

**PRAIRIELANDS GROUNDWATER
CONSERVATION DISTRICT**

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2017

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, 2017, 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, 2017, 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 12, 2018 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 12, 2018

**Prairielands Groundwater Conservation District
Management's Discussion and Analysis
For the Year Ended December 31, 2017**

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 \$2,669,291, a \$230,189 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

	12/31/17	12/31/16	Change
Assets			
Cash and Other Assets	\$2,433,374	\$2,248,305	\$ 185,069
Capital Assets, Net	241,698	193,695	48,003
Total Assets	2,675,072	2,442,000	233,072
Deferred Outflows of Resources	33,900	41,566	(7,666)
Long-term Liabilities	-	751	(751)
Other Liabilities	38,600	43,427	(4,827)
Total Liabilities	38,600	44,178	(5,578)
Deferred Inflows of Resources	1,081	286	795
Net Position			
Net Investment in Capital Assets	241,698	193,695	48,003
Unrestricted	2,427,593	2,245,407	182,186
Total Net Position	\$2,669,291	\$2,439,102	\$ 230,189

Statement of Activities:

Revenues remained consistent with the prior year, increasing minimally. Expenses increased, mainly due to higher professional fees, payroll and benefits.

Table 2
Governmental Activities

	Year Ended 12/31/17	Year Ended 12/31/16	Change
General Revenues			
Well Production Fees	\$ 1,076,314	\$ 1,074,009	\$ 2,305
Other Revenues	39,314	31,871	7,443
Total Revenues	1,115,628	1,105,880	9,748
Expenses			
Governmental Activities	885,439	825,747	59,692
Total Expenses	885,439	825,747	59,692
Increase in Net Position	230,189	280,133	(49,944)
Beginning Net Position	2,439,102	2,158,969	280,133
Ending Net Position	\$ 2,669,291	\$ 2,439,102	\$ 230,189

Budgetary Highlights

Budgetary income amounts exceeded actual amounts by \$9,090 this year, a difference of 0.81%. Budgetary expenditures exceeded actual amounts by \$187,303, a difference of 16.65%, due to actual expenses being less than anticipated. See Note 2.E. for discussion of budget policy.

Capital Assets

As of the fiscal periods ended December 31, 2017 and 2016, the District had the following capital assets:

Table 3
Capital Assets at End of Fiscal Period

	12/31/17	12/31/16
Land	\$ 89,447	\$ 9,775
Furniture and Equipment	112,761	134,508
Vehicles	28,400	38,322
Construction in Progress	11,090	11,090
Total	<u>\$ 241,698</u>	<u>\$ 193,695</u>

The following table reconciles the change in capital assets. The District's additions included well monitoring equipment, land and related costs.

Table 4
Change in Capital Assets

	Year Ended 12/31/17	Year Ended 12/31/16
Beginning Balance	\$ 193,695	\$ 120,279
Additions	91,219	108,087
Depreciation	(43,216)	(34,671)
Ending Balance	<u>\$ 241,698</u>	<u>\$ 193,695</u>

Economic Factors and Next Year's Budget

Budget forecasting for 2018 reflects \$1,122,200 in total revenues, a 0.24% decrease from 2017, and \$1,922,200 in total expenditures, a 70.87% increase from 2017. The 2018 budgeted expenditures are very similar to the 2017 budget, except for \$800,000 budgeted for office construction costs, which are to be paid from fund balance. Budgeted amounts for legal expenses, well monitoring equipment, public relations, and GAM aquifer characterization were decreased for 2018. The costs projected for dues/subscriptions, registration fees, payroll, office furniture, and Hydro-Geologist/Tech were increased for 2018. New items in the 2018 budget include building construction, lawn care, mortgage principal and interest, public hearing notices, and electricity. There were no fee changes in 2017 and none proposed in 2018.

