

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Year Ended September 30, 2025

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1-3
Management's Discussion and Analysis	4-8
Basic Financial Statements	
Combined Fund Financial Statements and Government-Wide Financial Statements	
Statement of Net Position and Governmental Funds Balance Sheet.....	9
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	10
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance	11
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	12
Statement of Fiduciary Net Position - Fiduciary Funds	13
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	14
Notes to the Financial Statements.....	15-21
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	22
Other Supplementary Information	
Schedule of Certificates of Deposit	23



A Limited Liability Partnership

Michael E. Oliphant, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA
Megan Solsbery, CPA

(325) 944-3571
FAX: (325) 942-1093
www.eckertcpa.com

Members of
American Institute of CPAs
Texas Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Permian Basin Underground Water Conservation District
P.O. Box 1314
Stanton, Texas 79782-1314

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Permian Basin Underground Water Conservation District as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Permian Basin Underground Water Conservation District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Permian Basin Underground Water Conservation District as of September 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Permian Basin Underground Water Conservation District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

The District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, described in Note I., K. to the financial statements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Permian Basin Underground Water Conservation District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Permian Basin Underground Water Conservation District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Permian Basin Underground Water Conservation District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Permian Basin Underground Water Conservation District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Eckert & Company, LLP

January 30, 2026



Permian Basin Underground Water Conservation District

708 W. St. Peter · P.O. Box 1314 · Stanton, Texas 79782
Bus: (432) 756-2136 · Fax: (432) 756-2068
E-mail: permianbasin@pbuwcd.com
www.pbuwcd.com

Directors
Richie Tubb, President
Raymond Straub Jr., Vice Pres
Brad Tunnell
Brandon Borgstedt

General Manager
Angela Lance

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Permian Basin Underground Water Conservation District's financial performance provides an overview of the District's financial activities for the year ended September 30, 2025. It should be read in conjunction with the District's basic financial statements and independent auditor's report.

Financial Highlights

The District's assets exceeded its liabilities at the end of the current year by \$2,289,507 (net position). Of this amount, \$1,694,120 (unrestricted) may be used to meet the District's ongoing obligations.

The District's total net position increased by \$41,183 or 2%. This amount consists of a \$41,412 increase attributable to current year operations and a \$229 decrease attributable to a prior period adjustment described in Note IV., C. to the financial statements. The District's statement of activities shows total revenues of \$714,344 and total expenses of \$672,932.

The total fund balance of the General Fund is \$1,667,535 which is an increase of \$83,216 or 5% compared to the prior year. To evaluate the General Fund's liquidity, it may be helpful to compare both unassigned fund balance and total General Fund expenditures and other uses. The unassigned fund balance for the General Fund is \$1,667,266, or 264% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of combined fund financial statements and government-wide financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Overview of the Financial Statements - Continued

The governmental activities of the District include all activities related to water conservation, preservation, protection, and prevention of waste of the underground reservoirs located within the jurisdiction of the District.

The District has no component units.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has only governmental funds.

Governmental Funds - Governmental funds are used to account for essentially the same governmental activities as reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the current year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is a major fund.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with the budget.

Fiduciary Funds - Fiduciary funds are used to account for assets which are held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, or other District funds. The District's fiduciary funds are custodial funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's programs.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis

Net Position - A summary of the District's net position is presented below:

NET POSITION

	<u>Governmental Activities</u>	
	<u>September 30,</u>	
	<u>2025</u>	<u>2024</u>
<u>ASSETS</u>		
Current and Other Assets	\$ 1,709,549	\$ 1,612,691
Capital Assets	<u>595,387</u>	<u>636,094</u>
 Total Assets	 <u>\$ 2,304,936</u>	 <u>\$ 2,248,785</u>
<u>LIABILITIES</u>		
Other Liabilities	<u>\$ 15,429</u>	<u>\$ 461</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	\$ 595,387	\$ 636,094
Unrestricted	<u>1,694,120</u>	<u>1,612,230</u>
 Total Net Position	 <u><u>\$ 2,289,507</u></u>	 <u><u>\$ 2,248,324</u></u>

A portion of the District's net position (\$595,387) reflects the District's investment in capital assets. These capital assets are not available for future spending. The remaining balance of unrestricted net position (\$1,694,120) may be used to meet the District's ongoing obligations.

MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis - Continued

Governmental Activities - Governmental activities increased the District's net position by \$41,412 and decreased the District's net position by \$51,990 for the fiscal years ended September 30, 2025 and 2024, respectively. Key elements of these increases (decreases) are as follows:

CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended September 30,	
	2025	2024
General Revenues		
Property Taxes	\$ 591,430	\$ 546,882
Permit Fees	45,200	45,677
Investment Earnings	54,369	26,939
Other	23,345	0
Total Revenues	\$ 714,344	\$ 619,498
Expenses		
Water Conservation	672,932	671,488
Change in Net Position	\$ 41,412	\$ (51,990)
Net Position - Beginning	2,248,324	2,298,091
Adjustments and Restatements	(229)	2,223
Net Position - Ending	\$ 2,289,507	\$ 2,248,324

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the current year.

The District's governmental fund reported an ending fund balance in the General Fund of \$1,667,535, an increase of \$83,216 or 5% in comparison with the prior year. This balance is reported as \$269 nonspendable and \$1,667,266 unassigned.

Key changes from the prior year to the current year are summarized below:

- Tax revenue increased by \$49,417 as a result of higher assessed property values combined with an increase in the adopted tax rate for the current year.
- Permit fee revenue increased by \$45,200 as a result of a new permitting fee program implemented during the current year. This new revenue source provides ongoing support for General Fund operations.
- Salaries and benefits increased by \$20,882 primarily as a result of wage adjustments, expanded holiday pay, and rising health insurance premiums.
- Contracted services decreased by \$10,952, reflecting the completion of the SOAH case in the prior year and reduced reliance on services from the groundwater management company during the current year.

General Fund Budget

The original budget for the General Fund was \$582,282, and the final amended budget was \$583,868 which represents a \$1,586 increase in appropriations. Variances between the original budget and the final amended budget are shown on page 22 in the required supplementary information section of the audit report.

The District has adopted a budget for the General Fund in the amount of \$692,478 for the fiscal year 2026, which is an increase of \$108,610 from the fiscal year 2025.

Capital Assets and Debt

Capital Assets - During the fiscal year, the District had \$595,387 invested in land, buildings, office furniture, fixtures, vehicles, and equipment, net of accumulated depreciation. The District did not make any capital outlay purchases during the current fiscal year. Financial statement footnote III, C. discloses the District's capital asset activity for the year ended September 30, 2025.

Long-Term Debt - The District had no long-term debt outstanding.

Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Permian Basin Underground Water Conservation District, P.O. Box 1314, Stanton, TX 79782-1314.

BASIC FINANCIAL STATEMENTS

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2025

	General Fund	Adjustments	Statement of Net Position
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1,681,936	\$ 0	\$ 1,681,936
Property Taxes Receivable	37,643	0	37,643
Allowance for Uncollectible Taxes	(11,058)	0	(11,058)
Prepaid Expenses	269	0	269
Due from Other Governments	759	0	759
Capital Assets			
Land	0	27,100	27,100
Buildings, Net	0	305,018	305,018
Equipment, Net	0	263,269	263,269
Total Assets	\$ 1,709,549	\$ 595,387	\$ 2,304,936
<u>LIABILITIES</u>			
Accounts Payable	\$ 7,962	\$ 0	\$ 7,962
Payroll Liabilities	7,467	0	7,467
Total Liabilities	\$ 15,429	\$ 0	\$ 15,429
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Taxes	\$ 26,585	\$ (26,585)	\$ 0
<u>FUND BALANCE/NET POSITION</u>			
Fund Balance			
Nonspendable	\$ 269	\$ (269)	\$ 0
Unassigned	1,667,266	(1,667,266)	0
Total Fund Balances	\$ 1,667,535	\$ (1,667,535)	\$ 0
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 1,709,549		
Net Position			
Net Investment in Capital Assets		\$ 595,387	\$ 595,387
Unrestricted		1,694,120	1,694,120
Total Net Position		\$ 2,289,507	\$ 2,289,507

