

**NORTH TEXAS GROUNDWATER
CONSERVATION DISTRICT**

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2014

**NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT
FOR THE YEAR ENDED DECEMBER 31, 2014
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INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors
North Texas Groundwater Conservation District
5100 Airport Drive
Denison, TX 75020

We have audited the accompanying financial statements of the governmental activities and each major fund of North Texas Groundwater Conservation District (the "District"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Standard* 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 Authority'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of North Texas Groundwater Conservation District as of December 31, 2014, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 4 through 8 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 Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2015 on our consideration of North Texas Groundwater Conservation District's internal control over financial reporting and on our test 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 North Texas Groundwater Conservation District's internal control over financial reporting and compliance.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

May 18, 2015

MANAGEMENT'S DISCUSSION & ANALYSIS

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

As management of North Texas Groundwater Conservation District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2014. Please read this narrative in conjunction with the independent auditors' report on page 1, and the District's Basic Financial Statements that begin on page 10.

FINANCIAL HIGHLIGHTS

- The assets of North Texas Groundwater Conservation District exceeded its liabilities at the close of the fiscal year by \$576,168 (Total Net Position). Of this amount, \$560,407 is unrestricted and may be used to meet the District's ongoing obligations and responsibilities to taxpayers and creditors.
- The District's net position increased by \$203,950, from \$372,218 in the prior year to \$576,168 as of December 31, 2014.
- At December 31, 2014, the District had a \$1,095,854 total fund balance in its General Fund, representing a \$120,282 or 9.9% decrease from the \$1,216,136 fund balance in the previous year. \$1,091,752 of the fund balance is unassigned, constituting 125% of the \$874,903 in General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management discussion and analysis is intended to serve as an introduction to North Texas Groundwater Conservation District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The Statement of Net Position presents information on all of North Texas Groundwater Conservation District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Evaluation of the overall economic health of the District would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of District infrastructure in addition to the financial information provided in this report.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenues provided by the District's taxpayers.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

The purpose of the District is to help accomplish the objectives set forth in Article XVI, Section 59 of the Texas Constitution related to the conservation and development of water resources of the State of Texas. With many other governmental entities, the aforementioned government-wide financial statements normally identify and distinguish between either governmental activities supported by general revenues and fees or business-type activities which are typically self-supported by user fees and charges. Both government-wide financial statements consist of one government fund principally supported by groundwater usage fees. The District has no business-type activities.

The governmental-wide financial statements can be found on pages 10 and 11 of this report.

Fund Financial Statements: A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Depending upon their reporting needs and requirements, governmental entities utilize three types of funds, including governmental funds, proprietary funds, and fiduciary funds. The North Texas Groundwater Conservation District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Since the District has no legitimate need or requirement to have either proprietary or fiduciary funds, all of its funds are maintained and reported as governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The District maintains a single governmental fund, its General Fund. The General Fund is used to account for the acquisition and use of the District's spendable financial resources and the related liabilities.

The government fund financial statements can be found on pages 12 and 14 of this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. It can be found in the "Basic Financial Statements" section of this report.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-24 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. Supplementary information follows the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position: As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of December 31, 2014, the North Texas Groundwater Conservation District's assets exceeded liabilities by \$576,168.

At December 31, 2014, \$1,214,707 in total assets were recorded. Of that amount, current and other assets (cash, receivables, and prepaid expenses) represented 98.7% and capital assets (vehicle and equipment) constituted 1.3%.

Total liabilities at year end equaled \$638,539, \$502,530 of which consisted of long-term debt.

Of the \$576,168 in total net position, 3% or \$15,761 is in capital assets. The District uses these capital assets to carry out its responsibilities and to provide information and services to citizens and the taxpayers which support the District. Capital assets are non-liquid and cannot be used to satisfy District obligations. The unrestricted net position total of \$560,407 may be used to meet the District's ongoing obligations and responsibilities.

