

**PRAIRIELANDS GROUNDWATER  
CONSERVATION DISTRICT**

**ANNUAL FINANCIAL REPORT**

For the Year Ended December 31, 2018



PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Prairiелands 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 Prairiелands Groundwater Conservation District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Prairiелands Groundwater Conservation District's basic financial statements as listed in the table of contents.

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

Prairiелands 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, 2018, 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 6 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 11, 2019 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 11, 2019

**Prairielands Groundwater Conservation District  
Management's Discussion and Analysis  
For the Year Ended December 31, 2018**

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 \$2,802,659, a \$133,368 increase over the prior fiscal year. Cash and unrestricted net position also increased as a result. Capital assets and investment in capital assets decreased due to additions, net of depreciation.

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

	12/31/18	12/31/17	Change
Assets			
Cash and Other Assets	\$2,578,298	\$2,433,374	\$ 144,924
Capital Assets, Net	231,458	241,698	(10,240)
Total Assets	2,809,756	2,675,072	134,684
Deferred Outflows of Resources	43,892	33,900	9,992
Current Liabilities	49,736	38,600	11,136
Total Liabilities	49,736	38,600	11,136
Deferred Inflows of Resources	1,253	1,081	172
Net Position			
Net Investment in Capital Assets	231,458	241,698	(10,240)
Unrestricted	2,571,201	2,427,593	143,608
Total Net Position	\$2,802,659	\$2,669,291	\$ 133,368

**Statement of Activities:**

Revenues remained consistent with the prior year, increasing minimally. Expenses increased mainly due to legal costs for preparing Permanent Rules for the District.

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

	Year Ended 12/31/18	Year Ended 12/31/17	Change
General Revenues			
Well Production Fees	\$ 1,128,556	\$1,076,314	\$ 52,242
Other Revenues	54,536	39,314	15,222
Total Revenues	1,183,092	1,115,628	67,464
Expenses			
Governmental Activities	1,049,724	885,439	164,285
Total Expenses	1,049,724	885,439	164,285
Increase in Net Position	133,368	230,189	(96,821)
Beginning Net Position	2,669,291	2,439,102	230,189
Ending Net Position	\$2,802,659	\$2,669,291	\$ 133,368

**Budgetary Highlights**

Actual income amounts exceeded budgetary amounts by \$110,916 this year, a difference of 9.88%. Budgetary expenditures exceeded actual amounts by \$864,687, a difference of 44.98%, due to budgeting for the construction of the new office building. The construction did not occur in 2018. See Note 2.E. for discussion of budget policy.



### Capital Assets

As of the fiscal periods ended December 31, 2018 and 2017, the District had the following capital assets, net of applicable depreciation:

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

	12/31/18	12/31/17
Land	\$ 89,447	\$ 89,447
Furniture and Equipment	109,621	112,761
Vehicles	21,300	28,400
Construction in Progress	11,090	11,090
Total	<u>\$ 231,458</u>	<u>\$ 241,698</u>

The following table reconciles the change in capital assets. The District's additions included well monitoring equipment and website upgrades.

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

	Year Ended 12/31/18	Year Ended 12/31/17
Beginning Balance	\$ 241,698	\$ 193,695
Additions	33,005	91,219
Depreciation	(43,245)	(43,216)
Ending Balance	<u>\$ 231,458</u>	<u>\$ 241,698</u>

### Economic Factors and Next Year's Budget

Budget forecasting for 2019 reflects \$1,316,000 in total revenues, a 17.3% increase over 2018, and \$2,216,000 in total expenditures, a 15.3% increase. Significant changes from 2018 are as follows:

- Reduction in legal expenses anticipated following adoption of rules and non-legislative year.
- Construction of new building was delayed in 2018. Board finalized and approved a proposed budget (\$1.5 million down and borrowing the balance based on a 25-year payment plan) and scope of work on the new district facilities, authorizing the General Manager to enter into agreements (contractual or otherwise) on behalf of the District as necessary for commencement and completion of the proposed new facilities.
- Increase in salaries to include the addition of one new employee (receptionist) and the transition overlap of general managers.
- Vehicle purchase.