The accompanying notes are an integral part of this financial statement.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2025

Total Fund Balances - Governmental Funds	\$ 1,667,535
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund financial statements. The effect of including the beginning balances for capital assets (net of depreciation) in the government-wide financial statements is to increase net position.	636,094
Depreciation is not recognized as an expense in the governmental fund financial statements since it does not require the use of current financial resources. The effect of the current year's depreciation is to decrease net position.	(40,707)
Property taxes are recognized when they become available in the governmental fund financial statements but are shown as revenues when they are levied in the government-wide financial statements. The net effect of including unavailable property tax revenues is to increase net position.	<u>26,585</u>
Net Position of Governmental Activities	<u><u>\$ 2,289,507</u></u>

The accompanying notes are an integral part of this financial statement.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Statement of Activities and Governmental Funds Revenues,
Expenditures, and Changes in Fund Balance
Year Ended September 30, 2025

	General Fund	Adjustments	Statement of Activities
<u>REVENUES</u>			
General Revenues			
Property Taxes	\$ 592,756	\$ (1,326)	\$ 591,430
Permit Fees	45,200	0	45,200
Investment Earnings	54,369	0	54,369
Insurance Proceeds	20,342	0	20,342
Other	3,003	0	3,003
Total Revenues	\$ 715,670	\$ (1,326)	\$ 714,344
<u>EXPENDITURES/EXPENSES</u>			
Water Conservation			
Appraisal and Collection Services	\$ 45,074	\$ 0	\$ 45,074
Bank Fees	30	0	30
Contracted Services	34,524	0	34,524
Dues and Subscriptions	10,076	0	10,076
Education	18,171	0	18,171
Insurance	11,047	0	11,047
Lab and Field Supplies	1,763	0	1,763
Mapping / GIS	927	0	927
Office Expense	6,078	0	6,078
Other	1,648	0	1,648
Professional Services	65,096	0	65,096
Repair and Maintenance	4,160	0	4,160
Salaries and Benefits	364,202	0	364,202
Travel	2,847	0	2,847
Utilities	29,302	0	29,302
Vehicle Expense	28,176	0	28,176
Capital Outlay	9,104	0	9,104
Depreciation	0	40,707	40,707
Total Expenditures/Expenses	\$ 632,225	\$ 40,707	\$ 672,932
Net Change in Fund Balance/Net Position	\$ 83,445	\$ (42,033)	\$ 41,412
Fund Balance/Net Position			
Beginning	1,584,319	664,005	2,248,324
Adjustments and Restatements	(229)	0	(229)
Ending	\$ 1,667,535	\$ 621,972	\$ 2,289,507

The accompanying notes are an integral part of this financial statement.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities
Year Ended September 30, 2025

Total Net Change in Fund Balances - Governmental Funds	\$ 83,445
Depreciation is not recognized as an expense in the governmental fund financial statements since it does not require the use of current financial resources. The effect of the current year's depreciation is to decrease net position.	(40,707)
Property taxes are recognized when they become available in the governmental fund financial statements but are shown as revenues when they are levied in the government-wide financial statements. The net effect of recognizing property taxes as levied is to increase net position.	<u>(1,326)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 41,412</u></u>

The accompanying notes are an integral part of this financial statement.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2025

	<u>Deferred Compensation Plan</u>
<u>ASSETS</u>	
Restricted Assets - Plan Investments	\$ 219,602
<u>LIABILITIES</u>	
None	<u>-</u>
<u>NET POSITION</u>	
Restricted for Benefits	<u><u>\$ 219,602</u></u>

The accompanying notes are an integral part of this financial statement.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
 Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 Year Ended September 30, 2025

	<u>Deferred Compensation Plan</u>
<u>ADDITIONS</u>	
Investment Earnings (Losses)	\$ 28,452
Participant Contributions	<u>52,656</u>
Total Additions	<u>\$ 81,108</u>
<u>DEDUCTIONS</u>	
Participant Distributions	\$ 111,244
Administrative Fees	<u>3,105</u>
Total Deductions	<u>\$ 114,349</u>
Change in Fiduciary Net Position	\$ (33,241)
Total Net Position - Beginning	<u>252,843</u>
Total Net Position - Ending	<u><u>\$ 219,602</u></u>

The accompanying notes are an integral part of this financial statement.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Notes to the Financial Statements
September 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Permian Basin Underground Water Conservation District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments.

