

**PRAIRIELANDS GROUNDWATER  
CONSERVATION DISTRICT**

**ANNUAL FINANCIAL REPORT**

For the Year Ended December 31, 2016

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Prairielands Groundwater Conservation District  
Cleburne, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of Prairielands Groundwater Conservation District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Prairielands Groundwater Conservation District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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



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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Prairielands Groundwater Conservation District as of December 31, 2016, 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.

### ***Other Matters***

#### ***Required Supplemental Information***

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis on pages 3 through 5 and the budgetary comparison schedule, schedule of changes in net pension liability and related ratios, and the schedule of employer contributions on page 24 to 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2017 on our consideration of Prairielands Groundwater Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Prairielands Groundwater Conservation District's internal control over financial reporting and compliance.

*Gilliam, Wharram & Co., P.C.*

Gilliam, Wharram & Co., P.C.

Cleburne, Texas

June 14, 2017

**Prairielands Groundwater Conservation District  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

The goal of Prairielands Groundwater Conservation District's Board of Directors is to conserve, protect and enhance the groundwater resources of Ellis, Johnson, Hill and Somervell Counties in Texas. The District seeks to balance the needs of all groundwater users with the requirements of a sustainable aquifer.

**Report Layout**

The District's annual financial report consists of several sections. Together they provide a comprehensive financial look at the District. The components of the report include the following:

- Management's Discussion and Analysis - this section of the report provides financial highlights, overview and economic factors affecting the District.
- Basic Financial Statements - includes the Statement of Net Position, Statement of Activities, fund financial statements, and the notes to the financial statements. The Statements of Net Position and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to be more like corporate financial statements, in that all activities are consolidated into a total for the District. The fund financial statements present details by fund and use the applicable accounting method for that fund type: modified accrual for governmental-type funds, focusing on current financial resources and uses; and accrual for business-type funds. Because the District has only one fund, the entity-wide and fund financial statements are presented on the same pages. The statements are as follows:
  - The Statement of Net Position focuses on resources for future operations. This will be a snapshot view of the assets the District owns, debts, and the net difference. The net difference is further separated into restricted and unrestricted amounts, if applicable.
  - The Statement of Activities focuses on costs of the District operations and the revenues that support these operations.
  - Fund financial statements focus on each fund type: governmental and proprietary funds. The District has only one fund, which is a governmental-type fund.
  - The notes to the financial statements provide information to assist the reader in understanding the District's financial condition.
- Required Supplemental Information – budgetary information for the General Fund and pension information are presented in this section.

**Financial Analysis of the District as a Whole**

**Statement of Net Position:**

During the current fiscal period net position increased to \$2,439,102, a \$280,133 increase over the prior fiscal year. Cash and unrestricted net position also increased as a result. Capital assets and investment in capital assets increased due to additions, net of depreciation.

**Table 1**  
**Net Position**

	12/31/16	12/31/15	Change
Assets			
Cash and Other Current Assets	\$2,248,305	\$2,059,733	\$ 188,572
Capital Assets, Net	193,695	120,279	73,416
Total Assets	2,442,000	2,180,012	261,988
Deferred Outflows of Resources	41,566	11,210	30,356
Long-term Liabilities	751	-	751
Other Liabilities	43,427	32,253	11,174
Total Liabilities	44,178	32,253	11,925
Deferred Inflows of Resources	286	-	286
Net Position			
Net Investment in Capital Assets	193,695	120,279	73,416
Unrestricted	2,245,407	2,038,690	206,717
Total Net Position	\$2,439,102	\$2,158,969	\$ 280,133

**Statement of Activities:**

Revenues remained consistent with the prior year, decreasing minimally. Expenses for governmental activities increased slightly, due to higher legal costs, having a full year of pension expense (pension expense started August 2015), and various other increases in costs.

**Table 2**  
**Governmental Activities**

	Year Ended 12/31/16	Year Ended 12/31/15	Change
General Revenues			
Well Production Fees	\$ 1,074,009	\$ 1,111,437	\$ (37,428)
Other Revenues	31,871	27,614	4,257
Total Revenues	1,105,880	1,139,051	(33,171)
Expenses			
Governmental Activities	825,747	771,232	54,515
Total Expenses	825,747	771,232	54,515
Increase in Net Position	280,133	367,819	(87,686)
Beginning Net Position	2,158,969	1,791,150	367,819
Ending Net Position	\$ 2,439,102	\$ 2,158,969	\$ 280,133

**Budgetary Highlights**

Actual income amounts exceeded budgetary amounts \$68,216 this year, a difference of 6.11%. Budgetary expenditures exceeded actual amounts by \$277,818, a difference of 23.03%, due to actual expenses being less than anticipated, and the District budgeted for some large items that were not purchased. See Note 2.E. for discussion of budget policy.

