

**POST OAK SAVANNAH GROUNDWATER
CONSERVATION DISTRICT**

Audited Financial Statements

For the Years Ended December 31, 2015 and 2014

and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Post Oak Savannah Groundwater Conservation District
Milano, Texas

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Post Oak Savannah Groundwater Conservation District (the District) as of and for the year ended December 31, 2015, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities the aggregate remaining fund information of the District, as of December 31, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof 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 and budgetary comparison information on pages 3-5 and 21 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 5, 2016, on our consideration of Post Oak Savannah Groundwater Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in consideration of Post Oak Savannah Groundwater Conservation District's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Post Oak Savannah Groundwater Conservation District as of December 31, 2014, were audited by other auditors whose report dated April 10, 2015, expressed an unmodified opinion on those statements.

Ludwick, Temple, Montgomery, & Stagg
P.C.

Temple, Texas
May 5, 2016

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Management's Discussion and Analysis

For the Years Ended December 31, 2015 and 2014

This section of the Post Oak Savannah Groundwater Conservation District ("District") annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal years ended on December 31, 2015 and 2014. Please read it in conjunction with the District's basic financial statements and related notes.

FINANCIAL HIGHLIGHTS

- ** The District's total net position was \$3,054,246
- ** Cash and investments had a net increase of \$309,552
- ** Liabilities had a net increase of \$65,562

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The District is a governmental entity and follows the accrual basis of accounting for a single purpose governmental entity. The District is not funded by property tax levies.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the District is classified as a proprietary fund.

Proprietary funds

The District maintains one type of proprietary fund; an enterprise fund, considered to be its major fund, is used to report business-type activities. The District uses this enterprise fund to account for its water transport, program services, and permit fees in the Proprietary fund financial statements.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the proprietary fund financial statements.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Management's Discussion and Analysis

For the Years Ended December 31, 2015 and 2014

FINANCIAL ANALYSIS OF THE DISTRICT**Net Position - Proprietary Fund**

	Enterprise Fund 2015	Enterprise Fund 2014
Assets		
Current Assets	\$ 2,954,352	\$ 2,664,709
Capital Assets, Net	314,032	257,047
Net Pension Asset	43,220	39,412
Deferred Outflows of Resources	4,880	-
Total Assets	<u>3,316,484</u>	<u>2,961,168</u>
Liabilities		
Current Liabilities	<u>100,798</u>	<u>35,236</u>
Total Liabilities	<u>100,798</u>	<u>35,236</u>
Deferred Inflows of Resources	<u>161,440</u>	<u>161,183</u>
Total Net Position	<u>\$ 3,054,246</u>	<u>\$ 2,764,749</u>

Change in Net Position - Proprietary Fund

	Enterprise Fund 2015	Enterprise Fund 2014
Operating Revenues	\$ 1,802,104	\$ 1,928,042
Operating Expenses	<u>1,527,507</u>	<u>1,504,774</u>
Net Operating Revenues	274,597	423,268
Nonoperating Revenues (Expenses)	<u>14,900</u>	<u>4,697</u>
Change in Net Position	289,497	427,965
Net Position, Beginning	2,764,749	2,326,472
Restatement - Note 9	-	10,312
Net Position, Ending	<u>\$ 3,054,246</u>	<u>\$ 2,764,749</u>

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Management's Discussion and Analysis

For the Years Ended December 31, 2015 and 2014

CAPITAL ASSETS AND DEBT

The District purchased, in 2003, an office building in Milano, TX for cash and the District has no outstanding liens on any property. Capital assets are defined by the District with an initial, individual cost of more than \$500 and an estimated useful life in excess of 5 years. See note 3 for more details regarding capital assets.

