

**RED RIVER
GROUNDWATER
CONSERVATION
DISTRICT**

**SHOW CAUSE HEARING AND
BOARD MEETING**

**BOARD ROOM
GREATER TEXOMA UTILITY AUTHORITY
5100 AIRPORT DRIVE
DENISON, TEXAS 75020**

**THURSDAY
JUNE 22, 2017**

AGENDA
RED RIVER GROUNDWATER CONSERVATION DISTRICT
BOARD OF DIRECTORS BOARD MEETING
GREATER TEXOMA UTILITY AUTHORITY BOARD ROOM
5100 AIRPORT DRIVE
DENISON, TEXAS 75020
THURSDAY, JUNE 22, 2017

Show Cause Hearing

The Show Cause Hearing will begin at 2:00 p.m.

Notice is hereby given that the Board of Directors of the Red River Groundwater Conservation District ("District") will hold a show cause hearing and may discuss, consider, and take all necessary action regarding the subject matter of the hearing.

Agenda:

1. Call to Order, declare hearing open to the public, and take roll.
2. Conduct Show Cause Hearing under Rule 9.6 on the following for alleged violations of District Rules; discuss, consider, receive testimony, and take appropriate action, including without limitation authorizing the District to initiate a civil lawsuit to enforce compliance with the District Rules, including recovery of civil penalties, costs, and attorney's fees, and all other appropriate legal and equitable relief:
 - A. Texas Rain Holding Co., Inc., 2401 Callender Rd., Suite 105, Mansfield, TX 76063 and 2004 Southwest Parkway Granbury, TX 76048
3. Adjourn or continue show cause hearing.

Board Meeting

The regular Board Meeting will begin at 2:15 p.m. or upon adjournment of the above noticed Show Cause Hearing, whichever is later.

The Board of Directors may discuss, consider, and take all necessary action, including expenditure of funds, regarding each of the agenda items below:

Agenda:

1. Call to order, declare meeting open to the public, and take roll
2. Public Comment
3. Consider and act upon approval of Minutes of April 20, 2017, Board Meeting

4. Review and approval of monthly invoices
 5. Receive monthly financial information
 6. Appointment of a Budget Committee
 7. Consider and act upon 2016 Audit
 8. Update and possible action regarding the process for the development of Desired Future Conditions (DFCs)
 9. Consider and act upon compliance and enforcement activities for violations of District Rules
 10. General Manager's report: The General Manager will update the Board on operational, educational and other activities of the District
 11. Open forum / discussion of new business for future meeting agendas
 12. Adjourn
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¹*The Board may vote and/or act upon each of the items listed in this agenda.*

²*At any time during the meeting or work session and in compliance with the Texas Open Meetings Act, Chapter 551, Government Code, Vernon's Texas Codes, Annotated, the Red River Groundwater Conservation District Board may meet in executive session on any of the above agenda items or other lawful items for consultation concerning attorney-client matters (§551.071); deliberation regarding real property (§551.072); deliberation regarding prospective gifts (§551.073); personnel matters (§551.074); and deliberation regarding security devices (§551.076). Any subject discussed in executive session may be subject to action during an open meeting.*

³*Persons with disabilities who plan to attend this meeting, and who may need assistance, are requested to contact Velma Starks at (800) 256-0935 two (2) working days prior to the meeting, so that appropriate arrangements can be made.*

⁴*For questions regarding this notice, please contact Velma Starks at (800) 256-0935, at rrgcd@redrivergcd.org or at 5100 Airport Drive, Denison, TX 75020.*

ATTACHMENT 3

MINUTES OF THE BOARD OF DIRECTORS' BOARD MEETING
RED RIVER GROUNDWATER CONSERVATION DISTRICT

THURSDAY, APRIL 20, 2017

GREATER TEXOMA UTILITY AUTHORITY
BOARD ROOM
5100 AIRPORT DRIVE
DENISON TX 75020

Members Present: David Gattis, P.E., Mark Gibson, P.E., Harold Latham, Mark Newhouse, Mark Patterson, William Purcell, Don Wortham, PhD

Members Absent: None

Staff: Drew Satterwhite, P.E., Allen Burks, Carolyn Bennett, Wayne Parkman, Tasha Hamilton, Debi Atkins, and Velma Starks

Visitors: Ronnie Blevins, City of Hone Grove
Alyson McDonald, GEI Consultants, Inc.