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, 2017

	General Fund	Adjustments (Note 2)	Statement of Net Position
Assets			
Unrestricted Cash	\$ 2,194,435	\$ -	\$ 2,194,435
Restricted Cash	6,000	-	6,000
Accounts Receivable	207,573	-	207,573
Prepaid Expenses	13,451	-	13,451
Capital Assets (net of accumulated depreciation)			
Land	-	89,447	89,447
Furniture and Equipment	-	112,761	112,761
Vehicles	-	28,400	28,400
Construction in Progress	-	11,090	11,090
Net Pension Asset	-	11,915	11,915
Total Assets	2,421,459	253,613	2,675,072
Deferred Outflows of Resources	-	33,900	33,900
Total Assets and Deferred Outflows of Resources	\$ 2,421,459	\$ 287,513	\$ 2,708,972
Liabilities			
Accounts Payable	\$ 29,258	\$ -	\$ 29,258
Retirement Plan Payable	3,342	-	3,342
Well Deposits Payable	6,000	-	6,000
Total Liabilities	38,600	-	38,600
Deferred Inflows of Resources	60,227	(59,146)	1,081
Fund Balances / Net Position			
Fund Balance			
Nonspendable for Prepaid Expenses	13,451	(13,451)	-
Unassigned	2,309,181	(2,309,181)	-
Total Fund Balances	2,322,632	(2,322,632)	-
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 2,421,459		
Net Position			
Net Investment in Capital Assets		241,698	241,698
Unrestricted		2,427,593	2,427,593
Total Net Position		\$ 2,669,291	\$ 2,669,291

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, 2017

	General Fund	Adjustments (Note 2)	Statement of Activities
Expenditures / Expenses			
Bank Charges	\$ 8,802	\$ -	\$ 8,802
Conferences & Meetings	18,988	-	18,988
Dues & Subscriptions	4,331	-	4,331
GMA 8	3,257	-	3,257
Insurance	5,006	-	5,006
Legal	202,140	-	202,140
Office Expenses	8,470	-	8,470
Payroll & Benefits	386,518	(4,205)	382,313
Professional Fees	123,143	-	123,143
Public Relations	11,722	-	11,722
Rent	30,376	-	30,376
Supplies	13,366	-	13,366
Trailer Storage	830	-	830
Utilities	5,093	-	5,093
Vehicle Expenses	7,564	-	7,564
Well Monitoring	16,822	-	16,822
Capital Outlay	91,219	(91,219)	-
Depreciation	-	43,216	43,216
Total Expenditures / Expenses	937,647	(52,208)	885,439
Revenues			
Water Production Fees	1,076,546	(232)	1,076,314
Well Registration Fees	31,500	-	31,500
Interest Income	7,814	-	7,814
Total Revenues	1,115,860	(232)	1,115,628
Excess of Revenues over Expenditures	178,213		
Change in Net Position		51,976	230,189
Fund Balance / Net Position			
Beginning of the Year	2,144,419	294,683	2,439,102
End of the Year	\$ 2,322,632	\$ 346,659	\$ 2,669,291

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, 2017

NOTE 1: CREATION OF DISTRICT

Prairielands Groundwater Conservation District (the District) was created by the 81st 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, 2017.

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, 2017

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	\$ 241,698
Net pension asset	<u>\$ 11,915</u>
Deferred outflows of resources - pension	<u>\$ 33,900</u>
Deferred inflows of resources:	
Production fees	\$ (60,227)
Pension	1,081
Deferred inflows adjustment	<u>\$ (59,146)</u>
Activities/changes in fund balance:	
Changes in deferred inflows/outflows - pension	\$ (4,205)
Capital outlay	(91,219)
Depreciation expense	43,216
Expenditures/Expenses adjustment	<u>\$ (52,208)</u>
Adjust production fees revenue to accrual basis:	
Deferred inflows of resources - beginning of year	\$ (60,459)
Deferred inflows of resources - end of year	60,227
Revenues adjustment	<u>\$ (232)</u>

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, 2017 are reported as deferred inflows in the governmental fund balance sheet.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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.