- ** The District had net capital assets of \$314,032
- ** Investment in Capital assets increased by \$56,985
- ** Accumulated depreciation had a net increase of \$22,472

FUTURE EVENTS

In 2006, the District started its conservation and assistance grant program. As of December 31, 2015, the total grant amount awarded was \$859,718 (net of contractual forfeitures) for the year. The District is currently evaluating the 2016 grant applicants, and have budgeted \$1,000,000 for the 2016 grant 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 Gary Westbrook, General Manager for the District.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Statements of Net Position

Proprietary Fund

December 31, 2015 and 2014

	Enterprise Fund 2015	Enterprise Fund 2014
Assets		
Current Assets		
Cash and cash equivalents - Note 6	\$ 2,681,311	\$ 2,371,779
Invested funds - Note 6	25,128	25,108
Accounts receivable	247,913	267,822
Total Current Assets	<u>2,954,352</u>	<u>2,664,709</u>
Capital assets, net	<u>314,032</u>	<u>257,047</u>
Net Pension Asset	<u>43,220</u>	<u>39,412</u>
Deferred Outflows of Resources		
Deferred outflows of resources	<u>4,880</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>4,880</u>	<u>-</u>
Total Assets	<u>3,316,484</u>	<u>2,961,168</u>
Liabilities		
Current Liabilities		
Accounts payable	75,096	11,038
Payroll tax liabilities	3,074	5,496
Other accrued liabilities	5,143	2,617
Exempt well permit deposits	17,485	16,085
Total Current Liabilities	<u>100,798</u>	<u>35,236</u>
Total Liabilities	<u>100,798</u>	<u>35,236</u>
Deferred Inflows of Resources		
Deferred inflows of resources	<u>161,440</u>	<u>161,183</u>
Total Deferred Inflows of Resources	<u>161,440</u>	<u>161,183</u>
Net Position		
Net investment in capital assets	314,032	257,047
Restricted for pension	43,220	39,412
Unrestricted	<u>2,696,994</u>	<u>2,468,290</u>
Total Net Position	<u>\$ 3,054,246</u>	<u>\$ 2,764,749</u>

The accompanying notes are an integral part
of these financial statements.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Statements of Revenues, Expenses, and Changes in Net Position

Proprietary Fund

For the Years Ended December 31, 2015 and 2014

	Enterprise Fund 2015	Enterprise Fund 2014
Operating Revenues		
Program fees	\$ 391,554	\$ 505,070
Transport permit fees	1,398,649	1,397,999
Drilling permit fees	2,400	3,500
Permit fees	6,000	9,200
Miscellaneous income	3,501	12,273
Total Operating Revenues	<u>1,802,104</u>	<u>1,928,042</u>
Operating Expenses		
Advertising	4,447	2,233
Building repairs	17,494	4,190
Conservation program expense	895,365	941,576
Depreciation	22,472	20,773
Dues	1,858	3,253
Education and public relations	39,914	33,223
Employee benefits	31,162	21,553
Hydrologist	94,548	112,132
Insurance	4,198	5,655
Legal fees	71,839	57,609
Miscellaneous	20	126
Office supplies	11,731	13,158
Other professional fees	26,212	17,198
Payroll taxes	19,180	17,578
Pension expense	5,290	-
Postage and delivery	1,917	1,203
Salaries	247,864	219,414
Telephone	8,725	7,616
Travel and entertainment	15,796	16,416
Utilities	3,397	3,837
Vehicle expense	4,078	6,031
Total Operating Expenses	<u>1,527,507</u>	<u>1,504,774</u>
Net Operating Revenues	<u>274,597</u>	<u>423,268</u>
Nonoperating Revenues (Expenses)		
Interest income	14,900	8,858
Loss on disposal of assets	-	(4,161)
Total Nonoperating Revenues (Expenses)	<u>14,900</u>	<u>4,697</u>
Change in Net Position	289,497	427,965
Net Position, Beginning	2,764,749	2,326,472
Restatement - Note 9	-	10,312
Net Position, Ending	<u>\$ 3,054,246</u>	<u>\$ 2,764,749</u>

The accompanying notes are an integral part
of these financial statements.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT**STATEMENTS OF CASH FLOW**

