

Red River Groundwater
Conservation District

Financial Statements With
Independent Auditors' Report Thereon

Fiscal Year Ended December 31, 2013

RED RIVER GROUNDWATER CONSERVATION DISTRICT

Annual Financial Report

Year Ended December 31, 2013

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Report on Basic Financial Statements
Accompanied by Required Supplementary Information

INDEPENDENT AUDITORS' REPORT

Members of the Board
Red River Groundwater Conservation District
Denison, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Red River Groundwater Conservation District (District), as of and for the year ended December 31, 2013, 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 an opinion 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 of 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 auditors' 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 account 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Red River Groundwater Conservation District as of December 31, 2013, 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 Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 May 15, 2014, on our consideration of the 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 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 the District's internal control over financial reporting and compliance.


Certified Public Accountants

Bonham, Texas
May 15, 2014

McClanahan and Holmes, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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

Members of the Board
Red River 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 the Red River Groundwater Conservation District (District), as of and for the year ended December 31, 2013, and the related notes to the Financial Statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 15, 2014.

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 opinion 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. We consider the following deficiencies to be material weaknesses in internal control over financial reporting.

Financial Accounting and Reporting:

The District does not prepare the financial statements nor control the period-end financial reporting process, including controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles; controls over procedures used to analyze transactions comprising general ledger activity; controls over initiating, authorizing, recording and processing journal entries into the general ledger; and controls over recording recurring and nonrecurring adjustments to the financial statements.

Members of the Board
Red River Groundwater Conservation District

Segregation of Duties:

A critical element in any internal control structure is the characteristic known as segregation of duties. Assigning different personnel the responsibility of authorizing transactions, recording transactions, and maintaining custody of assets achieve this internal control structure attribute. Due to the District's small number of personnel, there is limited segregation of duties in substantially all areas of the accounting system. To the extent possible, every effort should be made to utilize a "best practices" approach when considering controls over cash transactions and preparation of accounting records. We encourage the board to closely monitor its financial activities which may help offset the weaknesses associated with limited segregation of duties.

Accounts Receivable and Billing:

We noted during the audit that there were significant manual adjustments to accounts receivable and revenue related to incorrect billings with the City of Sherman. It is our understanding that the City of Sherman does not provide meter readings in the same manner as the other customers. The City uses a large spreadsheet that does not appear to be easily interpreted. We recommend that the processes related to readings submitted and billings with the City of Sherman be modified. We also recommend the Field Technician vouch the meter readings each quarter, as this is the largest customer.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

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 an 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.


Certified Public Accountants

Bonham, Texas
May 15, 2014

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis
Year Ended December 31, 2013

The Red River Groundwater Conservation District (District) is pleased to present its financial statements. This required supplementary information presents our discussion and analysis of the District's financial performance during the year ended December 31, 2013. Please read this section in conjunction with the basic financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$215,623 at December 31, 2013.
- During the year, the District's expenses were \$72,208 less than the \$273,137 generated from groundwater production fees and other revenues.
- The General Fund presents a year end fund balance of \$215,623 at December 31, 2013.

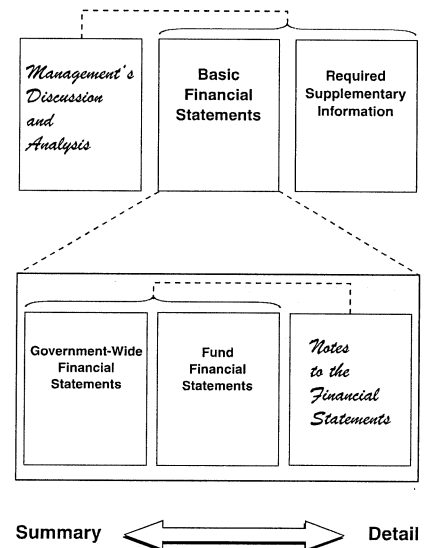
OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this Management's Discussion and Analysis, this report consists of government-wide financial statements, fund financial statements, and the notes to the financial statements. The first two statements are condensed and present a government-wide view of the District's finances. The government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the District.