1. Call to order, establish quorum; declare meeting open to the public.

President Patterson called the meeting to order at 2 p.m., established a quorum was present, and declared the meeting open to the public.

2. Public comment

There were no citizens present requesting to appear before the Board of Directors for public comment.

3. Consider and act upon approval of Minutes from the March 16, 2017 board meeting

Board Member Gattis made a motion to approve the minutes of the March 16, 2017 meeting. Board Member Gibson seconded the motion and motion passed unanimously.

4. Review and approval of monthly invoices.

General Manager Satterwhite reviewed the monthly invoices with the Board of Directors. Board Member Gattis made a motion to approve Resolution 2017-4-2-01. Board Member Latham seconded the motion. Motion passed unanimously.

5. Receive monthly financial information

General Manager Satterwhite discussed and reviewed the monthly financial information with the Board.

6. Receive Quarterly Investment Report

General Manager Satterwhite discussed and reviewed the quarterly investment report. The CD mature dates were discussed.

7. Receive Quarterly Report

General Manager Satterwhite reported to the Board that there were 722 registered wells in the District and 29 well inspections had been done.

8. Consider and act upon amended Bylaws

General Manager Satterwhite informed the Board that deadlines for counties regarding Director appointments were removed. The Board discussed changes. It was decided that the last sentence in 2.6 on page 7 should be changed from *"If the Board selects a Director who holds another office at the time of the vacancy to fill the unexpired term, the Board shall select another Director to serve the remainder of the unexpired term of such second officer."* To *"If the Board selects a Director who holds another Board officer at the time of the vacancy to fill the unexpired term, the Board shall select another Director to serve the remainder of the unexpired term of such second officer."*

Board Member Gattis made the motion to accept the amended Bylaws with the stipulation that 7.3 *"or as authorized by law"* would be investigated further as to what law. Board Member Newhouse seconded the motion. Motion passed unanimously.

9. Consider and act upon Well Monitoring Contract

General Manager Satterwhite provided background information to the Board. In order to begin bringing wells into the District's monitoring plan, it has been recommended by the District's legal counsel to have a letter agreement in place that indemnifies both parties and presents a clear understanding of what we intend to do by collecting the data. Board Member Newhouse made the motion authorizing the execution of the Letter Agreement with well owners that the District staff identifies as candidates for our water level monitoring network. Board Member Wortham seconded the motion. Motion passed unanimously.

10. Update and possible action regarding the process for the development of Desired Future Conditions

Nothing new to report.

11. Consider and act upon a contract with North Texas Groundwater Conservation District and INTERA, Inc. for developing a Water Well Management System for the District

General Manager Satterwhite provided background information to the Board. At the February Board Meeting the Board subsequently selected INTERA and authorized the staff to begin developing a scope of work and contract. The contract is for a total of \$167,000, which would be divided equally between the District and NTGCD. This contract includes all the necessary work to have fully operational geodatabase. The estimated annual hosting cost of \$500 would be split equally between the Districts. The Board discussed the contract. Board Member Latham made a motion to accept the contract. Board Member Newhouse seconded the motion. Motion passed unanimously.

12. Consider and act upon an Interlocal Agreement with North Texas Groundwater Conservation District for joint development of a Water Well Management System

General Manager Satterwhite provided background information to the Board. In order to clarify the relationship and provide protections for both Districts during the development of the new geodatabase, the District's legal counsel recommended entering into an interlocal agreement with NTGCD. By entering into this interlocal agreement and participating in the cost sharing of a new

geodatabase, the District will receive a substantial cost reduction in the development, hosting, maintenance and any future additions that both Districts desire. NTGCD accepted this agreement at their April 11, 2017 meeting. Board Member Gattis made the motion to accept this Interlocal Agreement with North Texas Groundwater Conservation District. Board Member Gibson seconded the motion. Motion passed unanimously.