A. Reporting Entity

The Permian Basin Underground Water Conservation District (the primary government) was created, organized, and exists under and pursuant to Section 59 of Article XVI of the Texas Constitution and with Acts of the 70th Legislature and Chapter 36 of the Texas Water Code. The District was established April 25, 1985, for the purpose of conserving, preserving, protecting, recharging, and preventing waste of the underground water reservoirs located in portions of Howard County and Martin County, Texas. The District is governed by a five-member Board of Directors who are elected by its citizens. The District has no component units.

The District is a single program government.

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 of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of the District's single program are offset by program revenues. Revenues that are not classified as program revenues are presented as general revenues.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included in the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The activities of the District are accounted for within a single governmental fund type, specifically the General Fund. It accounts for all financial resources of the general government.

The District's fiduciary fund is presented in the basic financial statement as separate statements. Fiduciary Funds account for assets held by the District in a trustee capacity or resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those Funds are not available to support the District's own programs.

The District has the following Fiduciary Fund:

Custodial Fund - This Fund accounts for resources used to provide for benefits under the internal Revenue Code Section 457, Deferred Compensation Plan.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Notes to the Financial Statements - Continued
September 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Receivables and Payables

Receivables are stated at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year.

E. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures in the financial statements.

F. Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Vehicles	7-10
Office Equipment	5-20
Field Equipment	5-20

G. Restricted Assets

Restricted assets consist of cash held in the Custodial Fund to provide benefits for deferred compensation plan participants.

H. Compensated Absences

Only full-time employees are eligible to earn vacation and sick leave. Accrual rates are established by individual employment contracts. Unused vacation leave is paid to employees upon termination of employment, while unused sick leave is not paid. Sick leave may be accumulated without limitation; however, vacation leave is limited to a maximum accumulation of 144 hours.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Notes to the Financial Statements - Continued
September 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Net Position on the Statement of Net Position

Net position on the statement of net position includes the following:

Net Investment in Capital Assets - This component of net position represents capital assets net of accumulated depreciation.

Unrestricted - This is the difference between assets and liabilities that is not reported as Net Investment in Capital Assets.

J. Fund Balance/Equity

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balance are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

Restricted net position for the Deferred Compensation Plan Fund represents funds held to provide retirement benefits for current and former employees.

K. Implementation of New Accounting Standard

The District implemented the provisions of GASB Statement No. 101, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences, including vacation, sick leave, and other forms of paid leave. The standard requires governments to recognize a liability for leave when earned, if (1) the leave is attributable to services already rendered, (2) the leave accumulates, and (3) the leave is more likely than not to be used for time off or otherwise paid to the employee. Implementation of GASB Statement No. 101 resulted in the evaluation and adjustment of the District's compensated absences liability to reflect amounts expected to be paid at applicable salary rates, based on historical usage and payment experience. The District determined there was no material effect upon its financial position, results of operations, or cash flows upon adoption.

L. Property Tax Revenues

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Notes to the Financial Statements - Continued
September 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. Property Tax Revenues - Continued

The District recognizes as tax revenues those taxes that are measurable and available. Measurable means the amount can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within the current period.

M. Use of Estimates

The preparation of basic financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. The annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget was amended throughout the year by the Board of Directors. Such amendments are before the fact and are reflected in the official minutes of the Board.

B. Excess Expenditures Over Appropriations

Expenditures exceeded appropriations in the Water Conservation function as shown on page 22.