Net Position

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Assets:		
Current assets	\$1,198,946	\$ 1,256,848
Capital assets (net of depreciation)	<u>15,761</u>	<u>11,082</u>
Total Assets	<u>1,214,707</u>	<u>1,267,930</u>
Liabilities:		
Current liabilities	347,379	393,182
Long-term liabilities	<u>291,160</u>	<u>502,530</u>
Total Liabilities	<u>638,539</u>	<u>895,712</u>
Net Position:		
Net investment in capital assets	15,761	11,082
Unrestricted	<u>560,407</u>	<u>361,136</u>
Total Net Position	<u>\$ 576,168</u>	<u>\$ 372,218</u>

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

Governmental Activities: The following table provides a summary of the District's operations for the years ended December 31, 2014 and 2013.

Changes in Net Position		
	<u>2014</u>	<u>2013</u>
Program Revenues:		
Charges for Services	\$ 752,662	\$ 828,283
General Revenues:		
Interest Income	<u>1,959</u>	<u>1,367</u>
Total Revenues	<u>754,621</u>	<u>829,650</u>
Expenditures By Governmental Activity:		
Administration	518,896	453,684
Debt Service - interest	<u>31,775</u>	<u>24,896</u>
Total Expenditures	<u>550,671</u>	<u>474,580</u>
Change In Net Position	203,950	351,070
Net Position – Beginning	372,218	(18,063)
Prior Period Adjustment	-	<u>39,211</u>
Net Position – Ending	<u>\$ 576,168</u>	<u>\$ 372,218</u>

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

At December 31, 2014, the District has a \$1,095,854 total fund balance. This is 10% lower than the \$1,216,136 prior-year fund balance – primarily due to significant debt service loan repayments in 2014. \$1,091,752 of the fund balance is unassigned.

General Fund Budgetary Highlights: There were two amendments to the originally adopted budget during the year. Actual expenditures for the year ended December 31, 2014 were \$874,903, that being \$7,058 or 0.8% less than the \$881,961 budgeted for the year.

Actual revenues for the year were \$754,621 or 106.9% of the budgeted revenues for the year.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The District's investment in capital assets for its governmental activities as of December 31, 2014 amounted to \$15,761 (net of accumulated depreciation). This represents a \$4,679 increase over the previous fiscal year. Capital asset additions during the year consisted of some well monitoring equipment. The following table portrays the District's mix of capital assets at December 31, 2014:

Vehicles	\$8,707
Equipment	<u>7,054</u>
	<u>\$15,761</u>

Debt Administration: At the end of the year, the District had \$502,530 in long-term debt, consisting of loans payable to the three counties in which the District operates.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For fiscal year 2015 the District's latest adopted budget shows total anticipated expenditures of \$654,400, a \$220,503 decrease from total actual expenditures of \$874,903 in fiscal year 2014. The majority of the decrease is attributable to an expected decrease in consultant costs, as well as a decrease in debt service payments on the District's outstanding loans. Rates assessed groundwater users are not expected to increase for fiscal year 2015.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations, and demonstrate the District's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact Drew Satterwhite, General Manager of the District, at 5100 Airport Drive, Denison, TX 75020, (855) 426-4433.

BASIC FINANCIAL STATEMENTS

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 979,195
Accounts Receivable	190,642
Other Receivables	25,007
Prepaid Expenses	4,102
Total Current Assets	<u>1,198,946</u>
Capital Assets:	
Vehicle and Equipment, net	<u>15,761</u>
Total Capital Assets	<u>15,761</u>
Total Assets	<u>1,214,707</u>
<u>Liabilities</u>	
Current Liabilities:	
Accounts Payable	76,461
Well Driller Deposits	26,631
Interest Payable	10,447
Unearned Revenue	22,470
Current Portion of Long-Term Debt	<u>211,370</u>
Total Current Laibilities	<u>347,379</u>
Non-Current Liabilities:	
Long-term Debt, less current portion	<u>291,160</u>
Total Non-Current Liabilities	<u>291,160</u>
Total Liabilities	<u>638,539</u>
<u>Net Position</u>	
Net Investment in Capital Assets	15,761
Unrestricted	
Unreserved	<u>560,407</u>
Total Net Position	<u>\$ 576,168</u>