Proprietary Fund

For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Increase in net position	\$ 289,497	\$ 427,965
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,472	20,773
Loss on disposal of assets	-	4,161
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	19,909	(254,246)
(Increase) Decrease in net pension asset	(3,808)	(29,100)
(Increase) Decrease in deferred outflows of resources	(4,880)	-
Increase (Decrease) in accounts payable	64,058	(15,279)
Increase (Decrease) in payroll tax liabilities	(2,422)	5,496
Increase (Decrease) in other accrued liabilities	2,526	2,617
Increase (Decrease) in exempt well permit deposits	1,400	(3,200)
Increase (Decrease) in deferred inflows of resources	257	161,183
Net cash provided by operating activities	389,009	320,370
Cash Flows from Investing Activities		
Purchase of buildings, land, equipment, vehicle	(26,832)	(82,996)
Investment in construction in progress	(52,625)	-
Reinvestment of earnings	(20)	(7)
Net cash used by investing activities	(79,477)	(83,003)
Net increase in cash	309,532	237,367
Cash at the beginning of the year	2,371,779	2,134,412
Cash at the end of the year	\$ 2,681,311	\$ 2,371,779

The accompanying notes are an integral part
of these financial statements.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 1 - REPORTING ENTITY

Post Oak Savannah Groundwater Conservation District (the District) was formed April 20, 2001 by the 77th Legislature of the State of Texas with House Bill 1784, Article 3 Section 3.01, under Section 59, Article XVI of the Texas Constitution. A ten member Board of Directors appointed by the Burleson and Milam County Commissioners governs the District. Each Commissioners Court appoints five directors and must represent various interests in the counties served by the District. Among its duties, the Board of Directors approves the District's budget, approves grant contracts, sets rates for permits and fees, approves or denies any permit, and has other duties as addressed during board meetings.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and monitoring stations necessary for the purpose of groundwater conservation with respect to the aquifers within the district boundaries. The District provides financial assistance in the form of grants (if funds are available) and educational resources to public and private entities for the purpose of promoting, managing, and educating regarding groundwater resources of the central Carrizo-Wilcox Aquifer area.

In evaluating how to define the District for reporting purposes, The Board of Directors of the District have considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, and the significant ability to influence operations of accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no other entities which were included as a component unit in the District's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's basic financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies, are discussed below.

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (the Statement). The District then implemented the Statement as applicable. Significant changes made by the Statement include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and changes in net position.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide financial statements are prepared using full accrual accounting for all of the District's activities, including capital assets and long-term liabilities.

Basic Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises assets, liabilities, net position, revenues and expenditures and changes in net position. The District's net position is reported as restricted and unrestricted. Fund balances that are restricted indicate a portion of the net position which is not available for expenditure or is legally segregated for a specific future use. The transactions of the District are accounted for in the following funds:
Proprietary fund – To account for all revenues and expenditures not required to be accounted for in other funds.

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual. Accrual means that funds are both measurable and available to finance expenditures of the fiscal period. Available means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related fund liability incurred is measurable.

Accounts Receivable

Service accounts receivable as reported are considered collectable. The District uses the direct write off method for uncollectible accounts. Unbilled fee and permit revenues are not material and are not recorded at year end.

Capital Assets

Capital assets, which include property, plant, equipment and immovable public domain or "Infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of more than \$500 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated cost if donated to or constructed by the District. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs for repairs and maintenance are expensed as incurred.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation, on capital assets, is computed using the straight-line method over the following estimated useful lives:

Vehicles	5 years
Office, Field, and lab equipment	3-5 years
Building, improvements, and monitoring equipment	5-40 years

Deferred Outflows/Inflows of Resources

The District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. In addition to assets, the statement of net position will sometimes report a section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditures) until then. The District currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category; transport fees and program fees. There were material amounts of these fees deferred and will be recognized as an inflow of resources in the period the amount is collected and remitted to the District.

Equity Classifications

In the government-wide financial statements, equity is shown as net position and classified into three components; Net investment in capital assets, net of related debt; restricted; and, unrestricted. The District uses two of these classifications.