2019 Water use fee rate remains unchanged at 20 cents per each one thousand gallons (\$0.20/1,000 gallons) for groundwater produced annually.

Projected increases in revenue for 2019 result from adoption of permanent rules by the Board of Directors in December 2018. Effective January 1, 2019, Section 7, Fees and Payment of Fees, of the District rules includes the following additions or amendments:

- Rule 7.10 Historic Use Permit Application Fee - The owner of an existing well who seeks a Historic Use Permit shall submit payment to the District of a \$250.00 non-refundable permitting fee per well along with an application for a Historic Use Permit. **(Addition of \$125,000 from FY2018)**
- Rule 7.11 Operating Permit Application Fee - The owner of an existing or new well who seeks an Operating Permit shall submit payment to the District of a \$1,000.00 non-refundable permitting fee per well along with an application for an Operating Permit. **(addition of \$10,000 from FY2018)**
- Rule 7.12 Well Spacing or Minimum Tract Size Requirements Exception Application Fee - The owner of an existing or new well who seeks an exception to the well spacing and minimum tract size requirements of these rules shall submit payment to the District of a \$250.00 non-refundable fee per well along with an application for an exception to the well spacing and minimum tract size requirements. **(addition of \$12,500 from FY2018)**
- Rule 7.9 New or Replacement Well Registration Fee - The owner of any well or replacement well for which drilling commences on or after April 1, 2011, including a well exempt under Rule 2.1, shall submit payment to the District of a \$500.00 non-refundable well registration fee per well, which is due by the same deadline established under these rules for registration of the well. If an Operating Permit or an amendment to an Operating Permit is also required for the well under Rule 3.9, the well registration fee under this rule shall be reduced to \$250.00. (Increase from FY2019 = \$40,000)

At a public hearing held on December 17, 2018, the District's Board of Directors adopted permanent rules of the District effective January 1, 2019. Prior to its adoption of these permanent rules, the District operated under its Temporary Rules for Water Wells, initially adopted by the District's Board of Directors on November 15, 2010. Notable among the changes present in the Permanent Rules include: requirement that in addition to being registered with the District, all non-exempt wells producing groundwater must be permitted unless an exemption applies; the PGCD Board has extended the Monthly Reporting Incentive (10% discount) through 2019 for registrants entering their meter readings online each month; and the Board adopted implementation of the District's Historic Use program requiring existing (12/31/18) non-exempt groundwater users to submit an Historic Use Permit application no later than September 1, 2019 for board consideration and approval.

Early in 2019 Jim Conkwright, after having served 5 years as General Manager, submitted notice of retirement effective April 27, 2019. March 18, 2019, Kathy Turner Jones, joined the District as the new General Manager following a successful tenure with the Lone Star Groundwater Conservation District in Conroe, Texas, where she served as General Manager for 16.5 years

### **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.

## BASIC FINANCIAL STATEMENTS

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2018

	General Fund	Adjustments (Note 2)	Statement of Net Position
<b>Assets</b>			
Unrestricted Cash	\$ 1,499,731	\$ -	\$ 1,499,731
Investments	834,120	-	834,120
Restricted Cash	12,400	-	12,400
Accounts Receivable	198,965	-	198,965
Prepaid Expenses	12,958	-	12,958
Capital Assets (net of accumulated depreciation)			
Land	-	89,447	89,447
Furniture and Equipment	-	109,621	109,621
Vehicles	-	21,300	21,300
Construction in Progress	-	11,090	11,090
Net Pension Asset	-	20,124	20,124
Total Assets	2,558,174	251,582	2,809,756
<b>Deferred Outflows of Resources</b>	-	43,892	43,892
Total Assets and Deferred Outflows of Resources	\$ 2,558,174	\$ 295,474	\$ 2,853,648
<b>Liabilities</b>			
Accounts Payable	\$ 33,840	\$ -	\$ 33,840
Retirement Plan Payable	3,496	-	3,496
Well Deposits Payable	12,400	-	12,400
Total Liabilities	49,736	-	49,736
<b>Deferred Inflows of Resources</b>	10,203	(8,950)	1,253
<b>Fund Balances / Net Position</b>			
Fund Balance			
Nonspendable for Prepaid Expenses	12,958	(12,958)	-
Unassigned	2,485,277	(2,485,277)	-
Total Fund Balances	2,498,235	(2,498,235)	-
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 2,558,174		
<b>Net Position</b>			
Net Investment in Capital Assets		231,458	231,458
Unrestricted		2,571,201	2,571,201
Total Net Position		\$ 2,802,659	\$ 2,802,659