The accompanying notes are an integral part of this statement.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges</u> <u>for Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental activities				
Administration	\$ 518,896	\$ 752,662	\$ -	\$ 233,766
Debt Service - interest	<u>31,775</u>	<u>-</u>	<u>-</u>	<u>(31,775)</u>
				-
Total Government Activities	<u>550,671</u>	<u>752,662</u>	<u>-</u>	<u>201,991</u>
Total Primary Government	<u>\$ 550,671</u>	<u>\$ 752,662</u>	<u>\$ -</u>	<u>201,991</u>
General Revenues:				
Interest income				<u>1,959</u>
Total General Revenues				<u>1,959</u>
Change in Net Position				203,950
Net Position – beginning of year				<u>372,218</u>
Net Position – end of year				<u>\$ 576,168</u>

The accompanying notes are an integral part of this statement.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

BALANCE SHEET
DECEMBER 31, 2014

	General Fund
<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 979,195
Accounts Receivables	190,642
Other Receivables	25,007
Prepaid Costs	<u>4,102</u>
Total Current Assets	<u>1,198,946</u>
 Total Assets	 <u>\$ 1,198,946</u>
<u>Liabilities</u>	
Current Liabilities:	
Accounts Payable	\$ 76,461
Well Driller Deposits	<u>26,631</u>
Total Current Liabilities	<u>103,092</u>
 Total Liabilities	 <u>103,092</u>
 Fund Balance:	
Nonspendable Fund Balance:	
Prepaid Costs	4,102
Unassigned Fund Balance	<u>1,091,752</u>
Total Fund Balances	<u>1,095,854</u>
 Total Liabilities and Fund Balance	 <u>\$ 1,198,946</u>

The accompanying notes are an integral part of this statement.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Total fund balance – governmental fund	\$ 1,095,854
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported in the governmental fund balance sheet.	15,761
Long-term debt, including loans payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.	(502,530)
Interest payable on long-term debt is not reported in the fund financial statements	<u>(32,917)</u>
Total net position - governmental activities	<u>\$ 576,168</u>

The accompanying notes are an integral part of this statement.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General Fund</u>
Revenues:	
Groundwater Usage Fees	\$ 692,003
Well Registration Fees	15,500
Well Driller Deposit Forfeitures	2,400
GMA8 Fees	35,407
Interest Earned	1,959
Penalties and Late Charges	<u>7,352</u>
Total Revenues	<u>754,621</u>
Expenditures:	
Administrative - General Manager	43,900
Administrative - Secretarial & Clerical	52,882
Administrative - Project Coordinator	8,325
Administrative - Operations	6,448
Field Technicians	57,285
Consultants	167,423
Water Quality Analysis	32,058
Accounting and Auditing	28,892
Legal	63,813
Software Maintenance	8,087
Direct Costs Reimbursed	3,577
Insurance	3,821
Vehicle Costs	5,246
Office Rent	2,400
Telephone	1,766
GMA8 Costs	44,900
Legal Notices	468
Dues and Subscriptions	1,895
Meetings and Conferences	2,329
Small Equipment	1,631
Capital Outlay	7,757
Debt Service	<u>330,000</u>
Total Expenditures	<u>874,903</u>
Excess (deficit) of revenues over expenditures and net change in fund balance	(120,282)
Fund balance at beginning of year	<u>1,216,136</u>
Fund balance at end of year	<u>\$ 1,095,854</u>

The accompanying notes are an integral part of this statement.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

Net change in fund balance – total governmental fund	\$ (120,282)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay purchases are reported as expenditures in the statement of activities, but are recorded as capital assets in the government-wide statements.	7,757
Depreciation expense on capital assets is reported in the statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(3,078)
Principal payments on long-term debt are expenditures in the governmental funds but are considered a reduction of long-term debt balances in the government-wide statements.	263,502
Current year change in interest payable does not require the use of current financial resources; therefore, is not reported as an expenditure in governmental funds.	<u>56,051</u>
Change in net position of governmental activities	<u>\$ 203,950</u>

The accompanying notes are an integral part of this statement.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 2014