Basic Financial Statements

- The Statements of Net Position focuses on resources available for future operations. In simple terms, the statement presents a snapshot of the assets of the District, the liabilities it owes, and the net difference. The net difference is further separated into amounts restricted for specific purposes, if any, and unrestricted amounts. The information presented in this statement is reported on the accrual basis of accounting.
- The Statement of Activities focuses on gross and net costs of the District's programs and the extent to which such programs rely on general revenues. The statement summarizes and simplifies the users analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on individual funds, including assets liabilities and fuel equity. Separate revenues and expenditures analysis are presented to each major fund.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

Figure A-1, Required Components of the District's Annual Financial Report



RED RIVER GROUNDWATER CONSERVATION DISTRICT

Management's Discussion and Analysis

Year Ended December 31, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. For the District, the total combined net position was \$215,623 at year end. A comparative condensed summary of the District's statements of net position is presented here.

Red River Groundwater Conservation District's Net Position			Table A-1
	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change 2012-2013</u>
Assets:			
Cash and Cash Equivalents	\$ 139,580	\$ 112,749	23.80%
Receivables and Other Assets	<u>89,237</u>	<u>50,538</u>	76.57%
Total Assets	<u>\$ 228,817</u>	<u>\$ 163,287</u>	40.13%
Liabilities:			
Current Liabilities	\$ 13,194	\$ 19,872	-33.30%
Total Current Liabilities	<u>\$ 13,194</u>	<u>\$ 19,872</u>	-33.30%
Net Position:			
Unrestricted	<u>\$ 215,623</u>	<u>\$ 143,415</u>	50.35%
Total Net Position	<u>\$ 215,623</u>	<u>\$ 143,415</u>	50.35%

At year end, 61.0% of the District's total assets were held in cash and cash equivalents, with fees receivable and prepaid expenses representing 39.0%.

The District's liabilities consist of accounts payable for items or services received during the year, but not paid out in cash until after year end.

Unrestricted net position represents amounts available for future spending.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis
Year Ended December 31, 2013

CHANGES IN NET POSITION

The District's total revenues were \$273,137 generated from Groundwater Production Fees assessed upon residents of the District.

The total cost of all services was \$200,929, for third party administration of the program.

A condensed summary of the District's statements of activities and changes in net position for the years ended December 31, 2013 and 2012 is presented here:

Changes in Red River Groundwater Conservation District's Net Position			Table A-2
	<u>2013</u>	<u>2012</u>	Total Percentage Change <u>2012-2013</u>
Operating Revenues:			
Groundwater Production Fees	<u>\$ 273,137</u>	<u>\$ 298,045</u>	-8.36%
Total Revenues	<u>273,137</u>	<u>298,045</u>	-8.36%
Operating Expenses:			
Administrative Services	<u>200,929</u>	<u>199,794</u>	0.57%
Total Expenses	<u>200,929</u>	<u>199,794</u>	0.57%
Increase (Decrease) in Net Position	<u>\$ 72,208</u>	<u>\$ 98,251</u>	-26.51%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The governmental funds of the District reported revenues of \$273,137 during the year, with total expenditures of \$200,929.

BUDGETARY HIGHLIGHTS

The District's Board of Directors adopted a final operating budget for the 2013 fiscal year, based on anticipated receipts and expenditures (unaudited), prior to year end. The budget encompasses all the activities of the District, with would normally include both revenues and expenditures.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis
Year Ended December 31, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2013, the District has not invested in any capital assets.

Debt

As of December 31, 2013, the District has not entered into any debt agreements. The District has no outstanding long-term debt at year end.

ECONOMIC FACTORS AND NET YEAR'S BUDGET AND RATES

The District adopted the next year's budget to provide for the developing nature of the services provided by the District, which will increase over the current year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Drew Satterwhite, General Manager for the District.

RED RIVER GROUNDWATER CONSERVATION DISTRICT

Statement of Net Position

December 31, 2013

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets	
Cash and Cash Equivalents	\$ 139,580
Accounts Receivable, Net of Allowance for Uncollectibles of \$1,530	88,068
Prepaid Expenses	<u>1,169</u>
Total Current Assets	<u>228,817</u>
 Total Assets	 <u><u>\$ 228,817</u></u>
 <u>LIABILITIES AND NET POSITION</u>	
Current Liabilities	
Accounts Payable	<u>\$ 13,194</u>
Total Current Liabilities	<u>13,194</u>
Total Liabilities	<u>13,194</u>
Net Position	
Unrestricted	<u>215,623</u>
Total Net Position	<u>215,623</u>
 Total Liabilities and Net Position	 <u><u>\$ 228,817</u></u>

The notes to financial statements are an integral part of this statement.