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, 2018

	General Fund	Adjustments (Note 2)	Statement of Activities
<b>Expenditures / Expenses</b>			
Bank Charges	\$ 9,763	\$ -	\$ 9,763
Conferences & Meetings	16,874	-	16,874
Dues & Subscriptions	5,960	-	5,960
GMA 8	358	-	358
Insurance	4,980	-	4,980
Legal	340,978	-	340,978
Miscellaneous	167	-	167
Office Expenses	9,190	-	9,190
Payroll & Benefits	430,746	(18,029)	412,717
Professional Fees	133,186	-	133,186
Public Relations	11,847	-	11,847
Rent	30,394	-	30,394
Supplies	9,947	-	9,947
Trailer Storage	750	-	750
Utilities	5,186	-	5,186
Vehicle Expenses	7,260	-	7,260
Well Monitoring	6,922	-	6,922
Capital Outlay	33,005	(33,005)	-
Depreciation	-	43,245	43,245
Total Expenditures / Expenses	<u>1,057,513</u>	<u>(7,789)</u>	<u>1,049,724</u>
<b>Revenues</b>			
Water Production Fees	1,178,580	(50,024)	1,128,556
Well Registration Fees	43,050	-	43,050
Interest Income	11,486	-	11,486
Total Revenues	<u>1,233,116</u>	<u>(50,024)</u>	<u>1,183,092</u>
Excess of Revenues over Expenditures	175,603		
Change in Net Position		(42,235)	133,368
<b>Fund Balance / Net Position</b>			
Beginning of the Year	<u>2,322,632</u>	<u>346,659</u>	<u>2,669,291</u>
End of the Year	<u>\$ 2,498,235</u>	<u>\$ 304,424</u>	<u>\$ 2,802,659</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, 2018

**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, 2018.

**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, 2018

**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	\$ 231,458
Net pension asset	\$ 20,124
Deferred outflows of resources - pension	\$ 43,892
Deferred inflows of resources:	
Production fees	\$ (10,203)
Pension	1,253
Deferred inflows adjustment	\$ (8,950)
Activities/changes in fund balance:	
Changes in deferred inflows/outflows - pension	\$ (18,029)
Capital outlay	(33,005)
Depreciation expense	43,245
Expenditures/Expenses adjustment	\$ (7,789)
Adjust production fees revenue to accrual basis:	
Deferred inflows of resources - beginning of year	\$ (60,227)
Deferred inflows of resources - end of year	10,203
Revenues adjustment	\$ (50,024)

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, 2018 are reported as deferred inflows in the governmental fund balance sheet.



PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

**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, 2018

**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, 2018

**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 AND INVESTMENTS**

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, 2018, including two certificates of deposit carried as investments, totaled \$2,393,750, with \$206,128 at Wells Fargo Bank and \$2,187,622 at Grandview Bank. These deposits were adequately covered by federal depository insurance and pledged securities.

In accordance with the **Public Funds Investment Act** (Government Code Chapter 2256) the District has adopted, implemented, and publicized an investment policy. The policy sets criteria for investments to (a) preserve principal; (b) earn interest; (c) address diversification, yield, and maturity; (d) fulfill duties of the District's investment officer; (e) comply with types and maximum allowable maturity of the District's investments; and (f) comply with Texas investment laws for groundwater conservation districts. The District's investments consist of two certificates of deposit. These are reported at cost, which approximates fair value.

