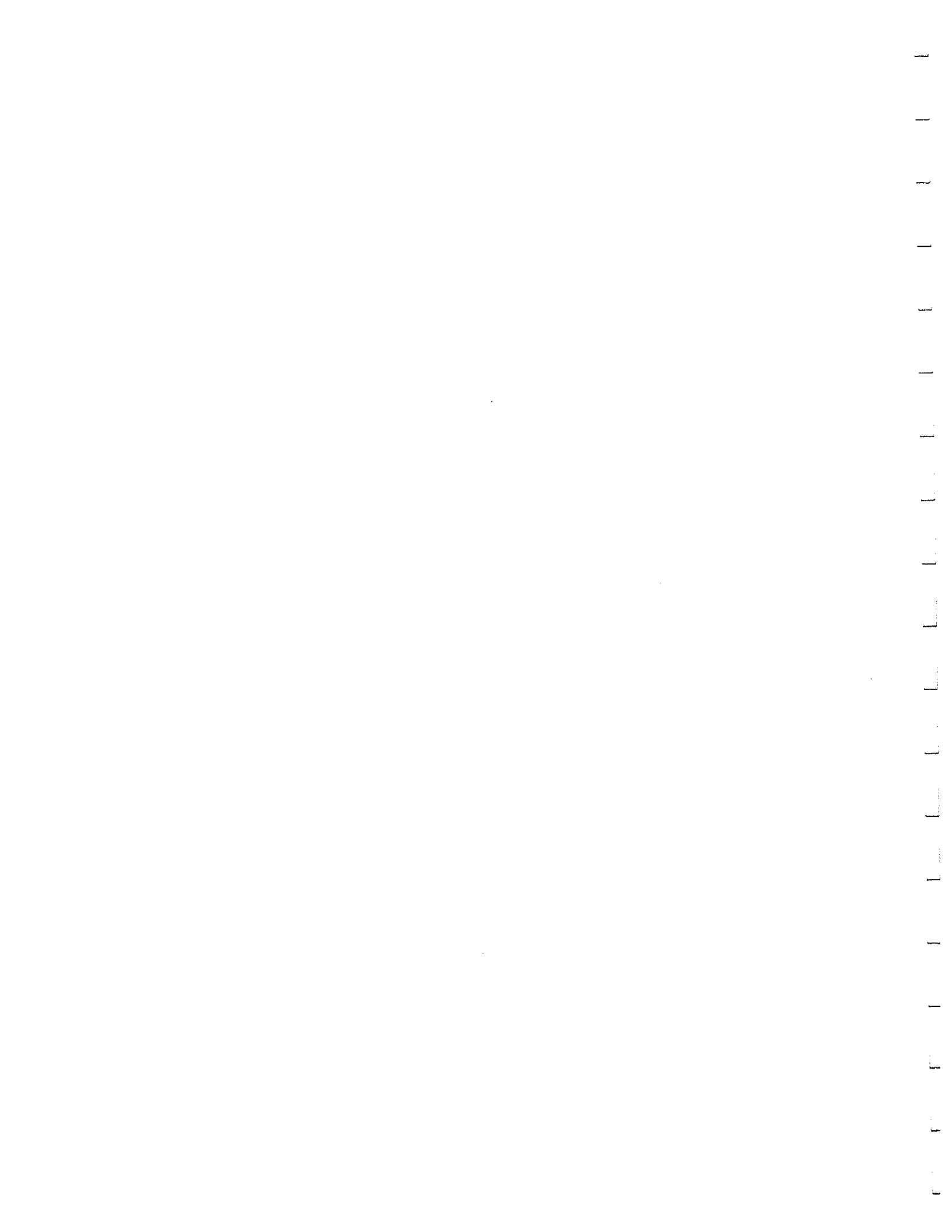


PINEYWOODS GROUNDWATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2017



PINEYWOODS GROUNDWATER CONSERVATION DISTRICT

**Financial Statements
Table of Contents**

	Page No.
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Assets, Liabilities, and Fund Balance - Modified Cash Basis ...	3
Statement of Revenues, Expenses and Changes in Fund Balance - Modified Cash Basis	4
Notes to the Financial Statements	5-10
Required Supplementary Schedules:	
Schedule of Contributions - TCDRS	11

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100



Goff&Herrington,P.C.