### Capital Assets

As of the fiscal periods ended December 31, 2016 and 2015, the District had the following capital assets:

**Table 3**  
**Capital Assets at End of Fiscal Period**

	12/31/16	12/31/15
Land	\$ 9,775	\$ -
Furniture and Equipment	134,508	109,351
Vehicles	38,322	10,928
Construction in Progress	11,090	-
Total	<u>\$ 193,695</u>	<u>\$ 120,279</u>

The following table reconciles the change in capital assets. The District's additions included a vehicle, education trailer improvements, website upgrades and an education video completed.

**Table 4**  
**Change in Capital Assets**

	Year Ended 12/31/16	Year Ended 12/31/15
Beginning Balance	\$ 120,279	\$ 81,829
Additions	108,087	65,070
Depreciation	(34,671)	(26,620)
Ending Balance	<u>\$ 193,695</u>	<u>\$ 120,279</u>

### Economic Factors and Next Year's Budget

Budget forecasting for 2017 reflects \$1,124, 950 in total revenues, a 0.72% increase over 2016, and \$1,124,950 in total expenditures, a 6.74% decrease from 2016. A slight increase in income is projected due to new non-exempt wells. Decrease in budgeted expenses is due to minor decreases in several line items and larger reductions in proposed expenditures for fuel, mileage reimbursement, monitor well equipment, conservation education trailer, public relations, registration fees, postage, and new vehicle purchase. Budgeted amounts for engineering/regional planning, aquifer characterization, and geologist were decreased due to the nearing completion of Desired Future Conditions (DFC) determination. Though budgeted expenses decreased, the costs projected for legal, especially legislative-government relations, increased in preparation for the 85<sup>th</sup> Texas Legislative session. Other budgeted expense increases were for health insurance, video production and training fees. There were no fee increases or decreases.

### Financial Contact

The District's financial statements are designed to present users (citizens, taxpayers, customers, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, Please contact Prairielands Groundwater Conservation District, 205 South Caddo Street, Cleburne, Texas 76033.

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## BASIC FINANCIAL STATEMENTS

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2016

	General Fund	Adjustments (Note 2)	Statement of Net Position
<b>Assets</b>			
Unrestricted Cash	\$ 1,972,384	\$ -	\$ 1,972,384
Restricted Cash	6,600	-	6,600
Accounts Receivable	256,219	-	256,219
Prepaid and Other Expenses	13,102	-	13,102
Capital Assets (net of accumulated depreciation)			
Land	-	9,775	9,775
Furniture and Equipment	-	134,508	134,508
Vehicles	-	38,322	38,322
Construction in Progress	-	11,090	11,090
Total Assets	2,248,305	193,695	2,442,000
<b>Deferred Outflows of Resources</b>	-	41,566	41,566
Total Assets and Deferred Outflows of Resources	\$ 2,248,305	\$ 235,261	\$ 2,483,566
<b>Liabilities</b>			
Accounts Payable	\$ 32,133	\$ -	\$ 32,133
Payroll Taxes Payable	4,694	-	4,694
Well Deposits Payable	6,600	-	6,600
Long-term Liability - Net Pension Liability	-	751	751
Total Liabilities	43,427	751	44,178
<b>Deferred Inflows of Resources</b>	60,459	(60,173)	286
<b>Fund Balances / Net Position</b>			
Fund Balance			
Nonspendable for Prepaid and Other Expenses	13,102	(13,102)	
Committed for land purchase	61,500	(61,500)	
Unassigned	2,069,817	(2,069,817)	-
Total Fund Balances	2,144,419	(2,144,419)	-
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 2,248,305		
<b>Net Position</b>			
Net Investment in Capital Assets		193,695	193,695
Unrestricted		2,245,407	2,245,407
Total Net Position		\$ 2,439,102	\$ 2,439,102