13. Consider and act upon authorizing the purchase of well caps for the District

Field Technician Wayne Parkman informed the Board that District field staff see wells that have the equipment removed and do not have a cap installed. The District staff is asking the Board to authorize the purchase of an assortment of caps so that the Field Technicians can try to make contact with the landowner while on site and offer to assist placing a cap on the well. This would help protect the aquifers by preventing surface contamination as well as deterioration of well casings. It would also save considerable administrative time.

Board Member Gattis made the motion to authorize the purchase of an assortment of caps. Board Member Latham seconded the motion. Motion passed unanimously.

14. Discuss Technical Lead job posting

General Manager Satterwhite informed the Board that during the last budget planning session, the Board authorized the hiring of an additional technical staff member in anticipation of increased workload once permitting begins. The job description was discussed by the Board.

15. Consider and act upon compliance and enforcement activities for violations of District Rules

Possible Show Cause Hearing at the next Board meeting.

16. General Manager's report: The General Manager will update the Board on operational, educational and other activities of the District

General Manager Satterwhite stated there are a total of 722 wells registered since March 31, 2017.

17. Open Quorum/discussion of new business

The Board decided not to meet in May. The next meeting will be June 22, 2017 at 2 p.m.

18. Adjourn

President Patterson declared the meeting adjourned at 3:26 p.m.

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Recording Secretary

Secretary-Treasurer

ATTACHMENT 4

RESOLUTION NO. 2017-06-22-01

A RESOLUTION BY THE BOARD OF DIRECTORS OF THE RED RIVER GROUNDWATER CONSERVATION DISTRICT AUTHORIZING PAYMENT OF ACCRUED LIABILITIES FOR THE MONTH OF JUNE 2017

The following liabilities are hereby presented for payment:

<u>Administrative Services</u>	<u>Amount</u>
GTUA - April	15,932.89
GTUA - May	16,165.89
<u>Advertising</u>	
<u>Banking</u>	
Bank of Oklahoma - Safekeeping	
<u>Contract Services</u>	
LBG-Guyton - May	1,687.43
IT Nexus - May, June & July	1,800.00
ESRI-Well App Maintenance Renewal 5/1/17-5/30/18	2,500.00
<u>Direct Costs</u>	
Nextraq-April	39.95
Nextraq-May	43.15
<u>Dues</u>	
Texas Water Conservation Association - Renewal 5/1/17-4/30/18	358.00
<u>Equipment</u>	
<u>GMA8-Fees</u>	
<u>Insurance</u>	
TWCA Risk Management Renewal 7/1/17-7/1/18	4,325.00
<u>Internet Fees</u>	
American Express - GoDaddy Web hosting renewal	3,269.87
<u>Legal</u>	
Law Offices of Kristen Fancher, PLLC - May 2017	2,236.00
<u>Meetings</u>	
Texas Alliance Groundwater - District Meeting	80.00
Texas Alliance Groundwater - Registration	452.50
<u>Miscellaneous</u>	
Rick & Vicki Watson - Reimburse Registration Fees, Dry Well	100.00
<u>Telephone</u>	
8x8 - Land Line	125.89
<u>Software Maintenance</u>	
<u>Transportation/fuel/maint</u>	
Shell	29.47
American Express - Tolls for TAGCD Meeting	39.43
GRAND TOTAL:	<u>\$ 49,185.47</u>

NOW THEREFORE BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE RED RIVER GROUNDWATER CONSERVATION DISTRICT THAT the Secretary-Treasurer is hereby authorized to make payments in the amounts listed above.