Certified Public Accountants

P.O. Box 153320 • Lufkin, TX. 75915-3320 • (936) 875-3317 • Fax:(936) 622-6823

A.J. Goff, CPA
Ronnie Herrington, CPA
Daniel Raney, CPA

Independent Auditor's Report

Members of the Board of Directors
Pineywoods Groundwater Conservation District

We have audited the accompanying financial statements of Pineywoods Groundwater Conservation District (District), which comprise the statement of assets, liabilities, and fund balance - modified cash basis as of the year ended December 31, 2017, and the related statement of revenues, expenses, and changes in fund balance - modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 error or fraud.

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. 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 opinion.

Independent Auditor's Report
Members of the Board of Directors
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balance of Pineywoods Groundwater Conservation District, as of December 31, 2017, and its revenue and expenses for the year then ended in accordance with the modified cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Goff & Herrington, P. C.

Goff & Herrington, P. C.
Certified Public Accountants

May 31, 2018

Financial Statements

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100

**PINEYWOODS GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE
MODIFIED CASH BASIS**

December 31, 2017

(With comparative totals for December 31, 2016)

	2017	2016
ASSETS		
Cash	71,474	62,108
Vehicles and equipment	39,777	39,398
Accumulated depreciation	(25,123)	(20,167)
Total Assets	86,128	81,339
LIABILITIES		
Payroll related liabilities	2,550	2,498
Total Liabilities	2,550	2,498
FUND BALANCE		
Fund balance	83,578	78,841
Total Liabilities and Fund Balance	86,128	81,339

See accompanying notes to the financial statements.

This page left blank intentionally.

PINEYWOODS GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
REVENUES		
Production fees	146,020	114,892
Permit and registration fees	14,411	15,500
Other	750	500
	<hr/>	
Total revenues	161,181	130,892
EXPENSES		
Salaries and wages	94,040	91,290
Fringe benefits	34,653	35,541
Supplies	4,958	4,834
Maintenance	1,070	675
Professional services	3,250	4,693
Insurance	3,924	3,747
Depreciation	5,462	5,314
Other operating	9,408	9,693
	<hr/>	
Total expenses	156,765	155,787
Operating Income	4,416	(24,895)
OTHER INCOME (EXPENSE)		
Interest income	321	290
	<hr/>	
Total other income (expense)	321	290
Excess of revenues over expenses	4,737	(24,605)
Fund balance, beginning of the year	78,841	103,446
	<hr/>	
Fund balance, end of year	<u>83,578</u>	<u>78,841</u>

See accompanying notes to the financial statements.

This page left blank intentionally.

PINEYWOODS GROUNDWATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Pineywoods Groundwater Conservation District (District) is a governmental agency created under Section 59, Article XVI of the Texas Constitution to provide conservation, preservation, protection, recharging, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and to control subsidence within Angelina and Nacogdoches counties. The District's programs are financed primarily through water production fees and well drilling and operating permits.

Significant Accounting Policies

Basis of Accounting

The financial statements of the District, which report the activities of its proprietary fund, have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. In addition to reporting revenues when collected and expenses when paid, depreciation expense on equipment and payroll liabilities resulting from payroll expenses paid during the period are recognized in these financial statements.

Revenue recognition - The District receives a production fee of \$0.025 per 1,000 gallons for certain nonexempt wells and a fee for a permit to drill a well ranging from \$100 to \$1,000, depending on the well casing size, as well as a fee to operate the well ranging from \$100 to \$550, depending on the well casing size. Additionally, the District receives a \$100.00 fee to register an exempt well. These fees are recognized as revenue when received. Generally accepted accounting principles would require these fees to be recognized when earned.

Expenses are recognized when paid, with the exception of capitalizing equipment purchases and recognizing depreciation on the equipment. Generally accepted accounting principles would require expenses to be recognized when incurred.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements in accordance with the modified cash basis of accounting. Accordingly, actual results could differ significantly from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in the District's depository banks.

PINEYWOODS GROUNDWATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Vehicle and Equipment

The purchased vehicle and furniture and equipment are recorded at cost. Depreciation is computed using the straight line method with estimated useful lives ranging from three to ten years.

Contributed Facilities and Services

The District occupies, without charge, premises located in government owned buildings. The estimated fair rental value of the premises is not reported in these financial statements.

Comparative Financial Information

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified and restated in order to be consistent with the current year's presentation.

Subsequent Events

Management has evaluated subsequent events through May 31, 2018, the date that these financial statements were available to be issued.

NOTE B - DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments. The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market saving accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

PINEYWOODS GROUNDWATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

The following are disclosed concerning risks:

Deposits

Custodial Credit Risk - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is that the funds of the District must be deposited under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The District's cash deposits at December 31, 2017 were entirely covered by FDIC insurance.

Investments

Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfil its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The District was not exposed to credit risk at December 31, 2017.