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

**NOTE 4: RESTRICTED CASH**

Restricted cash of \$12,400 consists of amounts received for refundable well deposits.

**NOTE 5: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Disposals/ Reclasses	Ending Balance
Non-depreciating:				
Land	\$ 89,447	\$ -	\$ -	\$ 89,447
Construction in Progress	11,090	-	-	11,090
Total non-depreciating	100,537	-	-	100,537
Depreciating:				
Furniture and Equipment	209,467	33,005	-	242,472
Vehicles	88,336	-	-	88,336
Total depreciating	297,803	33,005	-	330,808
Total capital assets	398,340	33,005	-	431,345
Accumulated Depreciation:				
Furniture and Equipment	96,706	36,145	-	132,851
Vehicles	59,936	7,100	-	67,036
Total accumulated depreciation	156,642	43,245	-	199,887
Net Capital Assets	\$ 241,698	\$ (10,240)	\$ -	\$ 231,458

Land and construction in progress are for a new office location. Subsequent to year-end, in May 2019, a contract was signed for the construction of the new office building, at an estimated cost of \$2.3 million.

**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 2018 totaled \$33,621. Future minimum payments are as follows:

2019	\$ 31,166
2020	348
2021	348
2022	174
	<u>\$ 32,036</u>

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

**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, 2017 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	1
Active employees	5
	<u>6</u>

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

**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 9.1% for calendar years 2017 and 2018. For 2017, the District also contributed an additional \$6,050 (2.2%) in order to fully fund the pension liability. The contribution rate payable by the employee members for calendar years 2017 and 2018 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, 2018 were \$28,857. The District made all required contributions.

**Net Pension Liability** – The District's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2018

**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, 2016 and 2017, the basis for determining the contribution rates for calendar years 2017 and 2018. The December 31, 2017 actuarial valuation is the most recent valuation.

The required contribution was determined as part of the December 31, 2017 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2017 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 2.75 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. There was no remaining amortization at December 31, 2017. 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, 2018

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

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected Minus Inflation)
US Equities	11.50%	4.55%
Private Equity	16.00%	7.55%
Global Equities	1.50%	4.85%
International Equities - Developed	11.00%	4.55%
International Equities - Emerging	8.00%	5.55%
Investment-Grade Bonds	3.00%	0.75%
Strategic Credit	8.00%	4.12%
Direct Lending	10.00%	8.06%
Distressed Debt	2.00%	6.30%
REIT Equities	2.00%	4.05%
Master Limited Partnerships (MLPs)	3.00%	6.00%
Private Real Estate Partnerships	6.00%	6.25%
Hedge Funds	18.00%	4.10%
Total	<u>100.00%</u>	



PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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

***Changes in the Net Pension Liability (Asset):***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balances as of December 31, 2017	\$ 61,710	\$ 73,625	\$ (11,915)
Changes for the year:			
Service cost	24,538	-	24,538
Interest on total pension liability	6,986	-	6,986
Effect of economic/demographic gains or losses	15,998	-	15,998
Effect of assumptions changes or inputs	1,582	-	1,582
Administrative expenses	-	(87)	87
Member contributions	-	13,925	(13,925)
Net investment income	-	11,476	(11,476)
Employer contributions	-	31,393	(31,393)
Other	-	606	(606)
Balances as of December 31, 2018	<u>\$ 110,814</u>	<u>\$ 130,938</u>	<u>\$ (20,124)</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, 2018, 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	\$ 125,296	\$ 110,814	\$ 98,872
Fiduciary net position	130,938	130,938	130,938
Net pension liability (asset)	<u>\$ (5,642)</u>	<u>\$ (20,124)</u>	<u>\$ (32,066)</u>

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

**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, 2018, the District recognized pension expense of \$10,828.

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Changes of assumptions	\$ 1,590
Differences between expected and actual experience	13,445
Contributions made subsequent to measurement date	28,857
Total deferred outflows of resources	<u>\$ 43,892</u>
 Net difference between projected and actual earnings	 \$ 1,253
Total deferred inflows of resources	<u>\$ 1,253</u>