On motion of _____ and seconded by _____, the foregoing Resolution was passed and approved on this, the 22nd day of June, 2017 by the following vote:

AYE:
NAY:

At a meeting of the Board of Directors of the Red River Groundwater Conservation District,

President

ATTEST

Secretary/Treasurer

ATTACHMENT 5

Red River Groundwater Conservation District

Balance Sheet

For General Fund (00)

May 31, 2017

Assets

00-01-10001	Checking Account	78,364.07
00-01-10010	Investments-CD	310,000.00
00-01-10025	Accounts Receivable	56,420.09
00-01-10026	A/R Texas Rain Holding Co	1,600.00
00-01-10030	Undeposited Funds	.00
00-01-10040	Interest Receivable	.00
00-01-10101	Allowance for Uncollectible Accounts	(1,530.00)
00-01-10200	PP Expense	784.98
	Total	<u>445,639.14</u>
	Total Assets	<u>\$ 445,639.14</u>

Liabilities and Fund Balance

00-01-23100	Accounts Payable	15,488.38
00-01-23150	Deposits to be Refunded	9,400.00
	Total	<u>24,888.38</u>
	Total Liabilities	<u>24,888.38</u>
00-01-35100	Fund Balance	73,069.05
00-01-35120	Current Year Excess of Revenue over Expenses	396,194.81
	Total	<u>469,263.86</u>
	Excess of Revenue Over Expenditures	(48,513.10)
	Total Fund Balances	<u>420,750.76</u>
	Total Liabilities and Fund Balances	<u>\$ 445,639.14</u>

Red River Groundwater Conservation District
Statement of Revenue and Expenditures

Revised Budget
 For General Fund (00)
 For the Fiscal Period 2017-5 Ending May 31, 2017

Account Number	Current Budget	Current Actual	Annual Budget	YTD Actual	Remaining Budget %
Revenues					
00-01-46002 GW Production Cost	\$ 0.00	\$ 0.00	\$ 325,000.00	70,801.26	78.21%
00-01-46005 Late Fees	0.00	0.00	0.00	391.63	0.00%
00-01-46006 Violation Fees	0.00	0.00	0.00	1,600.00	0.00%
00-01-46007 Registration Fees	416.67	1,000.00	5,000.00	2,300.00	54.00%
00-01-46010 Well Drillers Deposit	0.00	0.00	0.00	200.00	0.00%
00-01-46100 Interest Income	41.67	101.83	500.00	996.69	(99.34%)
Total General Fund Revenues	\$ 458.34	\$ 1,101.83	\$ 330,500.00	\$ 76,289.58	76.92%
Expenditures					
00-01-77010 Administrative Cost	\$ 8,750.00	\$ 7,947.50	\$ 105,000.00	46,113.00	56.08%
00-01-77020 Advertising	83.33	0.00	1,000.00	127.73	87.23%
00-01-77027 Auditing	4,500.00	0.00	4,500.00	0.00	100.00%
00-01-77031 Banking Fees	0.00	0.00	0.00	9.00	0.00%
00-01-77032 Contract Services	6,016.67	4,787.43	72,200.00	27,048.30	62.54%
00-01-77035 Field Technician	6,666.67	7,265.00	80,000.00	28,798.00	64.00%
00-01-77040 Direct Cost	333.33	312.60	4,000.00	2,167.06	45.82%
00-01-77450 Dues & Subscription	116.67	0.00	1,400.00	483.00	65.50%
00-01-77480 Equipment	0.00	0.00	2,000.00	0.00	100.00%
00-01-77500 Fees- GMA8	0.00	0.00	1,000.00	0.00	100.00%
00-01-77810 Insurance	416.67	261.67	5,000.00	1,631.34	67.37%
00-01-77855 Internet Fees	541.67	3,269.87	6,500.00	4,260.06	34.46%
00-01-77970 Legal	2,916.67	2,236.00	35,000.00	9,171.05	73.80%
00-01-78010 Meetings and Conferences	208.33	80.00	2,500.00	882.14	64.71%
00-01-78310 Rent	200.00	200.00	2,400.00	1,000.00	58.33%
00-01-78600 Software Maintenance	166.67	0.00	2,000.00	1,465.24	26.74%
00-01-78750 Telephone	166.67	125.89	2,000.00	830.74	58.46%
00-01-78770 Transportation-Mileage	416.67	426.95	5,000.00	1,339.36	73.21%
Total General Fund Expenditures	\$ 31,500.02	\$ 26,912.91	\$ 331,500.00	\$ 125,326.02	62.19%
General Fund Excess of Revenues Over Expenditures	\$ (31,041.68)	\$ (25,811.08)	\$ (1,000.00)	\$ (49,036.44)	