Custodial Credit Risk - Deposits are exposed to custodial credit risk if they are not covered by depository insurance, 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.

The District's demand and certificates of deposit are maintained at local financial institutions and the balances at December 31, 2017 are entirely covered by federal depository insurance.

Concentration of Credit Risk - This risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. The District was not exposed to concentration of credit risk for its deposits as all are covered by depository insurance as of December 31, 2017.

Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District was not exposed to interest rate risk at December 31, 2017.

Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. The District was not exposed to foreign currency risk at December 31, 2017.

PINEYWOODS GROUNDWATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE C - VEHICLE AND EQUIPMENT

A summary of vehicle and equipment as of December 31, 2017 is as follows:

	Balance December 31, 2016	Additions	Adjustments/ Retirements	Balance December 31, 2017
Vehicle	32,468	-	-	32,468
Furniture and equipment	5,088	-	(506)	4,582
Computers and software	1,842	885	-	2,727
Totals	39,398	885	(506)	39,777
Less: Accumulated depreciation	20,167	5,462	(506)	25,123
Net property and equipment	19,231	(4,577)	0	14,654

Depreciation expense of \$5,462 and \$5,313 for the years ending December 31, 2017 and 2016 is included in the financial statements.

NOTE D - EMPLOYEE RETIREMENT PLAN

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 601 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034, and online at www.tcdrs.org.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer. Cost of living adjustments are provided at the discretion of the governing body of the District.

PINEYWOODS GROUNDWATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act the contribution rate of the employer is actuarially determined annually. It was 11.73% and 12.38% for 2017 and 2016, respectively. The contribution rate payable by the employee members is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

The required contribution was determined as part of the December 31, 2017 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2017 included (a) 8.00 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 3.25 percent. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of the assets was determined using techniques that spread the effects of short term volatility in the market value of investments over a ten year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2017 was 12.6 years.

Funding Status and Funded Progress

As of December 31, 2017, the most recent actuarial valuation date, the plan was 95.9 percent funded. The actuarial accrued liability for benefits was \$261,751 and the actuarial value of assets was \$251,067, resulting in an unfunded actuarial accrual liability (UAAL) of \$10,684. The covered payroll (annual payroll of active employees covered by the plan) was \$95,240, and the ratio of the UAAL to the covered payroll was 11.22 percent.

PINEYWOODS GROUNDWATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/14	\$78,636	\$86,680	90.7%	(8,044)	\$87,501	(9.19)%
12/31/15	\$96,863	\$104,830	92.4%	(7,967)	\$90,503	(8.80)%
12/31/16	\$229,339	\$237,796	96.4%	(8,457)	\$91,290	(9.26)%
12/31/17	\$251,067	\$261,751	95.9%	(10,684)	\$95,240	(11.22)%

The District participates in a cost sharing multiple-employer defined group-term life insurance plan operated by the TCDRS known as the Supplemental Death Benefits Fund (SDBF). The death benefit provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death).

The District contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree life insurance during employees' entire careers. The District's TCDRS SDBF contribution for the year ended December 31, 2017 and 2016 was \$524 and \$518, respectively, which equaled the required contribution for the years.

NOTE E - 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. They maintain commercial insurance coverage covering risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses.

NOTE F - CONCENTRATIONS

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. The District maintains cash balances at a financial institution located in East Texas. The balances did not exceed federally insured limits as of December 31, 2017.

Other concentrations include sources of revenue, which is primarily from municipal production and geographic area, which is limited to Angelina and Nacogdoches counties.

Required Supplementary Schedule

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100

**PINEYWOODS GROUNDWATER CONSERVATION DISTRICT
SCHEDULE OF CONTRIBUTIONS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
FOR THE YEAR ENDED DECEMBER 31,**

<u>Year Ending December 31,</u>	<u>Actuarially Determined Contribution*</u>	<u>Actual Employee Contribution*</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll**</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2008	7,576	7,576	-	69,128	10.96%
2009	8,964	8,964	-	79,677	11.25%
2010	9,321	9,321	-	82,560	11.29%
2011	9,959	9,959	-	84,470	11.79%
2012	9,896	9,896	-	87,501	11.31%
2013	9,154	9,154	-	79,734	11.48%
2014	10,176	10,176	-	87,501	11.63%
2015	11,602	11,602	-	90,503	12.82%
2016	11,980	11,980	-	91,290	13.12%
2017	11,172	11,172	-	95,240	11.73%

* - TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

** - Payroll is calculated based on contributions reported to TCDRS.

See accompanying notes to the financial statements

This page left blank intentionally.