1. Net investments in capital assets – Capital assets, net of accumulated depreciation and reduced by any outstanding debt that poses an encumbrance.
2. Unrestricted – All other assets that do not meet the definition of net investment in capital assets, net of related debt.

Risks, Uncertainties, and use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 and 2014 was as follows:

	2015			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 3,000	\$ 225	\$ -	\$ 3,225
Construction In Progress	-	52,625	-	52,625
Total Capital Assets, Not Being Depreciated	3,000	52,850	-	55,850
Capital Assets, Being Depreciated:				
Building	90,482	2,500	-	92,982
Field and lab equipment	4,867	-	-	4,867
Monitoring equipment	171,468	18,105	-	189,573
Vehicle	22,741	1,916	-	24,657
Office equipment	49,337	4,086	-	53,423
Total Capital Assets, Being Depreciated	338,895	26,607	-	365,502
Less Accumulated Depreciation for:				
Building	23,650	3,182	-	26,832
Field and lab equipment	4,867	-	-	4,867
Monitoring equipment	16,658	10,691	-	27,349
Vehicle	1,137	4,836	-	5,973
Office equipment	38,536	3,763	-	42,299
Total Accumulated Depreciation	84,848	22,472	-	107,320
Total Capital Assets, Being Depreciated, Net	254,047	4,135	-	258,182
Enterprise Fund Capital Assets, Net	\$ 257,047	\$ 56,985	\$ -	\$ 314,032

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 3 – CAPITAL ASSETS (CONTINUED)

	2014			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
Total Capital Assets, Not Being Depreciated	3,000	-	-	3,000
Capital Assets, Being Depreciated:				
Building	90,482	-	-	90,482
Field and lab equipment	4,867	-	-	4,867
Monitoring equipment	113,278	58,190	-	171,468
Vehicle	22,696	22,742	22,697	22,741
Office equipment	47,273	2,064	-	49,337
Total Capital Assets, Being Depreciated	278,596	82,996	22,697	338,895
Less Accumulated Depreciation for:				
Building	20,505	3,145	-	23,650
Field and lab equipment	4,735	132	-	4,867
Monitoring equipment	10,473	6,185	-	16,658
Vehicle	14,753	4,920	18,536	1,137
Office equipment	32,145	6,391	-	38,536
Total Accumulated Depreciation	82,611	20,773	18,536	84,848
Total Capital Assets, Being Depreciated, Net	195,985	62,223	4,161	254,047
Enterprise Fund Capital Assets, Net	\$ 198,985	\$ 62,223	\$ 4,161	\$ 257,047

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 4 – CONSTRUCTION IN PROGRESS

As of December 31, 2015, the District had two ongoing projects. One of those projects is the construction of a new office building and the other is an Aquaveo GIS system. Construction in progress at year end totaled \$52,625.

NOTE 5 -- CONTINGENT LIABILITIES

The District is obligated to fund remaining water conservation grant distributions, net of forfeitures, as follows:

<u>Water Conservation Grants</u>	
2014 Grant Awards	\$ 923,040
2015 Grant Awards	986,016
Forfeitures	-
Remaining total balance to fund	<u>\$ 1,909,056</u>

This contingent liability is dependent on available funding and approval by the board of directors. The above table reflects committed funds awaiting distribution when appropriate documentation is submitted by the grantees.

NOTE 6 – CASH DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

The District's checking deposits, money market account, and Texas Treasury Safekeeping Trust Company (TexPool) investments at December 31, 2015, were fully covered by federal depository insurance and/or pledged securities. In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the District reports all investments at fair value.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 6 – CASH DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS (CONTINUED)

The District's cash and temporary investments at December 31, 2015 and 2014 are as shown below:

	2015	2014
Cash & Cash Equivalents:		
Money market account	\$ 2,594,551	\$ 2,293,016
Operating account	69,620	62,923
Well account	17,040	15,840
Petty cash	100	-
Total Cash & Cash Equivalents:	<u>2,681,311</u>	<u>2,371,779</u>
Invested Funds		
Investment in TexPool	<u>25,128</u>	<u>25,108</u>
Total Invested Funds:	<u>25,128</u>	<u>25,108</u>
Total cash, cash equivalents and invested funds:	<u>\$ 2,706,439</u>	<u>\$ 2,396,887</u>

Invested values for securities are stated at fair market value, which is determined by the quoted prices in an active market for identical or similar assets. There is an unrealized loss of \$-0- for the years ended December 31, 2015 and 2014.

