,000	10,000	4,399	5,601
Telephone	-	-	1,990	(1,990)
Travel and Mileage Expenses	4,000	4,000	339	3,661
General Manager Mileage Expense	12,000	12,000	11,198	802
Administrative Assistant Mileage	2,000	2,000	543	1,457
Other Employee Mileage	-	-	1,163	(1,163)
Director's fees	2,000	2,000	-	2,000
Financial Audit	12,000	12,000	3,850	8,150
Flow Meter Technical Assistance and Database Programming	5,000	5,000	-	5,000
Technical Assistance with Permit Amendments	30,000	30,000	-	30,000
Cell Phone Telemetry Systems Hardware	1,500	1,500	-	1,500
Water Level Sensors	4,000	4,000	-	4,000
Installation, Calibration, and Programming Support for Water Level Sensors	3,000	3,000	-	3,000
Cellular Modem Monthly Fees	600	600	-	600
Membership fees	2,000	2,000	1,420	580
Landscape-Fence-Guardrail	10,000	10,000	-	10,000
Capital Outlay	<u>-</u>	<u>-</u>	<u>3,457</u>	<u>(3,457)</u>
<b>Total expenditures/expenses</b>	<u>285,100</u>	<u>285,100</u>	<u>181,951</u>	<u>103,149</u>
Excess (deficiency) of revenues over expenditures	(94,040)	(94,040)	3,640	97,680
<b>Fund balance</b>				
Beginning of the year	<u>232,648</u>	<u>232,648</u>	<u>561,180</u>	<u>328,532</u>
End of the year	<u>\$ 138,608</u>	<u>\$ 138,608</u>	<u>\$ 564,820</u>	<u>\$ 426,212</u>

See accompanying notes and independent auditor's report.



HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
DECEMBER 31, 2020

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**BUDGET PROCESS**

The budgetary process is prescribed by provisions of Title 2, Chapter 36 of the Texas Water Code and requires the annual preparation of a budget.

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the way revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

**AUDITORS' SECTION**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Hudspeth County Underground Water  
Conservation District No. 1  
Dell City, Texas

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hudspeth County Underground Water Conservation District No. 1, as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Hudspeth County Underground Water Conservation District No. 1's basic financial statements, and have issued my report thereon dated November 29, 2021.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the Hudspeth County Underground Water Conservation District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hudspeth County Underground Water Conservation District No. 1's internal control. Accordingly, I do not express an opinion on the effectiveness of the Hudspeth County Underground Water Conservation District No. 1'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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 the Hudspeth County Underground Water Conservation District No. 1's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2020-001.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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. This 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.

A handwritten signature in blue ink that reads "Lauryn C. Johnson". The signature is written in a cursive style.

November 29, 2021  
El Paso, Texas

HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2020

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I. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Hudspeth County Underground Water Conservation District No. 1.
2. A significant deficiency is disclosed in the audit of the financial statements of the Hudspeth County Underground Water Conservation District No. 1, as reported in the 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*.

II. AUDIT FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Finding 2020-001:  
Public Fund Investment Act

Criteria: According to Texas State law, a local government is to develop and implement investment policies and an investment strategy. Local governments must appoint the Treasurer or the Chief Financial Officer as an investment officer and the investment officer must obtain at least ten hours of training regarding investment responsibilities within twelve months after the appointment and every two years thereafter.

Condition: I noted that the District had not adopted an investment policy or investment strategy and had not appointed an investment officer during the year ended December 31, 2020.

Cause: District management was not aware of the statute regarding public funds investment.

Effect: The District was not in compliance with Texas State law. In addition, without an appropriate investment policy in place, public funds held by the District could be subject to credit and other risks.

Recommendation: I recommend the District develop an investment policy and strategy as well as appoint a member of the Board of Directors as the investment officer.

Management's Response: Management agreed with the auditors' recommendation.

**HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
DECEMBER 31, 2020**

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**Finding 2019-001: Public Fund Investment Act**

**Prior Year Response:** Management will develop an investment policy and strategy as well as appoint a member of the Board of Directors to the position of investment officer.

**Current Status:** This finding had not been corrected during the year ended December 31, 2020. Management's anticipated correction date for this finding is before the end of December 31, 2021.

**HUDSPETH COUNTY UNDERGROUND WATER CONSERVATION DISTRICT NO. 1  
CORRECTIVE ACTION PLAN  
DECEMBER 31, 2020**

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**Finding 2020-001:**  
**Public Fund Investment Act**

**Management's view:** We are in agreement with the auditors' recommendation regarding the development of an investment policy for the District, and the appointment of a member of the Board of Directors to the position of investment officer.

**Proposed corrective action:** The District will adopt an investment policy and appoint a member of the Board of Directors as the investment officer as soon as possible.

**Anticipated correction date:** Before the end of December 31, 2021.

**Responsible Official:** Mr. Ben Snow, President of the Board of Directors.