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, \$28,857, will be recognized as a reduction of the net pension liability for the year ending December 31, 2019. 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:

2019	\$ 1,531
2020	1,531
2021	1,367
2022	909
2023	1,648
Thereafter	6,796

**NOTE 8: SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 11, 2019, 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, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final	Amount	Positive (Negative)
<b>Revenues</b>				
Water Production Fees	\$ 1,082,200	\$ 1,082,200	\$ 1,178,580	\$ 96,380
Well Registration Fees	35,000	35,000	43,050	8,050
Interest Income	5,000	5,000	11,486	6,486
Total Revenues	1,122,200	1,122,200	1,233,116	110,916
<b>Expenditures</b>				
Bank Charges	8,000	10,000	9,763	237
Conferences & Meetings	25,500	26,500	16,874	9,626
Contract Labor	2,500	2,500	-	2,500
Dues & Subscriptions	6,000	6,500	5,960	540
GMA 8	3,000	3,000	358	2,642
Insurance	6,500	6,500	4,980	1,520
Legal	174,000	378,000	340,978	37,022
Miscellaneous	250	250	167	83
Office Expenses	59,000	11,500	9,190	2,310
Payroll & Benefits	436,000	442,000	430,746	11,254
Professional Fees	121,000	179,500	133,186	46,314
Public Relations	21,000	24,500	11,847	12,653
Rent	31,400	31,400	30,394	1,006
Supplies	19,500	19,500	9,947	9,553
Trailer Storage	900	900	750	150
Utilities	8,000	8,000	5,186	2,814
Vehicle Expenses	11,000	11,000	7,260	3,740
Well Monitoring	30,000	30,000	6,922	23,078
Capital Outlay	886,000	662,500	33,005	629,495
Debt Service Principal	72,650	68,150	-	68,150
Total Expenditures	1,922,200	1,922,200	1,057,513	864,687
Excess (Deficiency) of Revenues over Expenditures	(800,000)	(800,000)	175,603	975,603
Fund Balance, Beginning of the Year	2,322,632	2,322,632	2,322,632	-
Fund Balance, End of the Year	\$ 1,522,632	\$ 1,522,632	\$ 2,498,235	\$ 975,603

PRAIRIELANDS GROUNDWATER CONSERVATION DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	FY2018 Plan Year 2017	FY 2017 Plan Year 2016	FY2016 Plan Year 2015
<b>Total Pension Liability</b>			
Service cost	\$ 24,538	\$ 42,028	\$ 16,835
Interest on total pension liability	6,986	3,088	681
Effect of plan changes	-	-	93
Effect of assumption changes or inputs	1,582	-	221
Effect of economic/demographic (gains) or losses	15,998	(924)	(312)
Net change in total pension liability	49,104	44,192	17,518
Total pension liability, beginning	61,710	17,518	-
Total pension liability, ending (a)	110,814	61,710	17,518
<b>Fiduciary Net Position</b>			
Employer contributions	31,393	40,706	11,210
Member contributions	13,925	13,550	5,708
Investment income net of investment expenses	11,476	1,279	(144)
Administrative expenses	(87)	(14)	(6)
Other	606	1,337	(1)
Net change in fiduciary net position	57,313	56,858	16,767
Fiduciary net position, beginning	73,625	16,767	-
Fiduciary net position, ending (b)	130,938	73,625	16,767
Net pension liability (asset), ending = (a) - (b)	\$ (20,124)	\$ (11,915)	\$ 751
Fiduciary net position as a % of total pension liability	118.16%	119.31%	95.71%
Pensionable covered payroll (annualized for 2015 based on August start date)	\$ 278,498	\$ 270,995	\$ 273,976
Net pension liability (asset) as a % of covered payroll	(7.23%)	(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, 2018

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)	278,498	11.3%
2018	28,857	28,857	-	319,714	9.1%

**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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## 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 activities and the major fund of Prairielands Groundwater Conservation District (District) as of and for the year ended December 31, 2018, 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 11, 2019.

### ***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:



2018-01 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 11, 2019.

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

The District's response to finding 2018-01 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 11, 2019