ATTACHMENT 6



RED RIVER GROUNDWATER CONSERVATION DISTRICT AGENDA COMMUNICATION



DATE: June 16, 2017

SUBJECT: AGENDA ITEM NO.

APPOINTMENT OF A BUDGET COMMITTEE

ISSUE

Appointment of a Budget Committee.

BACKGROUND

In the past, the Board of Directors of the Red River Groundwater Conservation District ("District") has established the practice of trying to adopt a budget and rate schedule as early as possible. The District's fiscal year is based on a calendar year from January 1st through December 31st, while many of the groundwater producers who pay production fees operate on fiscal years that begin October 1st through September 30th. For this reason, the Board has attempted to establish production fees as early as possible in the budget planning process.

CONSIDERATIONS

The president can select up to three (3) board members to serve on the committee.

SUBMITTED BY:



Drew Satterwhite, P.E., General Manager

ATTACHMENT 7



RED RIVER GROUNDWATER CONSERVATION DISTRICT AGENDA COMMUNICATION



DATE: June 7, 2017

SUBJECT: AGENDA ITEM NO.

CONSIDER AND ACT UPON 2016 AUDIT

ISSUE

2016 Audit

BACKGROUND

Earlier this year, the Board engaged the services of McClanahan and Holmes, LLP, to undertake the 2016 audit for the District. The auditors have advised that they expect to be present at the June meeting to present the audit.

CONSIDERATIONS

If there are questions or concerns about the audit, the Board will have the opportunity to further discuss them with the auditor.

STAFF RECOMMENDATIONS

The District Staff has reviewed the audit and have no questions or concerns about the information contained in the audit.

ATTACHMENTS

2016 Audit

PREPARED BY:

A handwritten signature in blue ink, appearing to read "Debi Atkins", written over a horizontal line.

Debi Atkins, Finance Officer

RECOMMENDED BY:

A handwritten signature in blue ink, appearing to read "Drew Satterwhite", written over a horizontal line.

Drew Satterwhite, P.E., General Manager

**RED RIVER GROUNDWATER
CONSERVATION DISTRICT**

**Communication with Those
Charged With Governance**

December 31, 2016

McClanahan and Holmes, LLP
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN W. MOHUNDRO, CPA
GEORGE H. STRUVE, CPA
ANDREW B. REICH, CPA
RUSSELL P. WOOD, CPA
DEBRA J. WILDER, CPA
TEFFANY A. KAVANAUGH, CPA

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903-465-8070
FAX 903-465-6093

1400 WEST RUSSELL
BONHAM, TEXAS 75418
903-583-5574
FAX 903-583-9453

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 governmental activities and the major fund of the Red River Groundwater Conservation District (District) for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government 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 October 7, 2016. Professional Standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District 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 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of allowance for doubtful accounts. Allowance for doubtful accounts is based on historical consumption and accounts receivable, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation expense. Depreciation expense is calculated on a straight-line basis, over the estimated useful lives of the District's assets. We evaluated the key factors and assumptions used to develop the depreciation method used and the estimates of useful lives of the assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no disclosures that are considered sensitive because of their significance to the financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

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 clearly 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, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's 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 11, 2017.