The accompanying notes are an integral part of these financial statements.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Adjustments (Note 2)	Statement of Activities
<b>Expenditures / Expenses</b>			
Bank Charges	\$ 8,487	\$ -	\$ 8,487
Conferences & Meetings	21,763	-	21,763
Contract Labor	1,676	-	1,676
Dues & Subscriptions	3,889	-	3,889
GMA 8	2,410	-	2,410
Insurance	4,372	-	4,372
Legal	195,088	-	195,088
Miscellaneous	116	-	116
Office Expenses	5,921	-	5,921
Payroll & Benefits	384,188	(29,319)	354,869
Professional Fees	102,206	-	102,206
Public Relations	14,221	-	14,221
Rent	30,384	-	30,384
Supplies	15,830	-	15,830
Trailer Storage	780	-	780
Utilities	5,590	-	5,590
Vehicle Expenses	7,948	-	7,948
Well Monitoring	15,526	-	15,526
Capital Outlay	108,087	(108,087)	-
Depreciation	-	34,671	34,671
Total Expenditures / Expenses	<u>928,482</u>	<u>(102,735)</u>	<u>825,747</u>
<b>Revenues</b>			
Water Production Fees	1,153,295	(79,286)	1,074,009
Well Registration Fees	24,350	-	24,350
Interest Income	7,521	-	7,521
Total Revenues	<u>1,185,166</u>	<u>(79,286)</u>	<u>1,105,880</u>
Excess of Revenues over Expenditures	256,684		
Change in Net Position		23,449	280,133
<b>Fund Balance / Net Position</b>			
Beginning of the Year	<u>1,887,735</u>	<u>271,234</u>	<u>2,158,969</u>
End of the Year	<u>\$ 2,144,419</u>	<u>\$ 294,683</u>	<u>\$ 2,439,102</u>

The accompanying notes are an integral part of these financial statements.

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PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 1: CREATION OF DISTRICT**

Prairielands Groundwater Conservation District (the District) was created by the 81<sup>st</sup> Texas Legislature on May 31, 2009 with a directive to conserve, protect and enhance the groundwater resources of Ellis, Hill, Johnson, and Somervell Counties in Texas. Members of the Board are appointed by the county commissioners in Ellis, Hill, Johnson and Somervell counties. The Board consists of eight directors, with each of the four counties making two appointments.

The mission of the District is to develop rules to provide protection to existing wells, prevent waste, promote conservation, collect data, plan for future resources and educate people about water conservation and aquifer protection.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District are prepared in conformity with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

**A. Reporting Entity**

The accompanying financial statements present the District's primary government units over which the District exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the District (as distinguished from legal relationships). The District had no component units as of December 31, 2016.

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

*Government-wide Financial Statements*

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the District as a whole.

Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by general revenues, from business-type activities. The District has no business-type activities.

The statement of activities reports the expenses related to a given function offset by revenues directly connected with the functional program.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Government-wide and Fund Financial Statements (continued)**

*Fund Financial Statements*

The fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns with non-major aggregated in a single column. The District has no non-major funds.

*Reconciliation of Government-wide and Fund Financial Statements*

The District has chosen to combine its fund financial statements with its government-wide statements by using a columnar format that reconciles individual line items of fund financial data to the government-wide data in separate columns. Reconciling items, shown in the adjustments column, were made as follows:

Net position/balance sheet:	
Capital assets	\$ 193,695
Deferred outflows of resources - pension	\$ 41,566
Net pension liability	\$ 751
Deferred inflows of resources:	
Production fees	\$ (60,459)
Pension	286
Deferred inflows adjustment	\$ (60,173)
Activities/changes in fund balance:	
Changes in deferred inflows/outflows - pension	\$ (29,319)
Capital outlay	(108,087)
Depreciation expense	34,671
Expenditures/Expenses adjustment	\$ (102,735)
Adjust production fees revenue to accrual basis:	
Deferred inflows of resources - beginning of year	\$ (139,745)
Deferred inflows of resources - end of year	60,459
Revenues adjustment	\$ (79,286)

The revenue adjustment is made because, for the fund financial statements only, production fees revenue is recognized only if it is measurable and available, as defined in Note 2.D. below. Amounts not yet meeting this requirement as of December 31, 2016 are reported as deferred inflows in the governmental fund balance sheet.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Fund Types and Major Funds**

*Governmental Fund*

The District reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. All program and general revenues that are not allocated by law or contractual agreements to other funds are accounted for in this fund. The District has no other fund types.

**D. Basis of Accounting**

The government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the current fiscal year-end. Water production fees, well registration fees, and interest income are considered to be general revenues. Under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, if measurable.