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Notes to the Financial Statements - Continued
September 30, 2025

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

A. Deposits and Investments - Continued

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits and investments in certificates of deposit may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits since they are covered by depository insurance and pledged securities held by a third party in the District's name.

Concentration of Credit Risk: The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. The District is not exposed to this risk as described in the preceding paragraph.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2025, the District was not significantly exposed to credit risk.

Interest Rate Risk: Not applicable

Foreign Currency Risk: Not applicable

At September 30, 2025, the District's investments with respective maturities and credit ratings consisted of the following:

	<u>Fair Value</u>	<u>Percent</u>	<u>Weighted Average Maturity</u>	<u>Credit Rating</u>
<u>Public Funds Investment Pools</u>				
TexPool	<u>\$ 879,673</u>	<u>100%</u>	44 Days	AAAm

B. Due from Other Governments

A summary of the amounts due from the tax collecting entities as of September 30, 2025, is as follows:

Howard County Tax Office	\$ 209
Martin County Tax Office	<u>550</u>
Total	<u>\$ 759</u>

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Notes to the Financial Statements - Continued
September 30, 2025

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

C. Capital Assets

Capital asset activity for the year ended September 30, 2025, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 27,100	\$ 0	\$ 0	\$ 27,100
Construction in Progress	0	0	0	0
Total Capital Assets Not Being Depreciated	<u>\$ 27,100</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,100</u>
Capital Assets Being Depreciated				
Buildings	\$ 477,654	\$ 0	\$ 0	\$ 477,654
Vehicles	97,400	0	0	97,400
Lab and Field Equipment	259,744	0	0	259,744
Office Equipment	90,259	0	0	90,259
Total Capital Assets Being Depreciated	<u>\$ 925,057</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 925,057</u>
Total Capital Assets	<u>\$ 952,157</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 952,157</u>
Less Accumulated Depreciation				
Buildings	\$ (160,549)	\$ (12,087)	\$ 0	\$ (172,636)
Vehicles	(43,678)	(13,916)	0	(57,594)
Lab and Field Equipment	(41,077)	(11,968)	0	(53,045)
Office Equipment	(70,759)	(2,736)	0	(73,495)
Total Accumulated Depreciation	<u>\$ (316,063)</u>	<u>\$ (40,707)</u>	<u>\$ 0</u>	<u>\$ (356,770)</u>
Governmental Activities Capital Assets, Net	<u>\$ 636,094</u>	<u>\$ (40,707)</u>	<u>\$ 0</u>	<u>\$ 595,387</u>

D. Deferred Inflows of Resources

The financial statements report a separate section for deferred inflows of resources. Deferred inflows represent an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The District has the following item that qualifies for reporting in this category:

Deferred Inflows (Balance Sheet - Governmental Funds)

Unavailable revenue - property taxes.

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Notes to the Financial Statements - Continued
September 30, 2025

IV. OTHER INFORMATION

A. Deferred Compensation Plan

The District established a Deferred Compensation Plan in July 1991 under the provisions of Internal Revenue Code Section 457.

The District's employees contribute 6.2% of their salary to the plan and the District matches 12.4% of the employees' salary. District contributions for the fiscal year ended September 30, 2025, were \$33,485. The assets of the plan remain the property of the District until made available to the participant and shall be subject to the District's general creditors until they are distributed or made available to the participant.

B. Insurance

The District is a member of the Texas Municipal League's Intergovernmental Risk Pool (the Pool), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. It includes the Texas Municipal League Workers' Compensation Joint Insurance Fund (the WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (the Property-Liability Fund). The Pool was created for the purpose of providing coverage against risks, which are inherent in operating a political subdivision. The District pays annual premiums to the Pool for liability, property and workers' compensation coverage. The District's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide reinsurance contracts through commercial companies. The Pool agrees to handle all liability, property and workers' compensation claims and provide any defense as is necessary. The Pool makes available to the District loss control services to assist the District in following a plan of loss control that may result in reduced losses. The District agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the Pool. The District has experienced no significant reductions in coverage through the Pool over the past year.