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.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 TCERS'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.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017, totaled \$2,211,464, with \$220,408 at Wells Fargo Bank and \$1,991,056 at Grandview Bank. These deposits were adequately covered by federal depository insurance and pledged securities.

NOTE 4: RESTRICTED CASH

Restricted cash of \$6,000 consists of amounts received for refundable well deposits.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Disposals/ Reclasses	Ending Balance
Non-depreciating:				
Land	\$ 9,775	\$ 79,672	\$ -	\$ 89,447
Construction in Progress	11,090	-	-	11,090
Total non-depreciating	20,865	79,672	-	100,537
Depreciating:				
Furniture and Equipment	197,920	11,547	-	209,467
Vehicles	88,336	-	-	88,336
Total depreciating	286,256	11,547	-	297,803
Total capital assets	307,121	91,219	-	398,340
Accumulated Depreciation:				
Furniture and Equipment	63,413	33,293	-	96,706
Vehicles	50,013	9,923	-	59,936
Total accumulated depreciation	113,426	43,216	-	156,642
Net Capital Assets	\$ 193,695	\$ 48,003	\$ -	\$ 241,698

Land and construction in progress are for a new office location.

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 2017 totaled \$33,621. Future minimum payments are as follows:

2018	\$ 33,621
2019	1,166
2020	348
2021	348
2022	174
	<u>\$ 35,657</u>

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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.

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, 2016 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>5</u>

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

The District contributed using the actuarially determined rate of 9.82% and 9.1% for calendar years 2016 and 2017, respectively. The contribution rate payable by the employee members for calendar years 2016 and 2017 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, 2017 were \$31,393. Included in this amount is an elected \$6,050 contribution, in order to fully fund the District's pension liability. The District made all required contributions.

Net Pension Liability – The District's Net Pension Liability (NPL) was measured as of December 31, 2016, 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.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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 actuarial valuations as of December 31, 2015 and 2016, the basis for determining the contribution rates for calendar years 2016 and 2017. The December 31, 2016 actuarial valuation is the most recent valuation.

The required contribution was determined as part of the December 31, 2016 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2016 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 remaining amortization period at December 31, 2016 was 20 years. 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:

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected Minus Inflation)
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities - Developed	10.00%	4.70%
International Equities - Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships (MLPs)	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%
Total	<u>100.00%</u>	

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in the Net Pension Liability (Asset):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances as of December 31, 2016	\$ 17,518	\$ 16,767	\$ 751
Changes for the year:			
Service cost	42,028	-	42,028
Interest on total pension liability	3,088	-	3,088
Effect of economic/demographic gains or losses	(924)	-	(924)
Administrative expenses	-	(14)	14
Member contributions	-	13,550	(13,550)
Net investment income	-	1,279	(1,279)
Employer contributions	-	40,706	(40,706)
Other	-	1,337	(1,337)
Balances as of December 31, 2017	<u>\$ 61,710</u>	<u>\$ 73,625</u>	<u>\$ (11,915)</u>

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

The following presents the net pension liability (asset) of the District as of December 31, 2017, calculated using the discount rate of 8.10%, as well as what the District's net pension liability (asset) 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	\$ 69,432	\$ 61,710	\$ 55,386
Fiduciary net position	73,625	73,625	73,625
Net pension liability (asset)	<u>\$ (4,193)</u>	<u>\$ (11,915)</u>	<u>\$ (18,239)</u>

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.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended December 31, 2017, the District recognized pension expense of \$27,188.