	Budget			Variance
	Original	Final	Actual	Positive/ (Negative)
Revenues:				
Groundwater Usage Fees	\$ 600,000	\$ 650,000	\$ 692,003	\$ 42,003
Well Registration Fees	2,500	14,000	15,500	1,500
Well Driller Deposit Forfeitures	-	-	2,400	2,400
GMA8 Fees	20,000	42,000	35,407	(6,593)
Interest Earned	-	-	1,959	1,959
Penalties and Late Charges	-	-	7,352	7,352
Total Revenues	<u>622,500</u>	<u>706,000</u>	<u>754,621</u>	<u>48,621</u>
Expenditures:				
Administrative - General Manager	44,000	44,000	43,900	100
Administrative - Secretarial & Clerical	52,000	52,000	52,882	(882)
Administrative - Project Coordinator	8,000	8,000	8,325	(325)
Administrative - Operations	6,000	6,000	6,448	(448)
Field Technicians	55,000	55,000	57,285	(2,285)
Consultants	140,000	171,210	167,423	3,787
Water Quality Analysis	-	32,058	32,058	-
Accounting and Auditing	25,000	29,975	28,892	1,083
Legal	15,000	60,000	63,813	(3,813)
Software Maintenance	7,800	7,800	8,087	(287)
Direct Costs Reimbursed	4,500	4,000	3,577	423
Insurance	5,000	5,000	3,821	1,179
Vehicle Costs	4,000	3,000	5,246	(2,246)
Office Rent	2,400	2,400	2,400	-
Telephone	2,000	2,000	1,766	234
GMA8 Costs	1,818	53,718	44,900	8,818
Legal Notices	1,000	500	468	32
Dues and Subscriptions	1,000	1,600	1,895	(295)
Meetings and Conferences	1,500	2,200	2,329	(129)
Small Equipment	-	2,000	1,631	369
Capital Outlay	-	9,500	7,757	1,743
Debt Service	150,000	330,000	330,000	-
Total Expenditures	<u>526,018</u>	<u>881,961</u>	<u>874,903</u>	<u>7,058</u>
Excess (deficit) of revenues over expenditures and net change in fund balance	96,482	(175,961)	(120,282)	55,679
Fund balance at beginning of year	<u>1,216,136</u>	<u>1,216,136</u>	<u>1,216,136</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,312,618</u>	<u>\$ 1,040,175</u>	<u>\$ 1,095,854</u>	<u>\$ 55,679</u>

The accompanying notes are an integral part of this statement.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The basic financial statements of the North Texas Groundwater Conservation District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The North Texas Groundwater Conservation District (District), is a political subdivision of the State of Texas, created under the authority of Article XVI, Section 59, Texas Constitution, and operating pursuant to the provisions of the Texas Water Code, Chapter 36, and Senate Bill 2497, Acts of the 81st Texas Legislature, Regular Session, 2010. The District encompasses the North Texas counties of Collin, Cooke, and Denton. The Board of Directors (Board), a nine member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities within the jurisdiction of the District. The Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Reporting Standards, since Board members are appointed, have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The purpose of the District is to help accomplish the objectives set for in Article XVI, Section 59 of the Texas Constitution related to the conservation and development of water resources of the State of Texas.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision not to include a potential component unit in the reporting entity was made by applying the criterion set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, no potential component units have been included in this report. The District has no ability to exercise influence or control any other government unit's operations, budgets, or funding.

Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the District. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation – continued

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. The District has no proprietary activities, or non-major funds.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental fund:

General Fund

The General Fund is the main operating fund of the District. This is a budgeted fund and is used to account for the acquisition and use of the District's expendable financial resources and the related liabilities. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting – continued

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 90 days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Assessments are recognized under the susceptible to accrual concept. Interest income is recorded as earned, since it is measurable and available.