**E. Budgets**

The District adopts an annual budget for the General Fund, based upon estimated revenues and expenditures on the modified accrual basis. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. The budget was not amended during 2016.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Estimates**

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

**G. Capital Assets**

Capital outlays are recorded as assets in the government-wide statement of net position. The fund financial statements present capital outlays as expenditures. All purchased capital assets are valued at cost. Donated assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital asset, as applicable. Depreciation on each class of depreciable property is computed using the straight-line method. Estimated useful lives are as follows:

Furniture and Equipment	3 – 7 years
Vehicles	5 years

**H. Net Position**

In accordance with GASB 63, the District reports net position in the government-wide financial statements. Net position represents the difference between assets and liabilities in the statement of net position. The net position amount reported as net investment in capital assets is reduced by the outstanding balances of any debt used for the acquisition, construction or improvement of those assets. Net position amounts are reported as restricted when there are legal limitations imposed by legislation of the District or external restrictions by creditors, grantors, laws or regulations of other governments.

**I. Accounts Receivable**

Accounts receivable is for production fees received in the subsequent year that are based on current year water usage. No allowance for uncollectible accounts was considered necessary.



PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Pension**

The fiduciary net position of the Texas County & District Retirement System (TCDRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This approach is used for measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TCDRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See pension information in Note 7.

**K. Fund Balance**

The District classifies its fund balance according to the following categories:

**Nonspendable** – amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The District's nonspendable fund balances are for items that are no longer in spendable form because they have been spent for prepaid and other expenses.

**Committed** – amounts subject to internal constraints imposed by formal action of the Board, by the approval of a vote, or by resolution at a public hearing.

**Unassigned** – the residual amount in the general fund that is not in the nonspendable category.

When an expenditure is incurred for purposes for which more than one category of fund balance is available, the District reduces committed fund balance first, then unassigned.

**NOTE 3: CASH DEPOSITS IN FINANCIAL INSTITUTIONS**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned, or the District will not be able to recover collateral securities in the possession of an outside party. State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with FDIC insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The bank balances of the District's deposits at December 31, 2016, totaled \$1,994,594, with \$223,892 at Wells Fargo Bank and \$1,770,702 at Grandview Bank. These deposits were adequately covered by federal depository insurance and pledged securities.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 4: RESTRICTED CASH**

Restricted cash of \$6,600 consists of amounts received for refundable well deposits.

**NOTE 5: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Disposals/ Reclasses	Ending Balance
Non-depreciating:				
Land	\$ -	\$ 9,775	\$ -	\$ 9,775
Construction in Progress	-	11,090	-	11,090
Total non-depreciating	-	20,865	-	20,865
Depreciating:				
Furniture and Equipment	146,198	51,722	-	197,920
Vehicles	52,836	35,500	-	88,336
Total depreciating	199,034	87,222	-	286,256
Total capital assets	199,034	108,087	-	307,121
Accumulated Depreciation:				
Furniture and Equipment	36,848	26,565	-	63,413
Vehicles	41,907	8,106	-	50,013
Total accumulated depreciation	78,755	34,671	-	113,426
Net Capital Assets	\$ 120,279	\$ 73,416	\$ -	\$ 193,695

Land and construction in progress are for a new office location. Amounts incurred in 2016 were for earnest money and for architectural, engineering, and related costs. As of December 31, 2016, the District had a \$61,500 commitment for the purchase of the land.

**NOTE 6: OPERATING LEASE**

The District is the lessee under operating leases for the use of office space, postage machine, and copier. Rent expense paid on these leases for 2016 totaled \$33,621. Future minimum payments are as follows:

2017	\$ 33,621
2018	33,621
2019	818
	<u>\$ 68,060</u>

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

**Plan Description** – The District participates in the non-traditional defined benefit pension plan administered by TCDRS. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR), reported on a calendar-year basis, that can be obtained at [www.tcdrs.org](http://www.tcdrs.org).

**Benefits Provided** – The plan provides retirement, disability, and death benefits to all the District's full-time employees. The plan provisions are adopted by District's Board of Directors, within the options available in the Texas State statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 5 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 5 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act, so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute.

At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity purchase rate prescribed by the TCDRS Act.

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>5</u>
	<u><u>5</u></u>

**Contributions** – The District has elected the annually determined contribution plan (ADCR) provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)**

The District contributed using the actuarially determined rate of 9.82% for calendar years 2015 and 2016, respectively. The contribution rate payable by the employee members for calendar years 2015 and 2016 is 5.00%, as adopted by the District's Board of Directors. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act. The District's contributions to TCDRS for the year ended December 31, 2016 were \$40,706, and were equal to the required contributions.