RED RIVER GROUNDWATER CONSERVATION DISTRICT

Statement of Activities

For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Administration	\$ 200,929	\$ -	\$ -	\$ (200,929)
Total Governmental Activities	200,929	-	-	(200,929)
Total Primary Government	<u>\$ 200,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(200,929)</u>
General Revenues:				
Groundwater Production Fees				<u>273,137</u>
Total General Revenues				<u>273,137</u>
Change in Net Position				<u>72,208</u>
Net Position - Beginning (January 1), As Previously Reported				118,930
Prior Period Adjustments				<u>24,485</u>
Net Position - Beginning (January 1), As Restated				<u>143,415</u>
Net Position - Ending (December 31)				<u>\$ 215,623</u>

The notes to financial statements are an integral part of this statement.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Balance Sheet - Governmental Funds
December 31, 2013

	<u>General Fund</u>
<u>ASSETS</u>	
Current Assets	
Cash and Cash Equivalents	\$ 139,580
Accounts Receivable	89,598
Allowance for Uncollectible Accounts	(1,530)
Prepaid Expenses	<u>1,169</u>
Total Current Assets	<u>228,817</u>
 Total Assets	 <u><u>\$ 228,817</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Current Liabilities	
Accounts Payable	<u>\$ 13,194</u>
Total Current Liabilities	<u>13,194</u>
 Total Liabilities	 <u>13,194</u>
Fund Balance	
Unassigned	<u>215,623</u>
Total Fund Balance	<u>215,623</u>
Total Liabilities and Fund Balance	<u><u>\$ 228,817</u></u>

The notes to financial statements are an integral part of this statement.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Statement of Revenues, Expenses and Changes
In Fund Balance - Governmental Funds
For the Year Ended December 31, 2013

	General Fund
Operating Revenues	
Groundwater Usage Fees	\$ 273,137
Total Operating Revenues	<u>273,137</u>
Operating Expenses	
Administration	187,486
Legal Fees	<u>13,443</u>
Total Operating Expenses	<u>200,929</u>
Operating Revenues (Expenses)	<u>72,208</u>
Net Change in Fund Balance	<u>72,208</u>
Fund Balance - Beginning (January 1), As Previously Reported	118,930
Prior Period Adjustments	<u>24,485</u>
Fund Balance - Beginning (January 1), As Restated	<u>143,415</u>
Fund Balance - Ending (December 31)	<u><u>\$ 215,623</u></u>

The notes to financial statements are an integral part of this statement.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements
December 31, 2013

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Red River 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 Red River counties of Grayson and Fannin. The Board of Directors (Board), a six 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.

As required by accounting principles generally accepted in the United States of America, the basic financial statements of the reporting entity include those of the District (primary government) and its component units. There are no component units included in these basic financial statements.

B. Basis of Presentation – Basis of Accounting

Government-wide Statements - The statement of net position (SNA) and the statement of activities (SOA) include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities (SOA) presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (1) fees, and other charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxing entities allocations and investments, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Any remaining governmental funds are aggregated and reported as non-major funds.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2013

I. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Basis of Accounting (continued)

District accounts are organized on the basis of funds, each of which is considered a separate accounting entity. Governmental resources allocated to individual funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations or other appropriate requirements. The fund types and funds utilized by the District are described below:

Government fund types include the following:

The *General Fund* is used to account for financial resources used for general operating. This is a budgeted fund and any fund balances are considered resources available for current operations. All revenues and expenditures not required to be accounted for in other funds are accounted for in this fund.

C. Measurement Focus – Basis of Accounting

Government-wide Statements – These financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives), value without directly receiving (or giving) equal value in exchange, including taxing entity allocations. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Fund Financial Statements – The modified accrual basis of accounting is used for the governmental fund types. This basis of accounting recognizes revenue in the accounting period in which they become both, measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest on general long-term debt, which is recognized when due. Expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

D. Receivable and Payable Balances

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

E. Financial Statement Amounts

Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of deposits in financial institutions, including time deposits. A cash equivalent is considered any highly liquid investment with a maturity of three months or less. Restricted assets and temporary investments are not included.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2013

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Fund Balance

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal or a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the Board. Committed resources cannot be used for any other purpose unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated the authority. The Board has delegated the authority to assign fund balances to the Superintendent.

Unassigned fund balances – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for the purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The following schedule provides information about the specific fund balance classification by fund:

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Unassigned	\$ 215,623	\$ -	\$ 215,623
Totals	<u>\$ 215,623</u>	<u>\$ -</u>	<u>\$ 215,623</u>

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2013

II. Deposits, Securities and Investments

The District's funds are deposited and invested in the American Bank of Texas, Sherman, Texas. At December 31, 2013, all District cash deposits appeared to have been covered by FDIC insurance or by pledged securities held by other banks in the name of the depository bank.