Budgetary Data

The District uses the following procedures in establishing the budget reflected in the general purpose financial statements:

1. Prior to the beginning of each fiscal year, the Board of Directors is presented with a proposed budget for the year beginning on the following January 1. The budget includes proposed expenditures and the means of financing them. The budget is legally enacted through passage of a resolution.
2. Public hearings are conducted to obtain citizen's comments.
3. An annual budget is legally adopted for the General Fund. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
4. Revisions to the budget that alter General Fund expenditures must be approved by the Board of Directors. The fund level is the legal level of budgetary control. Appropriations lapse at year-end.
5. Original budgeted amounts presented in the budgetary comparison schedule are as originally adopted by the Board of Directors. The final amended budget is as amended by the Board during the year.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which can include land, buildings, vehicles, furniture and equipment, are reported in government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$500 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. The District's capital assets at December 31, 2014 consists solely of a vehicle and field equipment that are being depreciated over a 7 year estimated useful life.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are carried at fair value or cost, if maturities are one year or less. Fair value is determined as the price at which two willing parties would complete an exchange.

Fund Balance

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items as being nonspendable as these items are not expected to be converted to cash.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District had no restricted fund balances at December 31, 2014.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Directors. The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District had no committed fund balances at December 31, 2014.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board delegating this responsibility to other individuals in the District. The District had no assigned fund balances at December 31, 2014.
- Unassigned: This classification includes all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 2 – DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

The District's funds are deposited and invested in Independent Bank, McKinney, TX. The bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis. The pledge of approved securities is waived only to the extent of the bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At December 31, 2014, the carrying amount of the District's deposits in checking accounts and interest-bearing accounts was \$979,195 and the bank balance was \$987,551. The District's cash deposits at December 31, 2014 were entirely covered by FDIC insurance or pledged collateral.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2014

2. Investments:

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

The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2014, the District's cash balances totaled \$987,551. The District's deposits were not exposed to custodial credit risk at December 31, 2014.
- b. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2014, the District was not exposed to custodial credit risk.
- c. **Credit Risk:** This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The District was not exposed to credit risk at December 31, 2014.
- d. **Interest Rate Risk:** This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District was not exposed to interest rate risk at December 31, 2014.
- e. **Foreign Currency Risk:** This is the risk that exchange rates will adversely affect the fair value of an investment. At December 31, 2014, the District was not exposed to foreign currency risk.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS (continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. At December 31, 2014, the District was not exposed to concentration of credit risk.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance January 1, 2014	Additions	Retirements	Balance December 31, 2014
Governmental activities:				
Vehicle	\$ 16,624	\$ -	\$ -	\$ 16,624
Equipment	-	7,757	-	7,757
Totals at Historical Cost	<u>16,624</u>	<u>7,757</u>	<u>-</u>	<u>24,381</u>
Less accumulated depreciation:				
Vehicle	(5,542)	(2,375)	-	(7,917)
Equipment	-	(703)	-	(703)
Total accumulated depreciation	<u>(5,542)</u>	<u>(3,078)</u>	<u>-</u>	<u>(8,620)</u>
Governmental activities capital assets, net	<u>\$ 11,082</u>	<u>\$ 4,679</u>	<u>\$ -</u>	<u>\$ 15,761</u>

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three years.

NOTE 5 – 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.

NOTE 6 – SUBSEQUENT EVENTS

Management has reviewed events subsequent to December 31, 2014 through May 18, 2015, which is the date the financial statements were available to be issued. No subsequent events were identified that were required to be recorded or disclosed in the financial statements.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2014

NOTE 7 – LONG-TERM DEBT

The following is a summary of long-term activity of the District for the year ended December 31, 2014:

	Beginning Balance <u>1/01/14</u>	<u>Additions</u>	<u>Retirements</u>	Ending Balance <u>12/31/14</u>	Current Portion of Debt
Loans Payable	<u>\$ 766,032</u>	<u>\$ -</u>	<u>\$ 263,502</u>	<u>\$ 502,530</u>	<u>\$ 211,370</u>
Total	<u>\$ 766,032</u>	<u>\$ -</u>	<u>\$ 263,502</u>	<u>\$ 502,530</u>	<u>\$ 211,370</u>

Loans

The District is obligated under a contract executed by the Board for the organizational and operational costs of the District prior to the receipt of revenues necessary for operations. This contract is with the participating counties of Collin, Cooke, and Denton. This loan, in the contract-stated amount of \$900,000, incurs no interest and has a payback schedule that calls for repayment of the loan, in equal payments to each county, beginning in 2013 and maturing fully in 2017. Though the contract terms of the agreement state that the loan carries no interest, GAAP requires that interest be imputed on long-term loans, thus converting \$133,968 of the loan repayment to interest, and causing the remaining \$766,032 to be reflected as principal payable on the Statement of Net Position. Interest expense, as imputed, accrues each year and is reflected as interest expense. Amounts representing the accrued but unpaid portion of interest expense, calculated at 3.25% based on market rates for loans of similar amounts and terms, appear on the Statement of Net Position as "Interest Payable". Amounts representing subsequent years' portions of interest expense, having been received but not recognized, appear on the Statement of Net Position as "Unearned Revenue".