**Net Pension Liability** – The District's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Discount Rate:***

In order to determine the discount rate to be used by each employer, TCDRS has used an alternative method to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act:

- 1) TCDRS has a funding policy where the unfunded actuarial accrued liability shall be amortized as a level percent of pay over 20-year closed layered periods.
- 2) Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
- 3) The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
- 4) Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years. Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, TCDRS has used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)**

***Actuarial Assumptions:***

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were based on the actuarially-determined initial rate as of the August 1, 2015 participation start date with TCDRS and the actuarial valuation as of December 31, 2015, the basis for determining the contribution rates for calendar years 2015 and 2016. The December 31, 2015 actuarial valuation is the most recent valuation.

The required contribution was determined as part of the December 31, 2015 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2015 included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected average salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation:

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected Minus Inflation)
US Equities	14.50%	5.45%
Private Equity	14.00%	8.45%
Global Equities	1.50%	5.75%
International Equities - Developed	10.00%	5.45%
International Equities - Emerging	8.00%	6.45%
Investment-Grade Bonds	3.00%	1.00%
High-Yield Bonds	3.00%	5.10%
Opportunistic Credit	2.00%	5.09%
Direct Lending	5.00%	6.40%
Distressed Debt	3.00%	8.10%
REIT Equities	3.00%	4.00%
Master Limited Partnerships (MLPs)	3.00%	6.80%
Private Real Estate Partnerships	5.00%	6.90%
Hedge Funds	25.00%	5.25%
Total	<u>100.00%</u>	

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)**

***Changes in the Net Pension Liability:***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances as of December 31, 2015	\$ -	\$ -	\$ -
Changes for the year:			
Service cost	16,835	-	16,835
Interest on total pension liability	681	-	681
Effect of plan changes	93	-	93
Effect of economic/demographic gains or losses	(312)	-	(312)
Effect of assumptions changes or inputs	221	-	221
Refund of contributions	(5,138)	(5,138)	-
Benefit payments	5,138	5,138	-
Administrative expenses	-	(6)	6
Member contributions	-	5,708	(5,708)
Net investment income	-	(144)	144
Employer contributions	-	11,210	(11,210)
Other	-	(1)	1
Balances as of December 31, 2016	<u>\$ 17,518</u>	<u>\$ 16,767</u>	<u>\$ 751</u>

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate:***

The following presents the net pension liability of the District as of December 31, 2016, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate:

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 20,444	\$ 17,518	\$ 15,245
Fiduciary net position	16,768	16,767	16,767
Net pension liability/(asset)	<u>\$ 3,676</u>	<u>\$ 751</u>	<u>\$ (1,522)</u>

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)**

***Pension Plan Fiduciary Net Position:***

Detailed information about the pension plan's Fiduciary Net Position is available in the separately-issued TCDRS financial report. That report may be obtained on the Internet at [www.tcdrs.com](http://www.tcdrs.com).

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** – For the year ended December 31, 2016, the District recognized pension expense of \$11,386.

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Changes of assumptions	\$ 203
Net difference between projected and actual earnings	657
Contributions made subsequent to measurement date	40,706
Total deferred outflows of resources	<u>\$ 41,566</u>
 Differences between expected and actual experience	 \$ 286
Total deferred inflows of resources	<u>\$ 286</u>

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, \$40,706, will be recognized as a reduction of the net pension liability for the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:

2017	\$ 157
2018	157
2019	157
2020	157
2021	(8)
Thereafter	(46)

**NOTE 8: SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 14, 2017, the date that the financial statements were available to be issued.