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.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and the budgetary comparison schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This communication is intended solely for the information and use of management of the District, 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 11, 2017

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Misstatements Corrected by Management
December 31, 2016

Appendix A

<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Capital Outlay	\$ 24,036.00	\$ -
Deposits to be Refunded	4,900.00	-
Equipment	-	24,036.00
Registration Fees	-	2,100.00
Well Drillers Deposit	-	2,800.00
	<u>\$ 28,936.00</u>	<u>\$ 28,936.00</u>

**RED RIVER GROUNDWATER
CONSERVATION DISTRICT**

Annual Financial Report

Year Ended December 31, 2016

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Annual Financial Report
Year Ended December 31, 2016

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McClanahan and Holmes, LLP
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the Red River Groundwater Conservation District (District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 the major fund of the Red River Groundwater Conservation District as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule 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 11, 2017, 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.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
May 11, 2017

RED RIVER GROUNDWATER CONSERVATION DISTRICT
 Management's Discussion and Analysis
 Year Ended December 31, 2016

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, 2016. Please read this section in conjunction with the basic financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$492,084 at December 31, 2016.
- During the year, the District's expenses were \$48,272 less than the \$315,867 generated from groundwater production fees and other revenues.
- The General Fund presents a year end fund balance of \$470,051 at December 31, 2016.

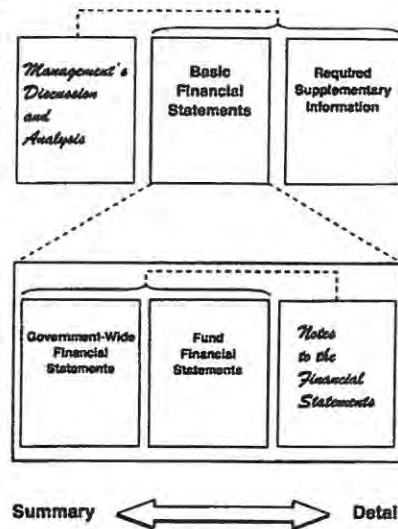
OVERVIEW OF THE FINANCIAL STATEMENTS

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 Statement 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, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's budgetary comparison schedule. Required supplementary information can be found on page 16 of this report.

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 \$492,084 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>2016</u>	<u>2015</u>	Total Percentage Change 2015-2016
Assets:			
Cash and Cash Equivalents	\$ 196,201	\$ 179,316	9.42%
Certificates of Deposit	210,000	200,000	5.00%
Receivables and Other Assets	87,562	88,049	-0.55%
Vehicle, Net of Accumulated Depreciation	<u>22,033</u>	<u>-</u>	100.00%
Total Assets	<u>515,796</u>	<u>467,365</u>	10.36%
Liabilities:			
Current Liabilities	<u>23,712</u>	<u>23,553</u>	0.68%
Total Current Liabilities	<u>23,712</u>	<u>23,553</u>	0.68%
Net Position:			
Unrestricted	<u>492,084</u>	<u>443,812</u>	10.88%
Total Net Position	<u>\$ 492,084</u>	<u>\$ 443,812</u>	10.88%

At year end, 78.8% of the District's total assets were held in cash and cash equivalents and certificates of deposit, with fees receivable and prepaid expenses representing 16.9%, and fixed assets representing 4.3%.

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, 2016

CHANGES IN NET POSITION

The District's total revenues were \$315,867 generated from Groundwater Production Fees assessed upon residents of the District and other revenues.

The total cost of all services was \$267,595, 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, 2016 and 2015 is presented here:

Changes in Red River Groundwater Conservation District's Net Position			Table A-2
	<u>2016</u>	<u>2015</u>	<u>Total Percentage Change 2015-2016</u>
General Revenues:			
Groundwater Production Fees	\$ 313,987	\$ 329,279	-4.64%
Interest Income	<u>1,880</u>	<u>888</u>	111.71%
Total Revenues	<u>315,867</u>	<u>330,167</u>	-4.33%
Expenses:			
Administration	<u>267,595</u>	<u>213,481</u>	25.35%
Total Expenses	<u>267,595</u>	<u>213,481</u>	25.35%
Increase (Decrease) in Net Position	<u>\$ 48,272</u>	<u>\$ 116,686</u>	-58.63%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The governmental funds of the District reported revenues of \$315,867 during the year, with total expenditures of \$289,628.