Policies Governing Deposits and Investments

The District has implemented an investment policy and is authorized, according to the Public Funds Investment Act (PFIA) (Government Code Chapter 2256), to invest any and all of its funds in certificates of deposit, direct debt securities of the United States of America or the State of Texas, fully collateralized repurchase agreements, certain types of commercial paper, certain types of municipal bonds and local government investment pools created under the Interlocal Cooperation Act, wherein all funds were invested as listed above.

In compliance with the PFIA, the District has adopted a deposit and investment policy where that policy addresses the following custodial credit risks:

- 1) Deposits: This is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District was not exposed to custodial credit risk, since its deposits at year-end and during the year ended December 31, 2015 were covered by depository insurance or by pledged collateral held by the District's agent bank in the District's name.
- 2) Investments: This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 6 – CASH DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS (CONTINUED)

possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

NOTE 7 – EMPLOYEE BENEFITS

Annual Leave

Annual leave (vacation) is a benefit provided to eligible, full-time, employees of the District. A full-time employee is one who is regularly scheduled to work forty hours per week. Annual leave is accrued at five business days (40 hours) after six months of employment and cannot be taken until the employee has reached the six month probationary period. An additional five business days (40 hours) is accrued after continuous employment of one year based on the hire date of the employee. The accrual maximum is fifteen business days (120 hours) for an employee after five years of continuous service. An employee may not carryover leave to the next available period. Remaining accrued leave is paid if unused before their anniversary date and upon termination. Accrual of vacation at year-end was not material to these financial statements.

Sick Leave

A full-time employee, as previously defined, is entitled to six business days (48 hours) per calendar year. Accrual of sick leave is at one-half day (4 hours) per month and cannot be used until after six months of continuous employment. No sick leave may be accumulated beyond six days in a calendar year and upon termination of employment. In addition, unused sick leave will not be paid. Accrual of sick leave at year-end was not material to these financial statements.

Retirement Plan

The District provides pension benefits for all of its full-time employees through a cash balance-account type defined benefit pension plan (401(a)) in the statewide Texas County and District Retirement System (TCDRS). The TCDRS Board of Trustees is responsible for the administration of a statewide, agent multiple-employer, and public employee retirement system consisting of 624 cash balance-like defined benefit pension plans. Each of the 624 participating entities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2015 valuations are contained in the 2015 TCDRS Comprehensive Annual Financial Report (CAFR), a copy of which may be obtained by writing to PO Box 2034, Austin, TX 78768-2034.

Benefit amounts are determined by the employee's personal account balance and employer-financed monetary credits. The level of these monetary credits is within the actuarial constraints imposed by the TCDRS Act so that the expected benefits can be adequately financed by the District's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's personal account balance, and the employer-financed monetary credits to a monthly annuity using the actuarial equivalent as prescribed by the TCDRS Act.

The District will match the employee contribution up to 6.5% of the employee's salary. As of the years ended December 31, 2015 and 2014, the District match expense was \$15,086 and \$13,978,

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 7 – EMPLOYEE BENEFITS (CONTINUED)

respectively.

Retirement plan obligations

The plan provisions are adopted by the governing body of the District, within the options available in the state statutes governing TCDRS and within the actuarial constraints also in the statutes. Plan provisions for the District were as follows:

Contribution rate	6.50%
Deposit rate	7.00%
Matching ratio (District to employee)	1 to 1
A member is vested after	10 years

Members can retire at ages 60 and above with 20 or more years of service; with 30 years of service regardless of age; or, when the sum of their age and years of service equals 80 or more.