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## REQUIRED SUPPLEMENTAL INFORMATION

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final	Amount	Positive (Negative)
<b>Revenues</b>				
Water Production Fees	\$ 1,089,950	\$ 1,089,950	\$ 1,153,295	\$ 63,345
Well Registration Fees	22,000	22,000	24,350	2,350
Interest Income	5,000	5,000	7,521	2,521
Total Revenues	1,116,950	1,116,950	1,185,166	68,216
<b>Expenditures</b>				
Bank Charges	8,500	8,500	8,487	13
Conferences & Meetings	33,000	33,000	21,763	11,237
Contract Labor	2,500	2,500	1,676	824
Dues & Subscriptions	2,500	2,500	3,889	(1,389)
GMA 8	1,500	1,500	2,410	(910)
Insurance	9,000	9,000	4,372	4,628
Legal	189,000	189,000	195,088	(6,088)
Miscellaneous	1,000	1,000	116	884
Office Expenses	10,000	10,000	5,921	4,079
Payroll & Benefits	415,500	415,500	384,188	31,312
Professional Fees	142,500	142,500	102,206	40,294
Public Relations	24,500	24,500	14,221	10,279
Rent	32,500	32,500	30,384	2,116
Supplies	22,000	22,000	15,830	6,170
Trailer Storage	800	800	780	20
Utilities	5,000	5,000	5,590	(590)
Vehicle Expenses	16,500	16,500	7,948	8,552
Well Monitoring	100,000	100,000	15,526	84,474
Capital Outlay	190,000	190,000	108,087	81,913
Total Expenditures	1,206,300	1,206,300	928,482	277,818
Excess (Deficiency) of Revenues over Expenditures	(89,350)	(89,350)	256,684	346,034
Fund Balance, Beginning of the Year	1,887,735	1,887,735	1,887,735	-
Fund Balance, End of the Year	\$ 1,798,385	\$ 1,798,385	\$ 2,144,419	\$ 346,034

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2015

<b>Total Pension Liability</b>	<u>2015</u>
Service cost	\$ 16,835
Interest on total pension liability	681
Effect of plan changes	93
Effect of assumption changes or inputs	221
Effect of economic/demographic (gains) or losses	(312)
Benefit payments/refunds of contributions	<u>-</u>
Net change in total pension liability	17,518
 Total pension liability, beginning	 <u>-</u>
Total pension liability, ending (a)	<u>17,518</u>
 <b>Fiduciary Net Position</b>	
Employer contributions	11,210
Member contributions	5,708
Investment income net of investment expenses	(144)
Benefit payments/refunds of contributions	-
Administrative expenses	(6)
Other	<u>(1)</u>
Net change in fiduciary net position	16,767
Fiduciary net position, beginning	<u>-</u>
Fiduciary net position, ending (b)	<u>16,767</u>
 Net pension liability / (asset), ending = (a) - (b)	 <u><u>\$ 751</u></u>
 Fiduciary net position as a % of total pension liability	 95.71%
 Pensionable covered payroll (annualized for 2015 based on August start date)	 \$ 273,976
 Net pension liability as a % of covered payroll	 0.27%

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
 REQUIRED SUPPLEMENTAL INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 DECEMBER 31, 2016

Calendar Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015*	\$ 11,210	\$ 11,210	\$ -	\$ 114,157	9.8%
2016	40,706	40,706	-	414,518	9.8%

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

\* Contributions and participation in plan began in August 2015.

**Methods and Assumptions Used to Determine Contributions Rates:**

See Note 8 to the financial statements.

**Other Information:**

There were no benefit changes during the year.

## OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

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**GILLIAM, WHARRAM & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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CLEBURNE, TEXAS 76033 • (817) 641-2274  
FAX (817) 641-2474

**INDEPENDENT AUDITOR'S 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  
Prairielands Groundwater Conservation District  
Cleburne, Texas

We have audited, 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, the financial statements of the governmental activity and the major fund of Prairielands Groundwater Conservation District (District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 14, 2017.

***Internal Control over Financial Reporting***

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

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

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



2016-01 Due to the small size of the District's staff there is an absence of appropriate segregation of duties. This is not uncommon for an organization of this size and we believe this deficiency is best mitigated by continued top management involvement in all areas of the District on a daily basis and periodic Board of Director review of financial information. Because this deficiency is normal for a small organization, no further action is suggested.

### ***Compliance and Other Matters***

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

We also noted certain matters that we reported to the District's management in a separate letter dated June 14, 2017.

### ***Prairielands Groundwater Conservation District's Response to Finding***

The District's response to finding 2016-01 above, as identified in our audit, is as follows:

Management reviews and approves bank statements, bank reconciliations, and internal financial statements on a monthly basis. The Board approves internal financial statements monthly, including a comparison of actual amounts to budgeted amounts, and reviews a listing of expenditures. Staff expenditures of \$500 or more require approval by management. Additional compensating controls are also in place.

The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. 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.

*Gilliam, Wharram & Co., P.C.*

Gilliam, Wharram & Co., P.C.

Cleburne, Texas

June 14, 2017