BUDGETARY HIGHLIGHTS

The District's Board of Directors adopted a final operating budget for the 2016 fiscal year, based on anticipated receipts and expenditures (unaudited), prior to year end. The budget encompasses all the activities of the District, which would normally include both revenues and expenditures.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Management's Discussion and Analysis
Year Ended December 31, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital Assets amounted to \$22,033, net of accumulated depreciation of \$2,003 as of December 31, 2016. This investment in capital assets includes a vehicle.

A summary of capital asset activity is shown in Note 1.E of the financial statements.

Debt

As of December 31, 2016, 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, 2016

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 196,201
Certificates of Deposit	210,000
Accounts Receivable, Net of Allowance for Uncollectibles of \$1,530	85,956
Prepaid Expenses	1,606
Total Current Assets	493,763
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation: Vehicle	22,033
Total Noncurrent Assets	22,033
Total Assets	515,796
 LIABILITIES	
Current Liabilities	
Accounts Payable	23,712
Total Current Liabilities	23,712
Total Liabilities	23,712
 NET POSITION	
Unrestricted	492,084
Total Net Position	\$ 492,084

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

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Statement of Activities
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government				
Governmental Activities:				
Administration	\$ 267,595	\$ -	\$ -	\$ (267,595)
Total Governmental Activities	267,595	-	-	(267,595)
Total Primary Government	\$ 267,595	\$ -	\$ -	(267,595)
General Revenues:				
Groundwater Production Fees				313,987
Interest Income				1,880
Total General Revenues				315,867
Change in Net Position				48,272
Net Position - Beginning (January 1)				443,812
Net Position - Ending (December 31)				\$ 492,084

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

RED RIVER GROUNDWATER CONSERVATION DISTRICT
 Balance Sheet - Governmental Fund
 December 31, 2016

	General Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 196,201
Certificates of Deposit	210,000
Accounts Receivable, Net	85,956
Prepaid Expenses	1,606
Total Current Assets	493,763
Total Assets	\$ 493,763
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 23,712
Total Current Liabilities	23,712
Total Liabilities	23,712
 FUND BALANCE	
Unassigned	470,051
Total Fund Balance	470,051
Total Liabilities and Fund Balance	\$ 493,763
 Amounts reported for governmental activities in the statement of net position are different because:	
Fund Balance - Total Governmental Fund (above)	\$ 470,051
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current year.	22,033
Net Position of Governmental Activities	\$ 492,084

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

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Statement of Revenues, Expenditures, and Changes
In Fund Balance - Governmental Fund
Year Ended December 31, 2016

	General Fund
REVENUES	
Groundwater Usage Fees	\$ 313,987
Interest Income	1,880
Total Revenues	315,867
EXPENDITURES	
Administration	240,126
Legal Fees	25,466
Capital Outlay:	
Vehicle	24,036
Total Expenditures	289,628
Excess (Deficiency) of Revenues over Expenditures	26,239
Net Change in Fund Balance	26,239
Fund Balance - Beginning (January 1)	443,812
Fund Balance - Ending (December 31)	\$ 470,051
Amounts reported for governmental activities in the statement of activities are different because:	
Net Change in Fund Balance - Total Governmental Fund (above)	26,239
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the asset is \$24,036 and the accumulated depreciation is \$2,003.	22,033
Change in Net Position of Governmental Activities	\$ 48,272

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, 2016

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 and the statement of activities 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 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, 2016

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 – These 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. The District considers revenues as available if they are collected within 60 days after year end. 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.

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, 2016

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Capital Assets

Capital assets, which includes a vehicle, are reported in the government-wide statement of net position. All capital assets are valued at historical cost. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend asset life are not capitalized.

Assets capitalized have an original cost of more than \$5,000 and useful life in excess of one year. Depreciation has been provided over the estimated useful life using the straight-line method of depreciation. The estimated useful life of the asset is five years.