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Changes of assumptions	\$ 185
Net difference between projected and actual earnings	2,322
Contributions made subsequent to measurement date	<u>31,393</u>
Total deferred outflows of resources	<u>\$ 33,900</u>
 Differences between expected and actual experience	 <u>\$ 1,081</u>
Total deferred inflows of resources	<u>\$ 1,081</u>

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, \$31,393, will be recognized as a reduction of the net pension liability for the year ending December 31, 2018. 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 December 31:

2018	\$ 511
2019	511
2020	511
2021	347
2022	(110)
Thereafter	(344)

NOTE 8: SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 12, 2018, the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final	Amount	Positive (Negative)
Revenues				
Water Production Fees	\$ 1,093,950	\$ 1,093,950	\$ 1,076,546	\$ (17,404)
Well Registration Fees	23,000	23,000	31,500	8,500
Interest Income	8,000	8,000	7,814	(186)
Total Revenues	1,124,950	1,124,950	1,115,860	(9,090)
Expenditures				
Bank Charges	7,000	9,000	8,802	198
Conferences & Meetings	24,000	29,000	18,988	10,012
Contract Labor	2,500	2,500	-	2,500
Dues & Subscriptions	2,000	5,000	4,331	669
GMA 8	3,000	4,000	3,257	743
Insurance	6,500	6,500	5,006	1,494
Legal	230,000	226,000	202,140	23,860
Miscellaneous	250	250	-	250
Office Expenses	10,000	9,000	8,470	530
Payroll & Benefits	410,000	412,000	386,518	25,482
Professional Fees	103,000	135,000	123,143	11,857
Public Relations	21,000	13,000	11,722	1,278
Rent	31,400	31,400	30,376	1,024
Supplies	18,500	18,500	13,366	5,134
Trailer Storage	800	800	830	(30)
Utilities	6,000	6,000	5,093	907
Vehicle Expenses	12,000	12,000	7,564	4,436
Well Monitoring	85,000	85,000	16,822	68,178
Capital Outlay	152,000	120,000	91,219	28,781
Total Expenditures	1,124,950	1,124,950	937,647	187,303
Excess (Deficiency) of Revenues over Expenditures	-	-	178,213	178,213
Fund Balance, Beginning of the Year	2,144,419	2,144,419	2,144,419	-
Fund Balance, End of the Year	\$ 2,144,419	\$ 2,144,419	\$ 2,322,632	\$ 178,213

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2017

	FY 2017 Plan Year 2016	FY2016 Plan Year 2015
Total Pension Liability		
Service cost	\$ 42,028	\$ 16,835
Interest on total pension liability	3,088	681
Effect of plan changes	-	93
Effect of assumption changes or inputs	-	221
Effect of economic/demographic (gains) or losses	(924)	(312)
Net change in total pension liability	44,192	17,518
Total pension liability, beginning	17,518	-
Total pension liability, ending (a)	61,710	17,518
Fiduciary Net Position		
Employer contributions	40,706	11,210
Member contributions	13,550	5,708
Investment income net of investment expenses	1,279	(144)
Administrative expenses	(14)	(6)
Other	1,337	(1)
Net change in fiduciary net position	56,858	16,767
Fiduciary net position, beginning	16,767	-
Fiduciary net position, ending (b)	73,625	16,767
Net pension liability (asset), ending = (a) - (b)	\$ (11,915)	\$ 751
Fiduciary net position as a % of total pension liability	119.31%	95.71%
Pensionable covered payroll (annualized for 2015 based on August start date)	\$ 270,995	\$ 273,976
Net pension liability (asset) as a % of covered payroll	(4.40%)	0.27%

Note:

Because the District's participation in the Plan began in August 2015, 10-year trend information is not yet available for this schedule

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

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	26,612	40,706	(14,094)	270,995	15.0%
2017	25,343	31,393	(6,050)	281,137	11.2%

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

* Contributions and participation in the Plan began in August 2015. As a result, 10-year trend information is not yet available for this schedule.

Methods and Assumptions Used to Determine Contributions Rates:

In September 2016 and 2017, the District elected to make additional contributions of \$14,094 and \$6,050, respectively, to fully fund the pension liability.

See also Note 7 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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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
Praeliends 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 activities and the major fund of Praeliends Groundwater Conservation District (District) as of and for the year ended December 31, 2017, 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 12, 2018.

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:



2017-01 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 12, 2018.

Prairielands Groundwater Conservation District's Response to Finding

The District's response to finding 2017-01 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 12, 2018