Changes in Net Pension Liability/ (Asset)

Changes in Net Pension Liability/ (Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a)-(b)
Balances as of December 31, 2013	\$ 172,512	\$ 211,924	\$ (39,412)
Changes for the year:			
Service cost	22,827		22,827
Interest on total pension liability (1)	14,880		14,880
Effect of economic/demographic gains or losses	1,954		1,954
Administrative expenses	-	(181)	181
Member contributions	-	15,054	(15,054)
Net investment income	-	14,632	(14,632)
Employer contributions	-	13,978	(13,978)
Other (2)	-	(14)	14
Balances as of December 31, 2014	<u>\$ 212,173</u>	<u>\$ 255,393</u>	<u>\$ (43,220)</u>

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

NOTE 7 – EMPLOYEE BENEFITS (CONTINUED)

The following presents the net pension liability of the county/district, calculated using the discount rate of 8.10%, as well as what the Post Oak Savannah Groundwater Conservation District net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 237,614	\$ 212,173	\$ 190,698
Fiduciary net position	255,393	255,393	255,393
Net pension liability/(asset)	<u>\$ (17,779)</u>	<u>\$ (43,220)</u>	<u>\$ (64,695)</u>

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The District calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to the financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable, and accrued liabilities approximate the carrying amounts due to the relatively short maturity of these instruments. None of these instruments are held for trading purposes.

NOTE 9 – RESTATEMENT

With the implementation of GASB 68, the District has restated its financial statements for the year ended December 31, 2014. A net pension asset of \$39,412 was recorded on the books. This resulted in a restatement of net position of \$10,312.

NOTE 10 – RISK MANAGEMENT

The District has insurable risks in various areas, including property, casualty, automobile, general commercial liability, and workmen's compensation. For the year ended December 31, 2015 and 2014, the District obtained insurance against such risk through commercial carriers. The Board believes the amount and types of coverage are adequate to protect the District from losses which could reasonably be expected to occur.

NOTE 11 – RECLASSIFICATION

Certain amounts in 2014 have been reclassified to conform to the 2015 presentation.

REQUIRED SUPPLEMENTARY INFORMATION

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

To the Board of Directors of
Post Oak Savannah Groundwater Conservation District
Milano, 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 business-type activities and the aggregate remaining fund information of Post Oak Savannah Groundwater Conservation District, as of and for the year ended December 31, 2015, 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 5, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ludwick, Jenkins, Montgomery, & Stapp
P.C.

Temple, Texas
May 5, 2016

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT

Statement of Revenue and Expenses

For the Year Ended December 31, 2015

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue	\$ 1,824,290	\$ 1,802,104	\$ (22,186)
Expenses			
Advertising	5,000	4,447	553
Building repairs	28,000	17,494	10,506
Conservation program expense	2,225,000	895,365	1,329,635
Depreciation	-	22,472	(22,472)
Dues	3,500	1,858	1,642
Education and public relations	40,000	39,914	86
Employee benefits	-	31,162	(31,162)
Hydrologist	215,000	94,548	120,452
Insurance	30,000	4,198	25,802
Miscellaneous	500	20	480
Office supplies	14,000	11,731	2,269
Other professional and legal fees	100,000	98,051	1,949
Payroll taxes	-	19,180	(19,180)
Pension expense	-	5,290	(5,290)
Postage and delivery	2,000	1,917	83
Salaries	285,000	247,864	37,136
Telephone	8,500	8,725	(225)
Travel and entertainment	18,000	15,796	2,204
Utilities	5,000	3,397	1,603
Vehicle expense	12,000	4,078	7,922
Total Expenses	<u>2,991,500</u>	<u>1,527,507</u>	<u>1,463,993</u>
Excess (Deficit) of Revenue			
Over Expenses (from operations)	<u>\$ (1,167,210)</u>	<u>\$ 274,597</u>	<u>\$ (892,613)</u>