The loan contract does not specify the amount required to be paid each year on the loan. The following schedule of debt service requirements to maturity is based on the District's estimate of expected future payments on the loan:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	\$ 211,370	\$ 13,630	\$ 225,000
2016	144,107	5,893	150,000
2017	<u>147,053</u>	<u>2,947</u>	<u>150,000</u>
Total	<u>\$ 502,530</u>	<u>\$ 22,470</u>	<u>\$ 525,000</u>

OTHER SUPPLEMENTARY INFORMATION

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

COMPARATIVE BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and Cash Equivalents	\$ 979,195	\$ 1,032,456
Accounts Receivable	190,642	220,818
Other Receivables	25,007	-
Prepaid Costs	<u>4,102</u>	<u>3,574</u>
Total Assets	<u>\$ 1,198,946</u>	<u>\$ 1,256,848</u>
 Liabilities and Fund Balance:		
Liabilities:		
Accounts Payable	\$ 76,461	\$ 22,681
Well Driller Deposits	<u>26,631</u>	<u>18,031</u>
Total Liabilities	<u>103,092</u>	<u>40,712</u>
 Fund Balance:		
Nonspendable Fund Balance:		
Prepaid Costs	4,102	3,574
Unassigned Fund Balance	<u>1,091,752</u>	<u>1,212,562</u>
Total Fund Balance	<u>1,095,854</u>	<u>1,216,136</u>
 Total Liabilities and Fund Balance	<u>\$ 1,198,946</u>	<u>\$ 1,256,848</u>

See accompanying auditors' report.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT

COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GENERAL FUND
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Groundwater Usage Fees	\$ 692,003	\$ 809,718
Well Registration Fees	15,500	17,400
Well Driller Deposit Forfeitures	2,400	-
GMA8 Fees	35,407	625
Interest Earned	1,959	1,367
Penalties and Late Charges	<u>7,352</u>	<u>540</u>
Total Revenues	<u>754,621</u>	<u>829,650</u>
Expenditures:		
Administrative - General Manager	43,900	36,560
Administrative - Secretarial & Clerical	52,882	52,036
Administrative - Project Coordinator	8,325	19,924
Administrative - Operations	6,448	2,756
Field Technicians	57,285	43,262
Consultants	167,423	214,085
Water Quality Analysis	32,058	-
Accounting and Auditing	28,892	21,720
Legal	63,813	30,555
Software Maintenance	8,087	9,373
Direct Costs Reimbursed	3,577	3,910
Insurance	3,821	3,582
Vehicle Costs	5,246	4,058
Office Rent	2,400	2,400
Telephone	1,766	2,172
GMA8 Costs	44,900	2,429
Legal Notices	468	420
Dues and Subscriptions	1,895	-
Meetings and Conferences	2,329	985
Small Equipment	1,631	1,082
Capital Outlay	7,757	-
Debt Service	<u>330,000</u>	<u>45,000</u>
Total Expenditures	<u>874,903</u>	<u>496,309</u>
Excess (deficit) of revenues over expenditures and net change in fund balance	(120,282)	333,341
Fund balance at beginning of year	<u>1,216,136</u>	<u>882,795</u>
Fund balance at end of year	<u>\$ 1,095,854</u>	<u>\$ 1,216,136</u>

See accompanying auditors' report.

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

Board of Directors
North Texas Groundwater Conservation District
Denison, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of North Texas Groundwater Conservation District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise North Texas Groundwater Conservation District's basic financial statements, and have issued our report dated May 18, 2015.

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 District'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

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 District's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

May 18, 2015