C. Adjustments to Fund Balances/Net Position

The fund balance of the General Fund decreased by \$229 to record a miscellaneous cash adjustment.

D. Litigation

The District is involved in a lawsuit that was originally filed in early 2023 by private landowners against other private landowners. On March 26, 2025, the plaintiffs filed an amended petition naming the District as a co-defendant. The plaintiffs allege that the District failed to enforce its groundwater regulations, which they claim resulted in drainage of groundwater from their property. The claims include allegations of regulatory taking and violations of due process.

The plaintiffs seek injunctive relief requiring the District to implement and enforce its groundwater regulations. Although the plaintiffs allege property damages in excess of \$500,000, they are seeking monetary damages only from the private landowner defendants and not from the District.

Based on the information currently available, management does not believe the outcome of this matter will have a material adverse effect on the District's financial position.

E. Subsequent Events

The District's management has evaluated subsequent events through January 30, 2026, the date which the financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund
Balance - Budget and Actual - General Fund
Year Ended September 30, 2025

	General Fund			Variance - Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
<u>REVENUES</u>				
Property Taxes	\$ 540,282	\$ 540,282	\$ 592,756	\$ 52,474
Permit Fees	0	0	45,200	45,200
Investment Earnings	42,000	42,000	54,369	12,369
Insurance Proceeds	0	0	20,342	20,342
Other	0	0	3,003	3,003
	<u>0</u>	<u>0</u>	<u>3,003</u>	<u>3,003</u>
Total Revenues	<u>\$ 582,282</u>	<u>\$ 582,282</u>	<u>\$ 715,670</u>	<u>\$ 133,388</u>
<u>EXPENDITURES</u>				
Water Conservation				
Appraisal and Collection Services	\$ 2,400	\$ 3,818	\$ 45,074	\$ (41,256)
Bank Fees	300	129	30	99
Contracted Services	40,000	38,668	34,524	4,144
Dues and Subscriptions	8,000	10,076	10,076	0
Education	18,000	18,171	18,171	0
Insurance	11,900	11,814	11,047	767
Lab and Field Supplies	3,750	4,477	1,763	2,714
Mapping /GIS	887	927	927	0
Office Expense	7,800	7,207	6,078	1,129
Other	3,000	1,404	1,648	(244)
Professional Services	60,000	60,750	65,096	(4,346)
Repair and Maintenance	5,000	5,000	4,160	840
Salaries and Benefits	355,145	360,220	364,202	(3,982)
Travel	7,000	2,847	2,847	0
Utilities	29,600	29,600	29,302	298
Vehicle Expense	12,000	11,435	28,176	(16,741)
Capital Outlay	17,500	17,325	9,104	8,221
	<u>17,500</u>	<u>17,325</u>	<u>9,104</u>	<u>8,221</u>
Total Expenditures	<u>\$ 582,282</u>	<u>\$ 583,868</u>	<u>\$ 632,225</u>	<u>\$ (48,357)</u>
Net Change in Fund Balance	\$ 0	\$ (1,586)	\$ 83,445	\$ 85,031
Fund Balance - Beginning	1,584,319	1,584,319	1,584,319	0
Adjustments and Restatements	<u>0</u>	<u>0</u>	<u>(229)</u>	<u>229</u>
Fund Balance - Ending	<u>\$ 1,584,319</u>	<u>\$ 1,582,733</u>	<u>\$ 1,667,535</u>	<u>\$ 85,260</u>

OTHER SUPPLEMENTARY INFORMATION

PERMIAN BASIN UNDERGROUND WATER CONSERVATION DISTRICT
Schedule of Certificates of Deposit
Year Ended September 30, 2025

	<u>Identification or Certificate Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
<u>GENERAL FUND</u>				
Certificates of Deposit				
Community National Bank	90620	4.00	12/23/25	\$ 100,000
Community National Bank	90632	3.50	1/30/26	100,000
Community National Bank	100183	3.50	2/6/26	50,000
Prosperity State Bank	230000498	3.25	11/17/25	<u>150,000</u>
Total				<u>\$ 400,000</u>