	Balance 12/31/15	Additions	Retirements	Balance 12/31/16
Governmental Activities:				
Capital Assets being Depreciated:				
Vehicle	\$ -	\$ 24,036	\$ -	\$ 24,036
	<u>-</u>	<u>24,036</u>	<u>-</u>	<u>24,036</u>
Less Accumulated Depreciation for:				
Vehicle	-	2,003	-	2,003
	<u>-</u>	<u>2,003</u>	<u>-</u>	<u>2,003</u>
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 22,033</u>	<u>\$ -</u>	<u>\$ 22,033</u>

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. The District does not have any restricted fund balances by enabling legislation.

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.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2016

I. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts (continued)

Fund Balance (continued)

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 District has adopted a policy that sets a minimum fund balance equal to twenty-five percent (25%) of the total general fund expenditures.

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

	<u>General</u>
Unassigned	\$ 470,051
Total	\$ 470,051

II. Stewardship, Compliance, and Accountability

By its nature as a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Legal Fees	\$ 466
Capital Outlay	4,736
Total Expenditures Exceeding Appropriations	\$ 5,202

III. Deposits, Securities, and Investments

The District's maintains deposits in First United, Sherman, Texas that at times exceed the insured amount of \$250,000 provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The District was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance at year-end.

The District maintains certificates of deposit at two different banks as of December 31, 2016. The District was not exposed to custodial credit risk as its deposits were fully insured with FDIC insurance at year-end.

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.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
Notes to the Basic Financial Statements (Continued)
December 31, 2016

III. Deposits, Securities, and Investments (Continued)

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.

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, 2016, 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.

V. Concentrations

Two customers individually comprised approximately 41% of gross accounts receivable at December 31, 2016. One of these customer's individually comprised approximately 31% of revenue for the year ended December 31, 2016. One vendor comprised approximately 57% of expenses for the year ended December 31, 2016.

RED RIVER GROUNDWATER CONSERVATION DISTRICT
 General Fund
 Budgetary Comparison Schedule
 Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Groundwater Usage Fees	\$ 325,000	\$ 325,000	\$ 313,987	\$ (11,013)
Interest Income	-	-	1,880	1,880
Total Revenues	325,000	325,000	315,867	(9,133)
EXPENDITURES				
Administration	279,600	279,600	240,126	39,474
Legal Fees	25,000	25,000	25,466	(466)
Capital Outlay: Vehicle	19,300	19,300	24,036	(4,736)
Total Expenditures	323,900	323,900	289,628	34,272
Net Change in Fund Balance	1,100	1,100	26,239	25,139
Fund Balance - Beginning (January 1)	443,812	443,812	443,812	-
Fund Balance - Ending (December 31)	\$ 444,912	\$ 444,912	\$ 470,051	\$ 25,139

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 the major fund of the Red River Groundwater Conservation District (District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be material weaknesses and significant deficiencies in internal control over financial reporting.

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

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.

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 achieves 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.

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 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.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
May 11, 2017

ATTACHMENT 10

Red River Groundwater Conservation District

Well Registration Summary

As of April 28, 2017

Well Type	Total Registered Fannin County	Total Registered Grayson County	Total RRGCD	New Registrations
Domestic	118	206	324	7
Agriculture	15	25	40	0
Oil/Gas	0	21	21	0
Surface Impoundments	5	12	17	0
Commercial	5	4	9	0
Golf Course	0	15	15	0
Livestock	12	21	33	0
Irrigation	0	5	5	0
Public Water	55	209	264	0
Monitoring	0	1	1	0
Total	210	519	729	7

Red River Groundwater Conservation District

Well Registration Summary As of May 31, 2017

Well Type	Total Registered Fannin County	Total Registered Grayson County	Total RRGCD	New Registrations
Domestic	123	210	333	9
Agriculture	15	25	40	0
Oil/Gas	0	21	21	0
Surface Impoundments	5	13	18	1
Commercial	5	5	10	1
Golf Course	0	15	15	0
Livestock	12	21	33	0
Irrigation	0	5	5	0
Public Water	55	209	264	0
Monitoring	0	1	1	0
Total	215	525	740	11

ADJOURN