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District does not appear to be exposed to custodial credit risk.

III. Prior Period Adjustments

During 2013, errors were discovered that caused an understatement of December 31, 2012 previously reported retained earnings of \$24,485. Of this amount \$16,007 related to 2010 expenses, and \$8,478 related to expenses payable in 2011 that were paid in 2012, but not reversed from accounts payable at December 31, 2012.

The following summarizes the prior period adjustment referred to above:

Fund Balance, December 31, 2012, As Previously Reported	\$ 118,930
Prior Period Adjustments For:	
Accounts Payable	24,485
Prior Period Adjustments December 31, 2012	<u>24,485</u>
Fund Balance at December 31, 2012, As Restated	<u><u>\$ 143,415</u></u>
Change in Fund Balance, As Previously Reported	\$ 89,773
Prior Period Adjustment, December 31, 2012	<u>8,478</u>
Change in Fund Balance for 2012, As Restated	<u><u>\$ 98,251</u></u>

IV. 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 the year ended December 31, 2013, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the last year, and there were no settlements exceeding insurance coverage in the past year.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2013

V. Litigation

The District does not appear to be involved in any pending litigation as of December 31, 2013.

VI. Concentrations

One customer individually comprised approximately 57% of gross accounts receivable at December 31, 2013. The same customer individually comprised approximately 32% of revenue for the year ended December 31, 2013. One vendor comprised approximately 83% of expenses for the year ended December 31, 2013.

VII. Subsequent Events

Subsequent events have been evaluated through May 15, 2014, which is the date the financial statements were available to be issued. There do not appear to be any events occurring after year end that would or could have been an impact on the financial statements at December 31, 2013 as presented.

RED RIVER GROUNDWATER CONSERVATION DISTRICT

General Fund

Budgetary Comparison Schedule

For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Operating Revenues				
Groundwater Usage Fees	\$ 250,000	\$ 260,000	\$ 273,137	\$ 13,137
Total Operating Revenues	250,000	260,000	273,137	13,137
Operating Expenses				
Administration	244,670	239,238	187,486	51,752
Legal Fees	5,000	20,000	13,443	6,557
Total Operating Expenses	249,670	259,238	200,929	58,309
Net Change in Fund Balance	330	762	72,208	71,446
Fund Balance - Beginning (January 1), As Restated	143,415	143,415	143,415	-
Fund Balance - Ending (December 31)	\$ 143,745	\$ 144,177	\$ 215,623	\$ 71,446

McClanahan and Holmes, LLP

CERTIFIED PUBLIC ACCOUNTANTS

R. E. BOSTWICK, CPA
STEVEN W. MOHUNDRO, CPA
GEORGE H. STRUVE, CPA
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Communication with Those Charged With Governance

Members of the Board
Red River Groundwater Conservation District
Denison, Texas

We have audited the financial statements of the Red River Groundwater Conservation District ("District") for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 4, 2014. Professional Standards also require that we communicate to you the following information related to our audit:

Auditors' Responsibilities Under U.S. General Accepted Auditing Standards

As stated in our engagement letter and as described by professional standards, our responsibility is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you and management of your responsibilities.

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to management via discussions in February 2014.

Significant Auditing Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The District's significant accounting policies are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There were prior period adjustments entered during the current year.

Accounting estimates are an integral part of the financial statements prepared by management that required management's judgments based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events affecting them may differ significantly from management's expectations. There were no significant or sensitive accounting estimates by management included in the financial statements.

The disclosures in the financial statement are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users.

Members of the Board
Red River Groundwater Conservation District
Denison, Texas

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Appendix A summarizes misstatements detected as a result of audit procedures that were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 15, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters similar to obtaining a "second opinion" or certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This communication is intended solely for the information and use of management, the Board members, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

McClanahan and Holmes, LLP

Certified Public Accountants

Bonham, Texas
May 15, 2014

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Misstatements Corrected by Management
December 31, 2013

Appendix A

Description	Debit	Credit
Accounts Receivable	\$ 17,927	\$ -
Deposits to be Refunded (Liability)	1,500	-
Fund Balance	-	52,428
Groundwater Production Cost	34,501	-
Well Drillers' Deposit (Income)	-	1,500
	<u>\$ 53,928</u>	<u>\$ 53,928</u>